Banco BPM S.p.A.

"First Quarter 2025 Results Presentation"

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MODERATORS: GIUSEPPE CASTAGNA, CHIEF EXECUTIVE OFFICER

EDOARDO GINEVRA, JOINT GENERAL MANAGER AND CHIEF EXECUTIVE OFFICER

ARNE RISCASSI, MANAGER, INVESTOR RELATIONS

OPERATOR: Good evening. This is the Chorus Call conference operator. Welcome, and thank you for joining the Banco BPM Group First Quarter 2025 Results Presentation. As a reminder, all participants are in listen-only mode. After the presentation, there will be an opportunity to ask questions. Should anyone need assistance during the conference call, they may signal an operator by pressing "*" and "0" on their telephone.

At this time, I would like to turn the conference over to Mr. Arne Riscassi, IR, Manager for Banco BPM. Please go ahead, sir.

ARNE RISCASSI: Thank you, everybody, for joining the call. The CEO, Mr. Giuseppe Castagna, together with the Joint General Manager and CFO, Mr. Edoardo Ginevra, will present the Q1 results for 2025.

And now, let me leave the floor to Mr. Giuseppe Castagna. Thank you.

GIUSEPPE CASTAGNA: Thank you, Arne. Thank you, everybody, for being with us for the Q1 presentation results. Very solid set of results. I would say we are not only closer to the target of the plan. But I think we started with a real faster pace, which enable us to confirm that the target are at reach.

First of all, Q1 result, best results in our history, €511 million on net profit. Anima acquisition is not yet factored into P&L. The initial contribution of Anima will be included starting from Q2, having concluded acquisition in April. The RoTE and ROI stand at 16.7% and 22.1% with the full consolidation of Anima.

Let's say that we are ahead of the planned trajectory, noninterest revenues pro forma, including Anima, already represent 49% of total revenues versus our target of 50% by 2027, so almost there. The same, I would say that if we include the pro forma of Anima Q1, the net income of the group would stand 2% above the average quarter of 2027. So with a big anticipation over the plan. Profit from continuing operation pretax are higher than, again, the average quarter '27, which is €788 million this quarter, including Anima, we are at €827 million.

These results have been driven by a very strong commercial results across the board despite Euribor decline, let me remind that year-on-year, the Euribor declined 1.36 points. But notwithstanding that total revenues went up to €1.476 billion vis-à-vis €1.434 billion in Q1 '24. Customer loans went up 2.5% quarter-on-quarter. Investment product year-on-year are up 15%. We also managed to reduce general cost and provision with the cost/income, which went down from 47% to 44% and the cost of risk down from 32 basis points to 30 basis points. All these results allow us to anticipate that we are already changing our guidance for 2025 which will be increased by €1.7 billion to €1.950 billion, which by the way, is the results we expected for 2026.

On Page 7, the fast execution of the plan has been the drivers for such over performance and the possibility to reach targets in 2027. Net income, again, up 38% year-on-year including Anima, we are 2% higher than the quarterly target of 2027.

Strong volume growth, €2.4 billion in Q1 vis-à-vis the forecast of 1.7%, which we had for the entire 2025. So the increase is 2.5% vis-à-vis 1.7%, but 2.5% is related only to the first quarter. The same is for investment products, 15% year-on-year, up to €6.7 billion vis-à-vis €5.8 billion of '24, which was already a record number. Let's consider that the average target for 2027 would be €5.3 billion per quarter.

Good improvement in asset quality, down from €3.6 billion to €2.8 billion. And again, cost of risk reduced 30 basis points with a target of 40 basis points. Also happy to confirm that the Anima acquisition has been anticipated of one quarter having been affected by April '25.

The contribution from noninterest revenues, which was one of the main input of our Business Plan is already starting to give very good results together with a good control on cost. Total revenues again were up 2.9%, notwithstanding a lower NII for around €50 million year-on-year and the total contribution of Q1 in terms of total revenues is already higher than the average of 2027 forecast.

The same is for the contribution of noninterest income on total revenues. The target with Anima was 50%. We are including Anima pro forma 49% and the same 1% is without considering Anima in this quarter, neither in average quarter in 2027. So almost there also for that.

Operating costs, very good, down 3.5% with, let's say, cost of staff yet to take full advantage for the early retirement scheme, which will impact mostly in the second part of the year. And the cost/income record 44% vis-à-vis 45% of the target plan.

Total provision went down 30% with cost of risk 2 basis points lower than last year over Q1 of last year and with an advantage of 10 basis points vis-à-vis the target of 2027.

The volume growth is confirming our capability to generate shareholder value through continuing support to the Italian economy. Basically, all the increase in customer loans is related to nonfinancial corporates, almost €2 billion in this regard, preserving also the high quality of the stock, which still is secured for more than 50% half-and-half basically state guaranteed and collateralized. And this figure became 64% of secured if we consider SME companies.

Moreover, we were…was very good the trend in new lending. We passed from €5 billion in the first quarter '24 to €6.2 billion in the last quarter of '24 to €8.2 billion in the first quarter, '25. I can anticipate that we overcome €10 billion by April this year. The difference quarter-on-quarter is more than 30% and with good results also in terms of ESG related medium-term financing, which stood at €2.4 billion in Q1 versus a target of the year of €6 billion, so very well ahead.

Total customer financial assets year-on-year up 3.4%, basically the same figure that we registered in December '24, despite €1 million on negative market effect which we experienced during Q1 '25. This growth was supported by a good net flow both of assets under custody and assets under management for a total consideration of €2 billion.

Some words about Anima, I already said we will consolidate Anima by Q2 '25. Basically, we reached the total customer financial assets together with the bank and Anima to the level of €377 billion and the key figure of Anima standalone will be asset under management of €200 billion, net income of €72 million in Q1 '25, €30 million of which will be compensated in the integration, the consolidation with our figures.

Let me remember that Anima has, apart from the relationship with us, which is the most important something like 100 other distributors, 1 million non-clients, and more than 300 investment professionals. The contribution to the group coming from Anima is an EPS accretion of more than 10%, a return on investment of 13%. The possibility to reach 50%, as I mentioned before, in terms of noninterest income of total revenues and the contribution coming from…to net income from wealth management, asset management protection in the region of 35% of the total net profit.

