BANCO BPM

NEWS RELEASE

Results as at 31.03.2017

NET INCOME[1] OF € 117 MILLION DRIVEN BY RISING "CORE"[2] TOTAL INCOME (+7.5% Y/Y)

PROFIT FROM OPERATIONS OF € 438 MILLION (+19.4% Y/Y)

NET NON-PERFORMING LOANS DOWN BY € 2.2 BILLION, NET NPL TO TOTAL LOAN RATIO FALLING Y/Y FROM 15.3% TO 13.6% (-170 BP)

INCREASE IN NPL COVERAGE[3] (50.0%[4] VS. 45.5% IN Q1 2016)

EXCELLENT LIQUIDITY POSITION WITH UNENCUMBERED ELIGIBLE ASSET EXCEEDING € 22 BILLION

PROFORMA PHASE-IN CET1 RATIO AT 11.7% AND FULLY-LOADED AT 11.1%[5]

Key balance sheet items[6]

- Customer loans of € 110.3 billion, of which performing +0.3% y/y and non-performing -12.8% y/y (€ 110.6 billion at the end of December 2016)
- Direct customer funds of € 107.7 billion[7], of which "core" funding through checking accounts and deposits of € +6.9 billion y/y, while more expensive funding sources (time deposits and bonds) are declining

[1] Net of the "badwill" effect generated by the PPA adoption, albeit provisional, at 1 January 2017 - the date of effectiveness of the merger between Gruppo Banco Popolare and Gruppo BPM - totaling € 3,123.9 million, which allowed Q1 2017 to close with a net income for the period of 3,240.7 million.
[2] Given by the sum of "net interest income" and "net fees and commissions".
[3] For more details on the accounting treatment of write-offs see the section "Explanatory notes of Gruppo Banco BPM" on page 8 of this press release.
[4] Including residual write-offs for an omogeneous comparison.
[5] Inclusive of dividend distribution by associates and the effect of converting DTAs in tax credit after 31/03/2017.
[6] Comparison data at 31 March and at 31 December of Gruppo Banco BPM reflect the sum of the data resulting from the consolidated financial statements as at 31/12/2016 of former Gruppo Banco Popolare and former Gruppo BPM net of intercompany relationships and write-downs illustrated in the section "Explanatory notes of Gruppo Banco BPM" of this news release.
[7] Including capital protected certificates (€4.5 bn at 31 March 2017 vs. € 4.6 bn at the end of 2016), but net of repos.

- Indirect customer funding[8] of € 98.6 billion (€ 97.2 billion at 31 December 2016), of which:
    - assets under management of € 60.2 billion
    - assets under administration of € 38.4 billion

Key P&L items

- Total income of € 1,213 million, € 1,181 net of € 32 million [9] of non-recurring items, up by 2.8% as compared to the pro-forma Q1 2016 figure
- Net fees and commissions of € 547 million (+16.9% y/y)
- Operating costs of € 775 million (€ 802 million net of non-recurring items), down by 4.7% compared to the pro-forma Q1 2016 figure of 813 million
- Gross operating income of € 438.1 million, up by 19.4% over 367 million in Q1 2016
- Loan loss provisions of € 291 million, well below the € 750 million in Q1 2016[10]
- Net income of € 3,241 million, which, net of the "badwill" component generated by the merger-related PPA of € 3,124 million, comes in at € 117 million as compared to a loss of -€ 267 million in Q1 2016

Capital position:

- Phase-in CET 1 ratio of 11.5%, up to 11.7% at pro-forma level
- Fully-loaded CET 1 ratio of 10.9%, up to 11.1% at pro-forma level
- Capital ratios were affected by the increase in RWAs, mainly driven by the negative impact of a temporary buffer (approx. 50pb) which will be reabsorbed when the application of the AIRB models across former BPM will be authorized.
- Additional benefits expected to come from the rollout of AIRB model to former Gruppo BPM.
- Capital Flexibility thanks to a strategic integrated equity investment management approach.