One of the most ambitious target of the plan with the wider gap to fill when we presented the plan was the revenues coming from key product factory. In Q1 '24, we had €222 million coming from this activity. But with the completion of Anima, we reached already in Q1 €390 million versus a target of the plan of €430 million, which is a 5% growth in terms of CAGR, and let's consider that without Anima because it's not consolidated in Q1, we already had a growth in the other product factories, Q1 '25 to Q1 '24 of more than 20% year-on-year. Let me remind also that the insurance and payment business will go at full speed only from 2026.

Further improvement also in asset quality apart from the reduction, I already mentioned of €800 million in terms of gross NPEs, which comes from a very good and solid default rate below 1%, a reduced cost of risk to 30 basis points, the capability of the bank to process already out of €1 billion of disposal, which were in the forecast of the Business Plan, we already reached €800 million of disposal. The remaining €200 million will be completed by this year. But let me say on the right part of Slide 12, that if we exclude the state guarantee loans, NPEs, of course, we are net NPE below 1%...0.8%.

Just some quick word about capital. We confirm that we can stay about 13% in terms of target after Anima also without the no Danish Compromise, then Mr. Ginevra will go through the details of this figure with MDA buffer, including already, of course, the Basel 3 impact, which allowed us to close the Q1 at 15.3% and with an anticipation of the non-Danish Anima impact of 53 basis points coming from the capital increase we provided to BPM Vita in order to complete the acquisition of Anima. The MDA buffer stood at 459 basis points. And also in this respect, we can confirm that throughout the plan will be above 350 basis points, very comfortable also LCR and NSFR and MREL.

Let's go to some number in details. Q1 net income again, €711 million coming from a good tenure in terms of net interest income, minus 5.5%, but if we consider full funding costs, including certificates, the gap is reduced to 2.9% year-on-year. Fees and commission up 6%, very good results also from insurance, which grew from €5 million on Q1 '24 to €26 million in this quarter, together with the very good net financial results which was boosted not only from the lower cost of certificates, but good performance in the trading. Total revenues, again, 3% higher than last year, notwithstanding €50 million less in NII.

Operating cost down 3.5%, provision down 30%, which lead to a pretax profit of 15% higher than last year and net profit, again, of 38% higher than last year. I have been told by my colleague that we should be around €70 million above the consensus for this quarter.

In terms of consistency of our growth pace on the right side, you will see in the last 2 years, some of the most important figures characterizing the results. Net fees and commissions went up 12%. Revenues up 18%, cost/income down 7 full points a reduction of 45% in LLPs and again, net profit from continuing operations, up 58%.

Let's go through some of this figure. NII already mentioned at 5.5% lower year-on-year will be 2.9% full funding cost. This also considering that we were able during Q1 to reduce further the NII sensitivity which started in '24 at €300 million per 400 basis points, then went down to €250 million in Q4, now it's down to €200 million and €150 million if we consider also the contribution of certificates.

On the right side, you see the asset spread and liability spread which the asset spread basically was quite consistent. If we consider the good growth that we registered in loan growth, liability spread was much better than the reduced…the reduction was much better than the reduction of Euribor. As you can see, year-on-year, the Euribor was down 136 basis points. We went down liability spread only 100 basis points, and the same proportion is more or less for Q4 '24 versus Q1 '25.

We were able to maintain a good net interest income because to the figure of Q1 '24, if we would have applied the full predicted sensitivity, had gone down €93 million but through managerial action and some other volume effect and other, we were able to register basically half of the predictive reduction. The managerial action itself will count for mostly half of this figure, around €20 million.

Let me remind that it's the same experience that we had basically in each quarter of last year and that throughout the Business Plan, we have forecast a total of €100 million of positive effect in managerial action throughout the completion of the Business Plan. So, in the last…in the next 11 quarter, we have another €80 million to optimize, so we are in a good…on the good road also in this situation.

What are the managerial action? You know very well, the replicating portfolio is up from €22 billion to €25 billion with an average yield of 2.1%. So very solid and the duration of 2.8 years. We further slightly increased the share of index at current account from 34% to 36%, and we are also experiencing a continuous reduction of spread in the newly issued wholesale bonds, which allow us to take advantage up to now of each new issue vis-à-vis the previous issuance.

Net fees and commission, up 12% on last quarter '24, 6% year-on-year, but is almost 10% if we consider that we don't have basically any more contribution from fiscal credits and instant payments, which amount from the first quarter '24 at around €50 million. And, of course, notwithstanding that, the commercial banking fees, the commercial…the other fees apart from investment product fees are still slightly higher than Q1 '24. So they would have been much higher if we would have considered the fiscal credit commission.

Let's spend some word about investment product fees. As I mentioned before, we had a big increase in placement of investment product, plus 15% year-on-year. But we were able to manage the best products in terms of commission with an upfront, which grew 29% year-on-year to €106 million versus €82 million in '24 and a slight increase of 5% also on running fees.

Let me also stress that another quality of fees that we emphasized during the Business Plan presentation, which are the fees coming from specialized activities, corporate investment bank, structural finance, traders for finance, and so on went up from €61 million of Q1 '24 to almost €80 million of Q1 '25.

Cost/income, a very good results with the cost/income down to 44%, a reduction in cost of more than 3%. Again, we are not yet experienced the reduction of the staff, which we mostly made during Q1, let only consider that we had almost 750 people out in Q1 through the early retirement scheme and the early retirement, with new hiring for a bit low or up 300 people. So this, of course, will make a very strong effect in the region of some €30 million to €40 million in the next…in the remaining part of the year. So we will experience further reduction also in cost of personnel.

D&A and other administrative expenses also in this field, we were able to manage very carefully all our expenses. For sure, I don't think we can stay at this level for the next quarter, but vis-à-vis the Business Plan figure, we are, much below the target.

Asset quality, I already mentioned the reduction of cost of risk and the NPEs. Let me just mention default rate below the figure of last year, 10 basis point. The cure rate, 1.5% better than the figure of '24. And also a very strong support in terms of coverage where at 57% in terms of bad loans, 36% in terms of UTP. But, again, if we don't consider the state guarantee, which, of course, are not covered at the same level of the other NPEs, we for the other NPEs, we have a coverage of 74% for bad loans, 42% for UTP. So very solid and consistent.

Let me give the floor to Eduardo for the finance part of the presentation.

EDOARDO GINEVRA: Thank you very much, Giuseppe. Very quickly on Page 20 to highlight that we have increased the level…the size of the banking book while preserving to €46.7 billion while preserving the split between the 2 components, amortized cost and fair value of the comprehensive income with the amortized cost remaining at a stable 69% of the total of the banking book.

Similarly, also the share of Italian bonds on the total of the banking book or total Govies and supranational bonds is in the area between 35% and 40%, historically maintained and to precise at 38.2%. The nongovernment bonds are stable at slightly above €88 million.

Page 21 shows the impact of the financial part on capital and on P&L. So capital reserves had been slightly improved in the first quarter from €509 million to €498 million. And as a matter of fact, they have more significant improve in the first month of the second quarter. Now the position is €455 million. The increase in the basic fair value other comprehensive income portfolio is consistent with increase in size, and it's also related to the….from €1 million to €2 million. And it's also related to the intention to preserve a net interest margin in a scenario of declining rates.

Turning to the trading contribution, these went up from €9 million 1 year ago to €46 million, but the increase is clearly to be split into 2 components. So the component related to cost of certificates is continuing to benefit from the trend reduction in interest rate, mitigating the overall sensitivity of our P&L that had been showed…shown in the slide on NII. From €75 million to €50 million, this is again of around 1/3rd.

The rest of the trading component…the trading result is based on other NFR component, especially in terms of the global market activities or structuring of derivatives products or certificate products that is then sold through our network, and on top positive results in general from trading.

This part of the P&L is not currently taking the advantage of dividends to be paid by Monte Paschi. The participation in Monte Paschi will further provide food for this component of the P&L in the second quarter for a total that is quite close to €100 million.

Next page on liquidity and funding. Very quickly, the highlights have been already presented by Giuseppe. The liquidity position is €49 billion. Direct funding stable at around €132 billion. Positive news from rating agencies with DBRS positioning the bank in a BBB high and Standard and Poor's improving the outlook to positive market conducive to sustain insurance activity also in this quarter. And as already mentioned, an activity that allow the bank to reduce the overall spread on the issue bonds.

On the s LCR, NSFR, nothing relevant to comment. Maybe interesting to mention that the market buffer has observed very, very easily the impact of Basel 4, Basel 3+ remaining at an amount well above 9 percentage point. And talking about Basel 4 or 3+.

The next page, Page 23, provides the details on the evolution of capital during the quarter. So let's go step-by-step. We started the quarter at 15.05. We have received a contribution from performance, so the net profit from P&L, which is 92 bps and a distribution including AT1 coupon of 77 bps. Meaning that P&L create, despite the strong level of payout of 80% created still 15 basis points of capital…organic capital generation in one quarter.

On top, organic capital generation coming from sources different from P&L is given by the DTA, 16 basis points, and for value of the comprehensive income reserves. Here we have future potential capital that amounts to more than 300…325 basis points, of which worth noting that 175 basis points is to be transformed into real capital by the end of '27. So during our planned horizon, providing further comfort to our capital position overall.

As anticipated to the market in the previous quarter, we have produced an important effort to optimize the capital position in the participation area, and in other managerial actions. So, participation leading to 17 basis points of additional capital and the managerial elections including synthetic securitization for 46 basis points.

Capital reduction coming from regulatory headwinds, including Basel 3+ and RWA increase, so volume increase has been contained in 76 basis points, so leading to a total pre-Anima transaction of 15.30. Then the value of the fully phased position in March is 14.76 with 53 basis points, that is the impact of the capital increase in Banco BPM Vita to fund the Anima transaction, and which is an anticipation of the overall impact of the acquisition of Anima in the scenario of where the Danish compromise is not granted. What I mean by that, is that, the overall impact of 268 basis points, of Anima, 53 basis points that we anticipate to the market 3 months ago. 53 basis points has been already anticipated with this capital increase.

On top, before coming to the final potential impact, we need to consider also that the participation in Anima is 90% instead of the 100% which was used to calculate the 268 basis points leading to a saving of the order of magnitude of around 30 basis points as anticipated in previous presentations to the market.

So with this in mind, I think it's clear that we are very close to maintain the 13%, which will be transformed into a delivery of the target taking into account the contribution from occurring capital generation in the next quarter. MDA buffer is 559 basis points, RWA at €65 billion after Basel 3+ impact.

Now again, if I can turn the…leave the word to Giuseppe for the final conclusion, please.

GIUSEPPE CASTAGNA: Yes, I think on Page 25 would be, I think, very useful for you because I was mixing during the presentation with Anima without Anima. So let me make a quick reminder of the figure…of the actual figure of Q1 '25 without Anima, the pro forma full consolidation of Anima of the same figure of Q1 compared on the right side of the slide with the average quarter of '27, the final year of the plan, of course, including Anima contribution.

So you can see that total revenues in terms of pro forma including Anima are already higher than the average of 2027. The core revenues are at the same level 1.561 billon is the same level of the forecast for '27, still the €40 million missing, you remember from the product factory, but we are going at a speed and a pace that will allow us in the next 11 quarter to easily reach and overcome the target to '27, and in doing so in completing the 50% of non-interest income coming from product factory and non-interest income on total revenues.

Operating costs are already at the level of the '27 quarter, €703 million vis-à-vis €697 million as shown by the cost/income ratio, which is 44% at the same level of '27 and the cost of risk, which is still lower than the target 30 basis point, vis-à-vis 40 basis point.

Net income all-in-all, as I mentioned before, is 2% higher than the average quarter of the target in 2027. Also in terms of business mix, I think we have done a lot of road during this first quarter and especially if we consider the pro forma consolidation of Anima, you can see that in terms of breakdown of net income by business mix, we have been reduced to 60% of the commercial banking activity. We are at 10% in terms of specialty banking solutions, but we grew already to 30% coming from wealth and asset management plus protection. So we have still this 5% of increase vis-à-vis the plan target, which will come by the development of the many product factory we started in 2024 and the contribution coming from integration of Anima.