Credit quality[11]

- Net NPL stock of € 15,033 (-€ 2.2bn, -12.8% on annual basis)
- Coverage[12]:
    - NPLs: 48.2%, 50.0% including residual write-offs for a like-for-like comparison (vs. 45.5% as at March 2016)
    - Bad loans: 59.0%, 61.2% including residual write-offs for a like-for-like comparison (vs. 59.9% as at March 2016)

[8] Net of capital protected certificates included in the "direct funding".
[9] Non-recurring items are detailed in the section "Explanatory Notes of Gruppo Banco BPM" of this news release.
[10] Provisions further to the capital increase of Banco Popolare, consistent with what disclosed to the market in the 2016-2019 Business Plan. Preliminary estimate of the effect caused by the NPL valuation process discontinuities introduced in 2016.
[11] For more details on the accounting treatment of write-offs see the section "Explanatory notes of Gruppo Banco BPM" on page 8 of this press release.
[12] Coverage levels including write-offs.

Liquidity profile

- Unencumbered eligible assets of € 22.1 billion when measured on 4 May 2017(13% of assets), guaranteeing an ample flexibility when managing funding sources.
- LCR >160% and NSFR >100%

Verona, 11 May 2017 – In today's meeting, the Board of Directors of Gruppo Banco BPM, chaired by Mr. Carlo Fratta Pasini, has approved the financial and operating situation of Gruppo Banco BPM at 31 March 2017.

On 1 January 2017, the two former groups Banco Popolare and Banca Popolare di Milano combined into the new Gruppo Banco BPM, the third Italian banking group with over 4 million customers, about 2,300 branches and a strong expansion potential, thanks to its foothold in the wealthiest and industrialized areas of the country, significant cost synergies and revenue growth, and that will unfold thanks to the actions set out in the 2016-2019 Strategic Plan.

In Q1 2017, the Group set about achieving the operational integration, completing the asset transfer, leading to the creation of the new BPM Spa, and the merger, leading to the creation of the Parent company Banco Bpm Spa. In the meantime, the Purchase Price Allocation (PPA) was realized, i.e., the measurement at fair value of the assets and liabilities of the acquired (under the accounting point of view) former Gruppo BPM. The effects, that may undergo some limited adjustments, have been reflected in the assets and liabilities and revenues and expenses under approval. Moreover, the Group continued with the derisking of the NPL portfolio, with an additional disposal of a bad loan portfolio. Through these actions and the on-balance sheet write-back of the write-offs on bad loans pertaining to former Gruppo Banco Popolare, the overall NPL coverage levels were bolstered further, thus practically reaching the target levels the Group is required to fulfill.

From a purely operating viewpoint, Q1 2017 reported an increase in total income to € 1,213 million (+2.8% y/y) buoyed by the excellent performance of net fees and commissions (€ 547 million +16.9% y/y) mainly driven by the sale and distribution of Group asset management products.

Net interest margin dipped slightly, and was positively affected by the declining cost of funding and the increasing performing loan volumes, which however could not fully neutralize the decline in the average customer spread, tied to the Euribor, which dropped y/y by 22 b.p..

Operating costs came to € 775 million, down 4.7% y/y, thanks also to the decline in personnel expenses driven by the lower headcount and the containment of variable wages.

As a result of this dynamic, profit from operations stood at € 438 million (+19.4% y/y).

Loan loss provisions added up to € 291.4 million, comparing very favorably with Q1 2016, which however had posted non-recurring provisions.

Net income for the period stood at € 117 million, as compared with the pro-forma loss of € 266.7 million reported in the same period last year.

To this we must add the recognition of the "badwill" of € 3,123.9 million resulting from the PPA at the merger effectiveness date.

Operating performance

Net interest income came in at € 556.2 million compared to pro-forma € 558.5 million at 31 March 2016 (-0.4%). The Q1 2017 figure reports a steep rise (+12.1%) compared to the pro-forma contribution of Q4 last year of 496.2 million, driven also by the positive effect of interest earned on TLTRO facilities of € 31.7 million, while the financial income has been declining, driven by the lower contribution of the securities portfolio following the marking to market of the former BPM portfolio. The **gain on investments in associates carried under the equity method** came in at € 41.6 million, down when compared to € 44.6 million reported in Q1 last year (it included the contribution of € 6 million of Azimut Holding, which is no longer accounted for under the equity method after the partial sale of the share held in the company and the subsequent reclassification as available for sale), while up compared to the Q4 2016 contribution of € 36.6 million. The main contribution to this item was made by consumer credit through the stake in Agos Ducato (+€ 32.4 million, compared to +€ 30.1 million in Q1 2016), followed by the insurance business totaling € 4.3 million (€ 7.3 million at 31 March 2016).