This is very important for us, because it's not only the evidence of the results that we can easily reach in '27, but also to give the idea of the transformational pattern that we have done during this year in transforming a bank, which was 2/3rd lead by commercial activity to a bank, which will lead 50% commission coming from Product Factory.

This means that with results which will be much more replicable, the bank will be more capital-light with a lower risk profile. All-in-all, we feel that also the multiple at which our stock will be considered should increase thanks to this better positioning.

On Page 26, why we are so confident to reach out the results of the target? First of all, because we are confident in increasing our guidance, but the fast execution and the proven track record of delivery give us full confidence and full commitment from our management to reach the targets. We made the first two…the last two plan that we…an example with the last plan we presented on the left side of the slide in '21 and '23.

In both cases, we delivered in advance, 1 year in advance and 2 years in advance for the last plan. As you can see, we had a target of €740 million '23, and €1.50 billion in '24. Basically, after 1 year, we were already higher than the target in '23 with actual '22. And in '23, we overcome the '24 target. And this came with a fast start, but not as faster as the one we have done this year. The second example is for the plan that we have recently reviewed in February this year. This was the plan presented in December '23.

As you may remember, in 1 year we were already €300 million ahead of the forecast. The guidance was €1.360 billion, the target '26 was €1.5 billion after one year in 2024, where we were already adjusted at €1.7 billion. In this case, we had a fast start, €370 million in Q1 '24, which was higher than the...guidance for 2024, and slightly below the guidance of the last year of the plan.

So let's go to the current plan on the right side. The current start confirm, the capability to execute very, fastly our projection. As you may remember, the target for 2026 of the current plan is €1.150 billion and for '27 is €2.150 billion. We have had the first quarter including Anima consolidation, which stands, and the €550 million, which is 13% higher than the forecast in '26, and 2% higher than the forecast of the average quarter of '27.

If you exclude Anima on the last…on the bottom line, you see that the advantage that, we kept is almost at the same level, even a bit higher vis-à-vis the results done in Q1 and average of 2027. So, again, fast start, proven track record track record commitment to delivery allow us to present this very good set of results confirming not only the capability to reach the plan, but also the strength of our capital tenure. And this has encouraged us to present the new guidance on net income from €1.7 billion to 1.950 billion. This will come notwithstanding we are considering Euribor 30, 40 basis points lower than we considered in February at the presentation of the guidance. So NII at full funding cost will be mid-single-digit lower than 2024.

Net fees and commission, of course, will experience a strong growth. Thanks also to the Anima contribution, double-digit growth and a good single-digit reduction also in cost income and in provision, which lead, of course, to this €1.950 billion. Q1 results, so we feel are already in line with expectation that we have for the plan target in 2027. And we feel really that the reference point, this would be the reference point for any standalone valuation of the bank.

So again, I give you the floor for any Q&A, which I will be happy to answer with Eduardo.

Q&A

OPERATOR: Thank you. This is the Chorus Call Conference operator. We will now begin the question and answer session. Anyone who wishes to ask a question may press "*" and "1" on their touchtone telephone. To remove yourself from the question queue, please press "*" and "2." We kindly ask to use handsets when asking questions. Anyone who has a question may press "*" and "1" at this time.

The first question is from Antonio Reale of Bank of America. Please go ahead.

ANTONIO REALE: Hi, good afternoon. It's Antonio from Bank of America. I have 2 questions, please. My first one is on loan growth. You're clearly in the wealthiest part of the country, and that might explain part of the strong activity levels when it comes to volumes. But you've been gaining market share, growing performing loans this quarter. Can you talk a little bit more about what you're seeing both from your clients' network and from your competitors? And to what extent the market share gains can come without compromising price discipline? That's my first question.

My second question is on organic capital generation, please. But if I may, before I jump onto that, a quick clarification on your capital ratio pro forma after including Anima at 90%, you know, if I am not mistaken, you would be at around 12.9% CET1 this quarter. I wonder if that's correct. And then with organic capital generation, you'll be above 13% from the next quarter. Now, that's a quick clarification, hopefully.(*****)

And then I come to my second question, which is I'd like to dig a little bit deeper into the drivers of organic capital generation. You just posted a very strong net profit. I think it's your record high quarter with strong core revenues and very low default rates. But then if I look at your Slide 23, after dividends paid, your organic generation deriving purely from earnings stands at around 15 basis points, while the majority of the capital growth also going forward, I think is expected to come from DTAs and fair value reserves. And I see there's also strong managerial effort, which will ensure requires a lot of work. So can you just give us a little bit more color on the quality of this organic capital generation going forward? And how much more of this can be sustained? Thank you.

GIUSEPPE CASTAGNA: On your loan growth. Yes, very good experience this quarter because also we come from as all the market from a couple of years of reduction of growth because of the interest rate, waiting the interest rate to going down because of the uncertainty that we experience in the geopolitical situation because of the tariffs situation. Notwithstanding that, the reduction of interest rate that we experienced in Q1 was a boost I feel for our client to start to make more demand for credit. Part of this, of course, is also switch from old loan to new loan. As I mentioned, we reached €8 billion of new loan in Q1. So this is part of the growth of 2.5 [ph] billion, which is not something that we think we can experience all over the year. This is already more than we expected for 2025.

So now we can stay very attentive to not concede any potential advantage in terms of interest rate. The discipline has been very solid. If we are slightly reducing 1 or 2 basis point, that's spread because we take care of the quality of the client and of the guarantee scheme that we have made now an habit to have for SMEs. So very happy of these results. Not yet full request for new loans from all the market, but, of course, I think our geography helped a lot in terms of growing. Together, let me say also with the willingness of our people and our client to support and to show some interest in the offer of the bank.

Yes. For the second question, organic capital generation, of course, if you anticipate to Q1, the Anima effect, of course, would be 12.9, but because Anima will come in the second quarter, we will be able to generate more capital.