Net fees and commissions added up to € 547.4 million, up by 16.9% compared to € 468.1 million in the same period last year. The growth was driven by brokerage, management and advisory services, which increased by € 90.3 million in absolute terms over Q1 2016, driven by the sale of asset management and portfolio management products, partly curbed by the lower commission stream from other services.

Other net operating income totaled € 30.2 million compared to € 33.1 million in Q1 2016.

The **net financial income without FVO**[13] came in at € 37.7 million compared to € 75,6 million in Q1 2016. The lower contribution is entirely to be ascribed to the reduced disposal of assets available for sale, in particular debt securities, generating a total income of € 16.3 million (€ 75.7 million at 31 March 2016). Trading income contributed as well to the period result with € 18.5 million (of which € 7.4 million from Banca Akros). As a result, **total income** added up to € 1,213.1 million compared to € 1,179.9 million pro-forma in Q1 2016 (+2,8%).

Personnel expenses, totaling € 458.7 million, went down by 4.5% from € 480.6 million pro-forma of the same period last year, driven by the containment of variable wages and the reduction in average headcount. The total average headcount decreased by approx. 200 people y/y.

Other administrative expenses amounted to € 263.2 million, down by 7.2% compared to the same period last year. This item includes a positive impact of 27.2 million tied to the recovery of a charge paid out in 2016 to be able to convert DTAs in FY 2015, and to "systemic charges" (ordinary contributions to the Single Resolution Fund (SRF) of € 62.4 million - 58.8 million in FY 2016 - and a fee of € 6.7 million to retain the right to deduct DTAs for the year), totaling € 69.1 million. Net of these components, compared with Q1 2016 this line-item still shows a decline of 1.7%.

Net impairment of tangible and intangible assets for the period stood at € 53.0 million, up by 8.6% compared to € 48.8 million at 31 March 2016.

Total **operating costs** added up to € 774.9 million compared to € 812.8 million in Q1 2016, down by 4.7%. The Q1 cost to income ratio (total income over operating costs net of components tied to systemic charges and the DTA fee) was 62.0%, down from 63.9% in the same period last year.

Net write-downs on impairment of customer loans stood at € 291.4 million compared to € 749.6 million in Q1 2016. The cost of credit, measured as the net loan loss provision to net loan ratio, was 106 b.p., and it shows a steep decline compared to Q1 last year at 245 b.p., which had been affected by the decision to increase the average NPL coverage.

Net write-downs on impairment of other assets of € 8.4 million were charged to income (-€ 4.9 million at 31 March 2016), primarily referring to the additional increase in the impairment of the share held in the Atlante Fund.

Net provisions for risks and charges reported a recovery of € 0.5 million compared to € -3.1 million in the same period last year.

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[13] The effect of the change in creditworthiness on issued financial liabilities measured at fair value (FVO) is shown in a separate line-item of the reclassified income statement, subsequent compared to the 2016 operating result. Thanks to the upgrade of the creditworthiness of Banco BPM, the FVO in 2017 reported a negative effect of € 4.9 million (-€ 3.5 million after-tax). In Q1 2016, there had been a positive contribution of € 15.0 million (+€ 10.1 million after-tax).

In Q1 2017, **gains on disposal of equity and other investments** of € 17,1 million were reported, of which € 11.7 million for the measurement at fair value of the stake in Energreen, further to their reclassification it under financial assets available for sale, and € 5.4 million for the disposal of property (in Q1 2016 the reported gain was of € 1.6 million).
Income tax on continuing operations at 31 March 2017 came in at € 38.6 million.
Considering the net income attributable to the non-controlling interest (+€ 3.1 million) and the FVO impact (-€ 3.6 million, after tax, against € +10.1 million at 31 March 2016), Q1 2017 closed with a **net income for the period ex "badwill"** of € 116.8 million, compared to a net loss of € 266.7 million in the same period last year.
Including the "badwill" of € 3,123.9 million, Q1 2017 closed with a **net income for the period** of € 3,240.7 million.