Let me give the floor to Edoardo for giving some color on this.

EDOARDO GINEVRA: No, what I would say on Anima is, first of all, your math is correct, Antonio. But if I simply kind of stop the clock at April [ph] 30, then I have also 14 basis point…additional basis points of reserve from fair value other comprehensive income, which is not accounted for in as…at the date of March 30. So it's, of course, a dynamic that is generated, I would say, day-by-day, taking into account organic capital generation that you mentioned, yes, the impact of Anima without Danish Compromise is to be taken into account, but also the other parts of the capital generation are part of the equation. So we continue to be fully confident in maintaining these 13% that was mentioned since the presentation of the plan.

On the organic capital generation, yes, 15 basis points is what we achieved this year. And, of course, it's not 92 basis points because we think it's worth paying a significant part of the capital we generate or the net profit we generate through our shareholders, and that's the explanation of the 80% payout ratio. So 15 basis points is, of course, despite the 80% payout ratio, which we continue to be committed to pay to our...to our shareholders.

On the rest of capital generation, you're right. It's based on DTAs and fair value other comprehensive income. I already say that that this is out of a total…remaining total, the date of end March of 325 basis points, 175 basis points by year end 2027. If you ask for more color, I would say that 50 basis points or 50 something…50 plus basis points of this 175 are to be transformed into capital other things equal by end of '25 with the remaining part split of 140 basis points split more or less similarly between '26 with 70 basis points and '27 with 50 basis points. Sorry. the remaining part 120 basis points, I said 140.

So we are really comfortable because now that the bank is producing strong organic capital generation and P&L in this period is not only in this scenario, this not only drives direct increase in capital, but also generates DTA recoveries, which has been for long remained trapped into the previous asset situation of the bank.

ANTONIO REALE: That's great. Very clear. Thank you.

OPERATOR: The next question is from Noemi Peruch of Mediobanca. Please go ahead.

NOEMI PERUCH: Good evening. I have one clarification and 2 questions, if I may. The clarification is on net profit guidance. Did the €1.7 billion included the €160 million capital gain from Anima? Or is it only now included in the €1.95 billion? And then my first question on Common Equity. Could you please update us on the additional benefit from reallocating some of the Anima intangibles between banking and insurance business post consolidation? And did you consider the transitional Basel 4 risk weight for the insurance business as of now? And if you…if so, could you please comment on the impact on Common Equity with 250%?

My second question is on M&A. On the press, I think you mentioned that BAMI would remain part of the consolidation process in Italy even if UniCredit walked away. Are you potentially open to assess all scenarios, including takeovers, agreed deals or stake building perhaps? Thank you very much.

EDOARDO GINEVRA: So, I'll start with your first question which are 3 questions, if I understood correctly. Guidance includes the capital gain of Anima. Currently, of course, when we issued the previous guidance we had a high-level estimate of the same parameter, which was included as well. Let me say that overall, this guidance has some marginal conservatism that we now are no longer adopting given the positive start of the year. And of course, given also the opportunity provided by the fact that Anima itself will contribute to our P&L for 3 quarters instead of 2 which was the original assumption.

Anima intangibles, good point. I forgot to mention it in replying to the previous question. So, currently, we didn't use any smoothening assumption on the non-Danish scenario, from reallocation of Anima intangibles from Anima to Banco BPM Vita. It's an option that we are studying. It's a possibility that we have. And that, of course, may contribute to further improve the capital position of the bank.

On insurance, we are applying 100% risk weight, and we are expected to continue to apply this risk weight based on article, if I'm not mistaken, €499.2 million of CRR, which allows this treatment based on the existing position at the date of, I think, mid-'24, if I'm not mistaken. But at the end of the day, we are confident to continue in this fashion. So, not 250% for us.

On M&A, I believe this is a question for Giuseppe.

GIUSEPPE CASTAGNA: Yes, even though I would avoid the first part of your question because, of course, we are under a public offer, so I wouldn't talk about retiring anybody. We will see what happens. Until then, of course, we are on this standalone pattern, which is very satisfactory for us. In the future, we will see. I already mentioned in the past that, of course, we consider ourselves an important part of the potential consolidation in Italy. I think the completion of the product factory make us as a unique kind of bank with 50% coming from commission and product factory. For sure, there will be room for make other potential…to explore other potential opportunity. That let us be very much concentrated on our standalone situation right now on looking at what will happen on the offer. You know what we think about the offer is not yet an offer. Basically, it's still a discount. We are expecting for something from UniCredit. And then we will make our decision, which will…of course, will be as a leader of the Italian banking system.

NOEMI PERUCH: Thank you. And just one follow-up on the 250%. Am I understanding correctly that you…since given your structure, you will never apply 250% on a fully loaded basis of Basel? Thank you.

EDOARDO GINEVRA: Yes, sorry, I had a problem with the mic. Yes, this…our stance given the CRR rule contained in Article 4.9…4.9.2 [ph].

NOEMI PERUCH: Thank you.

EDOARDO GINEVRA: 495.2, sorry. 495.2.

NOEMI PERUCH: Thank you.

OPERATOR: The next question is from Giovanni Razzoli of Deutsche Bank. Please go ahead.

GIOVANNI RAZZOLI: Good afternoon to everybody. Follow-up questions on the CET1. You said that you expect, after the consolidation of Anima, to be above 13%. But the comments that you made, bring me to think that you will be…well above 13%. You do have the cash flow generation for the next quarter, including Anima. You mentioned the improvement in the other comprehensive income reserves that is the EBITDA. Then if I'm not mistaken, you mentioned in the past also some significant risk transfer actions the possibility to move the goodwill to BPM Vita. And you are already at 13%...let's say, 12.9%. So, my understanding is that this is an extremely conservative guidance, where I can be wrong, there could be acceleration of risk-weighted assets? Or what could be the other, let's say, offsetting elements to this, in my view, strong achievement…a potential strong achievement.

And the second question is on the commercial performance in terms of placement of investment products, which has been very strong. You reached €7 billion. I would say that probably this performance was also impacted by some noise around UniCredit offer, which could have had an impact on your network. So, I was wondering whether you can give us some color also from the month of April, if this you know, positive trend is also confirmed given the turbulence we had in April. Thank you.