Key balance sheet items

Direct funding[14] at 31 March 2017 totaled € 107.7 billion, down by 2.1% compared to € 110.0 billion at 31 December 2016 and up by 0.9% compared to the same period last year. The y/y comparison shows a strong growth of checking accounts and sight deposits held with the branch network (+10.7% y/y, from € 64.1 to € 71.0 billion), more than offset by the decline in bond issues (-21.9%), down to € 23.7 billion from 30.4 at 31 March 2016) and in time deposits, down to € 4.4 billion from € 4.8 billion in the same period last year (-9.6%). Over the quarter the decline of this line-item was driven by the decline in bond issues (-7.6%), and by the drop in time deposits (-8.6%), in line with the policy of progressively reducing the cost of funding. The funds guaranteed by the stock of certificates issued by the Group, which at 31 March 2017 was € 4.5 billion, remained basically stable compared to € 4.6 billion at year-end 2016.

Indirect funding, net of capital protected certificates, amounted to € 98.6 billion, down by 1.5% compared to € 97.2 billion at 31 December 2016 (practically stable y/y. The growth over the quarter was driven by assets under management (+3.6%), totaling € 60.2 billion, thanks to the good performance of funds and SICAVs mostly structured by Aletti Gestielle SGR, and the increase in portfolio management. Assets under administration, net of capital protected certificates, amounting to € 38.4 billion, went down by 1.7%.
Year on year, assets under management reported a strong growth (+7.6%, € 4.2 billion), always and almost exclusively driven by Funds and SICAVs. This growth has been almost entirely offset by the decline in assets under administration, net of capital protected certificates, (-10.3%, € -4.4 billion).

Financial assets, net of derivatives, amounted to € 36.7 billion at 31 March 2017, up by 8.5% compared to € 33.8 billion at 31 December 2016, yet down by 1.8% compared to € 37.4 billion at 31 March 2016. The period increase was driven by the growth in assets held to maturity, which went from € 8.4 billion in December to € 10,7 billion at the end of March, due to the increase in debt securities. At 31 March 2017, the portfolio composition was: € 34.1 billion of debt securities, € 1.8 billion of equity securities and finally units in collective investment undertakings of € 0.8 billion. The Italian government bond exposure was 27.8 billion.

Al 31 March 2017 **net customer loans** came in at € 110.3 billion, slightly down (-0.2%) compared to € 110.6 billion at the start of the year. The decline was driven exclusively by the strong drop in net non-performing loans, that decreased by approx. € 1.2 billion, while performing loans reported an

[14] Includes checking accounts and sight and time deposits, issued bonds, certificate of deposits and other securities, facilities and other debts, capital protected certificates. Repos are not included.

increase of approx. 1 billion, that rises to € 1.5 billion if we exclude repo transactions with Cassa di compensazione e Garanzia.
The trend is confirmed also by comparison with Q1 2016, where non-performing loans fell by € 2.2 billion, while performing loans rose by € 0.3 billion (+€ 0.6 billion excluding the above-mentioned repo transactions).

Net non-performing exposures (bad loans, unlikely-to-pay and past dues) at 31 March 2017 totaled 15.0 billion, down by 12.8% compared to 17.2 billion at 31 March 2016. The decline was driven by the drop in net NPL flows, thanks to the internal work-out activity, the sales carried out over the period, and the write-downs applied upon measuring the fair value of the NPLs of the former BPM Group under the PPA.
The quarterly dynamic breaks down as follows:

- Bad loans of € 7.3 billion, down by 3.9%;
- Unlikely-to-pay loans of € 7.6 billion, down by 19.0%;
- Past due loans of € 147.3 million, down by 45.6%.

The NPL coverage ratio stood at 48.2%, up to 50.0% including the residual write-offs for a like-for-like comparison against 45.5% at 31 March 2016.
In greater detail, at 31 March 2017 the coverage ratios were:

- Bad loans 59.0% (up to 61.2% including the write-offs for a like-for-like comparison against 59.9% at 31 March 2016)
- Unlikely-to-pay loans 31.2% (24.2% at 31 March 2016);
- Past due loans 15.0% (16.1% at 31 March 2016).

Group capital ratios[15]

As at 31 March 2017 the Group's own funds reach €11.011 million.
The phase-in Common Equity Tier 1 ratio came in at 11.5% and the estimated fully-loaded CET1 ratio stands at 10.9%.
Making a pro-forma measurement of capital ratios at 31/03/2017 including the positive impacts generated by certain events that have already occurred in Q2[16], the CET 1 ratio stands at 11.7% at phase-in level (12.3% at 31 December 2016) and at 11.1% at fully-loaded level (11.4% at 31 December 2016).
The decline reported over the first quarter was practically driven by the increase in risk-weighted assets, which rose by approx. € 3 billion mainly as a result of the adoption by the Regulator of a temporary buffer, based on the fact that the current AIRB models used to measure credit risks have not been validated yet to calculate RWAs on defaulted assets and retail EAD. Once we receive the authorization to rollout the AIRB models to include the risk assets of former BPM, this buffer will be reabsorbed.

The phase-in Tier 1 ratio was 11.9%, while the Total capital ratio came in at 14.2%.

[15] Pursuant to art. 26, paragraph 2, of Regulation Eu no. 575/2013 of 26 June 2013 (CRR), year-end profits may be included in Common Equity Tier 1 Capital (CET1) only with the prior permission of the competent authority (ECB), which requires profits to be verified by the auditing firm, who completed the audit and are about to issue the audit report.
Pending the completion of the process by the Authority and subject to the issue of the connected authorization, the capital ratios shown in this news release have been calculated by including the full Q1 2017 net income in CET 1.
[16] It refers to the positive impact from the dividend distribution already approved after the close of the quarter by some financial associates, which caused a reduction in the associated CET1 capital deductions, and the positive impact from the conversion in April of about 430 million of DTAs represented by RWAs weighted at 100% at 31 March into tax credits that can be immediately claimed and weighted at 0%

OPERATIONAL OUTLOOK

During the rest of 2017 the Group will be busy implementing the actions set out in the 2016-2019 Strategic Plan, giving priority to the completion of the IT integration, expected by this summer, for the progressive pickup of operations in the NPL unit and the rationalization of the private and investment banking businesses.

Management will focus on recovering profitability, that will benefit from the first synergies generated by the merger.

Although income margins will still be under competitive pressure, the income dynamic may benefit from an additional reduction in funding costs, thanks to the actions put in place to cut back on the more expensive funding sources, as well as from rising loans and rising commissions from management, brokerage and advisory services, which will at least partly offset the expected fall in financial income.

The containment of operating costs through a rationalization process, efficiency gains and specific actions to optimize expenses, will be a key focus area, together with the progressive elimination of NPL stocks, both through the internal work-out activity and through disposals.

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

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The results as at 31 March 2017 of Gruppo Banco BPM will be presented to the financial community during a conference call to be held today, 11 May, at 18:30 (C.E.T.). All the instructions to connect to the event are explained on the Bank's website (www.bancobpm.it) in the Investor Relations section.

Explanatory notes Banco BPM Group

This press release represents the document through which Banco BPM decided to disclose to the public and to the market, on a voluntary basis[17], supplementary periodic information in addition to the half-year and annual reports ("quarterly reports"), in compliance with the disclosure policy communicated to the market in the press release "2017 Corporate Calendar" released on 30 January 2017, pursuant to art. 82-ter of the Issuers Regulation effective on 2 January 2017. For the sake of completeness, please note that the quarterly reports include also the result presentation handout prepared as a support for the conference call with the financial community to be held after this press release has been released.

The information provided in this document is not prepared in compliance with IAS 34 on interim financial reporting.

This quarterly report includes a comment on the quarterly operating performance that focuses on the dynamic of the key P&L, balance sheet and financial items, and is based on the reclassified balance-sheet and income statements at 31 March 2017, used for the annual and half-year financial reports. These statements have been prepared based on the financial statements layout indicated in the Bank of Italy's Circular no. 262/2005, following the combination and classification criteria illustrated in the Annual Report as at 31 December 2016 of former Gruppo Banco Popolare, which, under IFRS3 and for accounting purposes only, is considered the acquiring company. Please note that, in order to provide a direct representation of the effect of the business combination, an ad hoc line-item has been added to the reclassified income statement called "Temporary merger difference (*Badwill*)", as will be better explained in bullet point 1 below.

The accounting criteria followed to prepare the consolidated financial statements as at 31 March 2017, as pertains the classification, recognition, measurement and cancellation of assets and liabilities, as well as the recognition of costs and revenues, comply with the IAS/IFRS issued by the *International Accounting Standard Board (IASB)* and the related interpretations of the *International Financial Reporting Interpretations Committee (IFRIC),* as adopted by the European Commission and effective on 31 March 2017, pursuant to the EC Regulation no. 1606 of 19 July 2002. To this regard, however, please note that:

[17] Lgs. D. no. 25 of 15 February 2016, transposing the Transparency Directive (2013/50/EU), eliminated the requirement to publish interim reports.