GIUSEPPE CASTAGNA: Thank you, Giovanni. Let me take the occasion to answer to your question on Common Equity. I think you have made some very good observation and comments. Unfortunately, we are stuck to this 13% and because the market was influenced by some rumours thus going below 12%. We want to just to show that since Q1, we are almost there. We are higher than there. And even with the contribution of Anima…impact of Anima will be there. So, of course, we have generated, again, track record. If you look at our 8 years of story, I think we have generated 2,000 basis points of Common Equity Tier 1, all-in-all in order to de-risk €30 billion of asset in order to make all the capital management actions we have done to build-up our network, our product factory and so on.

So, now unfortunately, I don't know why the market is stuck on this 13% and maybe we were so, let's say, naive to still stay on this 13%. Let me say that we…the only justification, we also added 350 basis points of MDA buffer which is the higher amongst the most important player in the Italian market. So, although somebody would have expected some reduction in capital, we are still there, and we will be stronger even after.

Placement, good question. Also, this is one of the UniCredit impact. What can I say? Of course, we would prefer to work without distraction. Without distraction for our network is not that easy, especially at the beginning when something happening like that? But as you were mentioning, then you can be able to transform a problem in opportunities. Maybe this was the case also for our network. We have experienced a lot of commitment from everybody from the 1,300 branch from the 15,000 people in the network from all the people working from the bank. We are so committed and so certain of our strength standalone and maybe the results of this quarter testify the capability of the bank. Sometimes you need a kick to perform better and this was a good occasion.

April, let me say that it was still very good, considering the many unfortunately bridge that we had during the month Easter , 25 of April, 01st of May and so on, and you know, that in terms of commission, this cost a lot because you cannot perform the day-by-day transaction. But I think we were around €1.7 billion in terms of investment program, much higher than April last year. The same…this I think I mentioned was in terms of loan production. We are above €10 billion by the end of April. So, we will continue very steadily to perform well.

GIOVANNI RAZZOLI: Thank you.

OPERATOR: The next question is from Manuela Meroni of Intesa Sanpaolo. Please go ahead.

MANUELA MERONI: Yes. Thank you for taking my questions. The first one is on your net income guidance for 2025. It has improved. So, you already mentioned some changes in the capital gain on Anima. I'm wondering if you can share with us what do you expect to be better compared with what you were expecting in February when you released the first guidance. And we are talking about better volumes revenues lower cost or provision or anything that you can share with us?

And the second question is, again, on the Common Equity Tier 1. You already generated 46 basis points from a managerial action. I'm wondering if you still have further room for other managerial action that you want to put in place in the next quarters, and if these managerial actions are going to have any impact on your revenues? Thank you.

GIUSEPPE CASTAGNA: Thank you, Manuela. I think on Page 27, we gave you some, let's say, indication about the bettering…the many bettering I would say, of the forecast of the guidance for '25. Basically, we are confirming that NII is kept at a very solid level of mid-single-digit reduction vis-à-vis '24. And on the opposite, we have a strong increase in commission very good performance in cost/income and in cost generally and a lot of room in terms of guidance in provision. So, all of these together with Anima anticipation of one quarter, should give us the results that we presented today.

For managerial action, I don't know if Edoardo want to?

EDOARDO GINEVRA: Yes. Can you repeat the question? Do you understand if you talk about capital or NII, sorry.

MANUELA MERONI: I was talking about capital, 46 basis points already in this quarter.

EDOARDO GINEVRA: Yes. So, what we have done is we originated this capital mostly from synthetic securitizations. We performed 2 transactions in March and from how to say it, from the credit portfolio by reducing the capital absorption with maneuvers that you can imagine on our lending on our credit risk and capital absorbed on credit risk. So, we can continue. We don't currently expect to perform synthetic securitization in the second quarter. We are considering currently additional transaction potentially if needed either in the third or in the fourth quarter. And of course, we will continue to optimize the credit portfolio.

OPERATOR: The next question is from Delphine Lee of JP Morgan. Please go ahead.

DELPHINE LEE: Yes, good evening. Thanks for taking my questions. Just wanted to ask you on NII and the interest rate sensitivity, which is reduced to €200 million. If you could just…if you don't mind elaborating a little bit on this? And it seems to me that part of the difference in terms of consensus and revenues that you target is also not just core revenues, but trading and associates and insurance. So, just wanted to see on trading. Like if you could give us a little bit of indication, I mean, Q1 was clearly very strong. But in terms of the run rate that you would expect on the trend on that. Thank you very much.

EDOARDO GINEVRA: Okay. So, on NII sensitivity, basically, this is the result reduction of NII sensitivity. This is the result of the progressive implementation of all the actions that we are producing to decrease the sensitivity of our balance sheet in a scenario of declining rates. If I may summarize the concept, the real name of the game is the usual deposit beta. So, 1 year ago, the contribution to sensitivity of total deposit of improvement in cost of deposit. Taking into account the replicating portfolio 1 year ago, 400 basis points was €360 million. Now, it is €480 million. So, this means that especially taking into account the increase in the replicating portfolio, I don't have it on top of my mind the amount 1 year ago, but it was probably below €20 billion. And now we are at above €25 billion plus the restructuring of the deposit portfolio itself, which is now indexed at a share of 36% leads to this improvement because we have a natural share of deposit re-pricing in a scenario of declining interest rate or re-pricing through the swaps in the scenario of declining interest rates that contributes to this reduction in sensitivity. Then of course, there are some moving parts in the rest of the balance sheet. But overall, they tend to compensate each other throughout the period that we are considering.

On NFR. On NFR, what we have and that contributed to the improvement in the guidance is, of course, consolidation of the results of this month and on top the fact that given that we have 2 quarters of Anima, part of the contribution of Anima is in NFR for the improvement…sorry, for the contribution of the dividend from NPS, which is in the order of magnitude of additional €40 million. So, this explains the fact that we are confident to close with NFR, which will be in the area of, let's say, slightly below €100 million.

On part of this contribution, it comes as well from again, the reduction in rates, because with the current level of rates, we clearly have an advantage in certificates that is shown on Page 21. Last quarter…last year, we paid €64 million on certificates. Now in the quarter, we paid €50 million, 1 year ago, we paid €75 million. So this is a contribution to the overall target that I mentioned.

DELPHINE LEE: Thank you very much.

OPERATOR: The next question is from Marco Nicolai of Jefferies. Please go ahead.

MARCO NICOLAI: Hello, thanks for the presentation. So on the commercial performance and on commission, so fees were very strong this quarter. If I compare how much the commission income grew compared to the stock, let's say AUM were up 3% year-on-year, but running fees are up 5% and also placements are up 15%, but upfront fees are up 30%. So there has been also, let's say, margin effect on top of the volume effect. Can you give us some indications what is driving it, and if you think it can be sustainable for the future?

And then…and also on asset quality, so still pretty solid and overlays increased compared to the previous quarter. But let's say…so if you are in a scenario where GDP growth is lower than expected. Can you provide us some…with some sensitivities on your cost of risk? And just a clarification, is the cost of risk guidance embedded in the 2025 net income guidance 30 basis points? Thank you.

GIUSEPPE CASTAGNA: Okay. Thank you for the question. Very interesting. Let me talk about…this is very important, the fee increase in terms of yield of each investment product sold. This is the difference of having a product factory on yourself and just distributing product from other product factory. When you have the full range of product factory, you can choose time-by-time in the best interest of the client, the most convenient product in your range of the many factors. Let me give an example. Last year, first quarter was very good. We didn't have any life insurance product because Generali and Vera Vita were not providing us any new product. We were obliged to sell other products that mostly had maybe a lower yield for us.

Now, including also Anima, of course, we have a wide range of product, which come from the most simple current account to the most sophisticated provided by [indiscernible] funds from Anima. And we can, depending on the capability of the client to be risk…adverse risk premium to give them the best product. We always have a solution for them. And this allow us to have a much higher yield in terms of each product that we can sell.

So I think that frankly speaking, maybe the volume is not so…I'm not so sure that we can continue to grow to €6.5 billion, €7 billion per quarter. But for sure, the yield of these sales will be even higher than the one we presented, because now we have all the ammunition to give the most important…the best product for the client and for the bank. So I think it's sustainable. And the first quarter results shown very clearly this assumption.

Asset quality sensitivity. We, of course, have done sensitivity also for 2025 considering a default rate much higher depending also on potential decrease in GDP. And I think we have 10 to 15 basis points of increase from the current situation.

MARCO NICOLAI: For a zero GDP growth in GDP [technical difficulty].

GIUSEPPE CASTAGNA: Yes, 10% for a zero GDP. Sensitivity on cost of risk is the one that you asked. It's the same question, I think asset quality, our 30 basis point is not the guidance for '25. The guidance is higher. As I mentioned before, we have the default rate which is higher, prudentially of course.

OPERATOR: The next question is from Ignacio Ulargui of BNP Paribas Exane. Please go ahead.

IGNACIO ULARGUI: Thanks for taking my questions. I just have 2, one on costs and the other one on commercial spread. So starting with costs, I mean the performance has been very strong, much stronger than what we expected at least. And that has been largely driven by admin expenses, which are down 16% in the quarter. Although they are flat year-on-year…quarter-on-quarter. How should we think about admin expenses going forward? What kind of investments are you planning to have into 2025?

And the second one is on the commercial spread, I mean, how should we think about the performance of the commercial spread? It's kind of largely done, provided that your average stays at current level? So we should expect some further decline in the coming quarter? Thank you.

EDOARDO GINEVRA: Thank you. Thanks for congratulating on the evolution of the bank. Finally on staff costs…in general, on operational costs, I would say we are very, I mean, optimistic on the evolution of this component of the P&L, as correctly observed in staff cost…other administrative expenses have improved significantly versus Q1 '24, are more or less aligned…broadly aligned with the level of last quarter of last year. We prefer to be more prudent in the overall evolution fully of this part by inserting some additional expenses, but frankly speaking, this is an area where we believe we can continue to achieve significant savings and deliver important performance.

On whilst as far as the amortization…the depreciation and amortization, here you see it's more or less a constant trend and we have room to sustain in additional investment activities.

While we talk about costs, let me also verify that the cost of personnel is still in progress of improving during the rest of this year, because starting from second quarter we will have the positive impact of the redundancy schemes that have been agreed in December and started only to a limited extent to produce the benefits during the first quarter. So this is another area where we believe we can continue to deliver an improvement in performance for the rest of the year.

GIUSEPPE CASTAGNA: Coming to the commercial spread, let me talk, I didn't understand if you want to talk about deposit or asset spread, so let me talk about commercial spread in general. If you see our Page 16, you will see that our commercial spread has increased much higher than the reduction of the Euribor over the quarter. For instance, Q1 '24, we had an advantage in the commercial spread vis-à-vis the Euribor average of the quarter of 37 basis points.

Thanks to the maneuver that we are doing on the liability spread and the capability to keep a very good asset spread also in a growing environment. We have increased the commercial spread in the last quarter of '24 to 58 basis points from 37 basis points. And in Q1 '25 to 69 basis point. So that means that our capability and view to reduce the possibility to increase NII in an environment in which interest…Euribor was growing and starting to produce a sort of defense line in order to offset the potential reduction of Euribor is working very well.

So now the liability spread is reducing much…at a lower speed vis-à-vis the reduction in Euribor and having the capability to keep the asset spread at the same level, we have a potential increase in commercial spread. Meanwhile, the Euribor goes down.

IGNACIO ULARGUI: Thank you.

GIUSEPPE CASTAGNA: Thank you.

OPERATOR: The next question is from Hugo Cruz of KBW. Please go ahead.

HUGO CRUZ: Hi. Thank you for the time. Just 2 quick questions. One is, I noticed you didn't show any loan growth in household loans. I wonder if there's any, you know, if this have anything to do with the pricing conditions in that part of the market, if you could please discuss those?