- with regard to indefinite-lived intangible assets, at 31 March 2017 no new tests were carried out, as no new impairment indicators were identified since 31 December 2016, confirming the outcome of the tests conducted upon preparing the annual report as at 31 December 2016;
- compared to the annual reports, in particular with regard to certain commission and administrative expense components associated with services provided and received but not yet billed at 31 March 2017, we made a wider use of estimates and implemented different quantification processes than those used upon preparing the financial reports.

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 available information upon preparing the quarterly report as at 31 March 2017.
Considering the pervasive uncertainty characterizing the reference environment, it cannot be ruled out that the estimates and assumptions, albeit reasonable, may fail to be confirmed in the future scenarios in which the Group may be operating. Therefore, future actual results may differ from the estimates generated to prepare the balance-sheet and income statement as at 31 March 2017 and adjustments may be necessary that cannot be predicted or estimated today against the carrying amount of assets and liabilities recognized in the balance sheet.
Please find a description of the recognition, classification, valuation, cancellation criteria for items reported in the financial statements in the Annual Report as at 31 December 2016 of former Gruppo Banco Popolare ("Part A – Accounting Policies"), which are basically in line with those of former Gruppo BPM.

With regard to the recognition of loan loss provisions, in the above-mentioned accounting policies at 31 December 2016, former Gruppo Banco Popolare had illustrated the accounting treatment followed for bad loans to borrowers under insolvency procedures (bankruptcy, compulsory receivership, agreements with creditors, extraordinary administration for large companies in distress). The bad debt expense method followed for this type of exposures was the direct write-off method, based on which the loan amount considered uncollectible is written off. Moreover, it had been clarified that the loan write-off method was an equal alternative to the allowance method, whereby loans remain on-balance sheet through their recognition in a loan loss provision; in other words, the direct write-off procedure had by no means been construed to reflect the loan's different probability of recovery compared to that of a loan written-down against a loan loss provision; in other words, the write-off method was in no way whatsoever intended to express a different judgment on the probability of recovery with respect to the allowance method.
The write-off method used for Bad loans originated in the need to ensure an immediate recording in the accounting of losses in relation to loans under insolvency procedures, motivated by the different tax treatment of loan losses in comparison with the credit allowance, as provided for by the regulation prior to the entry into force of Law no. 132 of 6 August 2015.
In this regard, ex BPM adopted a different accounting method.
In the light of the need to harmonize the accounting practices of the two groups that have been part of the merger, the accounting statement used for Banco BPM shows gross Bad loans including write-offs previously carried out by Banco Popolare and, for the sake of consistency, exposes an adjustment level which is increased by the same amount. With reference to the data as at 31 March 2017, the increase in the amount determined in this way for gross Bad Loans and for the related allowance amounts to €3.5 billion.

As of 31 March 2017, Bad Loans outstanding in relation to borrowers under insolvency procedures that are not included in the statement of gross Bad Loans and the related allowance levels amounts to €1.0 billion. This information is provided only for the determination of the coverage levels for Bad Loans and for Non-performing exposures and, therefore, is comparable with the information provided in the past by the banks that took part in the merger.

For a better understanding of the financial information illustrated in this News Release and in the attached financial statements, please note that:

1. ***PPA effects – Purchase Price Allocation for the business combination with former Gruppo Banca Popolare di Milano***

On 1 January 2017, the consolidation between Banco Popolare Soc. Coop. and Banca Popolare di Milano S.c. a r.l. came into effect, to form a new bank named Banco BPM S.p.A.
Based on a number of size and qualitative parameters under IFRS 3 on business combinations, the merger under consideration for purely accounting purposes is considered as an acquisition of Banca Popolare di Milano S.c. a r.l. by Banco Popolare Soc. Coop., to be accounted for using the acquisition method.
Based on this method, at the date of acquisition (1 January 2017), the acquirer must allocate the purchase price (known as PPA "*Purchase Price Allocation*") to the identifiable assets acquired and liabilities assumed at their fair value, recognizing also the non-controlling interest value of the acquiree. In case the purchase price exceeds the fair value of these assets and liabilities, this unallocated surplus must be recognized as goodwill; if otherwise there is a shortfall, generated by a purchasing price allocation at a bargain price, then this shortfall is recorded to income as badwill.