And the second question on the replicating portfolio. Do you still see any room to grow the size of the portfolio further? And the duration, 2.8 years, seems a bit low. Why are you not pursuing a longer duration? That's it. Thank you.

EDOARDO GINEVRA: No, on replicating portfolio, we are fine with the level that we reached, which was announced back in the previous Strategic Plan and confirmed in this one. So we believe that taking into account the share of index deposits, which do not need replicating portfolio to improve price sensitivity. Overall, we are at around now 60% of total deposits that are hedged either through replicating portfolio or through the contract itself of indexation. And strategically, we are fine with that, bearing in mind that still the yield curve remains negatively sloped or only slightly positive slope for the relevant levels.

On the 2%...2.1% rate, I believe this is, we are satisfied with that, of course, we can improve once the euro curve will normalize by simply replacing the back book with a new transactions more or less leaving unchanged, the current volumes. We observe in the market that other institutions have a lower level of yield and a higher duration, meaning that it might be slower for other players, the improvement of the overall profile of the same replicating portfolio.

GIUSEPPE CASTAGNA: On the loan growth pricing condition, maybe I didn't get very clearly the question. Is how we have managed the loan growth keeping good pricing?

HUGO CRUZ: Sorry, just on household loans. You didn't show any growth in household loans. And I was wondering if that's because of pricing in that market.

GIUSEPPE CASTAGNA: Basically, the vast majority of it was with corporates and SMEs. So…and we are, of course, growing in terms of residential mortgages, but with a very slow start in January, improving in February, very good in March. So, let's keep an eye on the next quarter to understand if March will be the average for the next quarter. For sure, there is an improvement. Meanwhile, the interest rate go down, but still not at that speed that we could have expected with such interest rate. Let's see the next…this quarter would happen.

HUGO CRUZ: Thank you.

OPERATOR: The next question is from Andrea Lisi of Equita. Please go ahead.

ANDREA LISI: Thank you for taking my question. Good evening. The first one is just a follow-up on the D&A expenses. You said that it is…can be seen that are closer to the one of the previous quarter. But if I understood well that in the call, you have said that it is unlikely that on a standalone perimeter, they will remain at these levels. So, what could be imagined has a reasonable hover at the quarterly level for these expenses?

In regarding the evolution…the second question is on the NII in particular, if you can provide us the indication of…on the lending…the front book versus the back book. And so, if there is still a positive substitution effect on this side?

And the very last one, obviously, it is quite difficult to quantify. But clearly in a lower interest rate environment, there is room for higher capital gains. And so, if it is reasonable or in some way, yes, can be a reasonable report is to assume an average trading level that is close to the one that we observed this quarter? Thank you.

EDOARDO GINEVRA: Okay. Thanks a lot for allowing me to clarify, especially taking into consideration the position of Equita in this current overall environment. It's interesting. It's helpful to be able to clarify on the general expenses. I wanted to mean that we are very satisfied of the current level of the general expenses, which is consistent with last quarter.

In our guidance, P&L, we preferred to stay a little bit more on the safe side so that if needed, we will have room. But again, this is an area where we can compress the overall level of expenses, so generating additional buffer and additional delivery to improve our overall performance. So, overall, we are kind of guiding for a slight increase, but we have room to compress this item if needed.

On NII effect from substitution, well, of course, it depends on the various products and on the various segments. So, at a constant mix, I believe that we can say that the back book is replaced by an equivalent level of spreads from the front book than product…if the mix changes, it depends on products. For example, mortgages, of course, would have a lower spread compared to SME and small business lending.

On the rates, I believe that the current level of rates gives probably more opportunities to further push and improve in commissions because in investments for investment portfolios of our clients, capital gains tend to materialize, helping for additional commercial activity from the network.

Trading, we don't have expectations to translate capital gains in the portfolio into trading, because of course, these capital gains are in the parts of the portfolio that generate higher levels of NII, and we are fine with the long-term contribution of such parts of the portfolio.

ANDREA LISI: Very clear. Thank you.

OPERATOR: Mr. Riscassi, gentlemen, there are no more questions registered at this time.

ARNE RISCASSI: Okay. So, thank you very much to all of you, and I hope to see you in the next days for some other clarification. Thank you very much.

Note:

(*) With specific reference to the request for clarification, received from one of the analysts during the call, concerning the evolution of the Group's capital position after the acquisition of the 89.95% stake of Anima Holding and its potential inclusion in the Bank's capital ratio proforma as at 31 March 2025, the main drivers allowing to confirm the analyst's assumption of a theoretical level of 12.9%, starting from the stated current level of 14.76% fully phased, can be summarized as follows:

- in the illustrative report for the Shareholders' Meeting of 28 February 2025 ("Illustrative Report"), the capital impact resulting in a scenario of acquisition of 100% of Anima Holding was estimated in ~-268 bps;
- part of this impact, i.e. 53 bps, is already included in the Bank's capital position as at 31.3.2025, due to the anticipation of future capital increase made in favor of Banco BPM Vita in order to fund the purchase of Anima Holding; therefore, the residual theoretical impact in a scenario of acquisition of 100% of Anima Holding would be ~-215 bps;
- the actual effects resulting from the Anima Holding aggregation transaction will be included in the calculation of the Banco BPM Group's capital ratios as at the reference date of June 30, 2025; in this regard, as the actual share of Anima Holding acquired by the group is 89.95%, such impacts are expected to be mitigated of an order of magnitude which, using the same assumptions adopted in the estimate produced in the Illustrative Report (and as mentioned during the call), can be estimated in ~30 bps, leading to a total estimated impact of ~-185 bps;
- the pro forma CET1 ratio of ~12,9%, an indicative level which simulates the effect of the acquisition of the 89.95% of Anima Holding in a theoretical scenario where this acquisition is anticipated from Q2 to Q1 2025, is obtained deducting this estimated impact of ~-185 bps from the stated level of 14.76%;
- in addition to the final amount of the impact of Anima acquisition – which is subject to uncertainties related to several factors, including, but not limited to, the results of the PPA process – the final level of CET1 ratio at the end of Q2 2025 will depend on certain other elements, including net capital generation stemming from net profit, dividends, DTAs, FVOCI reserves and organic growth.