With respect to the merger under consideration, the purchase price was € 1,548.2 million, resulting from the valuation of the shares issued by Banco BPM S.p,A, assigned in exchange for the shares of former BPM (no. 687,482,024), based on the fair value set as the opening price on 2 January 2017 (Euro 2.252 per share), this being the first available share price since the coming into legal effect of the merger.

Based on the allocation process described above, the measurement at fair value of net assets acquired produced a surplus amounting to € 307.7 million, net of associated tax effect (€ 477.0 million, gross of tax effect) over the book equity of former Gruppo BPM, which amounted to € 4,364. 4 million. The fair value of former Gruppo BPM's acquired net assets totaled €

4,672.1 million. Illustrated below are the value adjustments of acquired net assets compared to the corresponding book values reported by the former Gruppo BPM.

- lower loan value of € 431.9 million due to the joint effect of the higher value of performing exposures (€ 410.2 million) and the lower fair value assigned to non-performing exposures (€ 360.9 million for unlikely-to-pay loans and € 481.2 million for bad loans);
- write-up of tangible assets represented by property, of € 320.7 million;
- recognition of new intangible assets, represented by trademarks (€ 282.1 million) and client relationship (€ 299.3 million);
- fair value adjustment to equity shareholdings, with fair value lower compared to the book value, as measured along the equity-based method € 31.6 million;
- fair value adjustment to certain financial assets and liabilities, resulting in a net total amount of + € 20.7 million;
- other balance sheet items resulting in a higher asset value totaling € 11.0 million;
- net liabilities related with the tax effects of the items listed above, amounting to € 169.3 million.

As a result of the above process, the negative difference between the purchase price (€ 1,548.2 million) and the fair value of net assets acquired (€ 4,672.1 million), equal to minus € 3,123.9 million, was recorded to income as gain from "*bargain purchase*" and is listed as a separate line-item of the reclassified income statement as at 31 March 2017. Although at the date of this news release, for the purpose of the purchase price allocation, Banco BPM has identified the fair values of the aggregate net identifiable assets acquired, the allocation process is still to be considered provisional; in fact, pursuant to IFRS 3, acquisition accounting must be finalized within twelve months of the acquisition date.

Following the fair value adjustments of net identifiable assets recognized in the consolidated financial statements of Gruppo Banco BPM at 1 January 2017, described above, the total effect on the consolidated net income of Q1 2017, as a result of the reversal of the above-mentioned value adjustments, came in at plus € 38.2 million, as itemized below by single reclassified income statement line-item:

- *Net interest income: overall €+21.6 million positive impact for the period, as a combined effect of performing loans, with a negative impact of € -13.5 and unlikely-to-pay loans, with a positive impact of € + 35.1 million, as a result of the higher and lower values recognized under the PPA;*
- *Other operating income: negative impact for the period of €- 6.6, driven by the amortization of definite-lived intangible assets (client relationships);*
- *Write-down of tangible assets: quarterly negative impact of € 2.3 million, referring to the depreciation of the higher values recognized on property;*
- *Loan write-downs: lower net write-downs in Q1, amounting to €+ 45.1 million, as a result of lower values recognized under the PPA;*
- *Income tax for the year: total tax payable with respect to the above adjustments comes in at 19.6 million.*

2. P&L effects caused by the Purchase Price Allocation of the business combinations of Gruppo Banca Popolare Italiana and Gruppo Banca Italease

In compliance with IFRS 3, the income statement of Gruppo Banco BPM includes the P&L effects caused by the allocation of the merger difference in the business combination, which took place in 2007, with Gruppo Banca Popolare Italiana and of the price paid in 2009 to acquire Banca Italease under the above standard. To this respect please note that the P&L effects under examination have gradually tapered off and some of them are no longer significant. The only worth mentioning residual effects come from the amortization of intangible assets having a finite useful life recognized after the acquisition of Gruppo Banca Popolare Italiana, amounting to 5.3 million at 31 March 2017, and posted under the line-item "Other operating income". Taking into account the additional reversals of adjustments under the PPA of the business combinations under consideration, the overall negative effect on the net consolidated income as at 31 March 2017 came in at € 4.1 million.

3. Formation of key balance sheet and income statement items of Gruppo Banco BPM

Based on what has been explained under item 1 above, considering that Banca Popolare di Milano S.c. a r.l. and its subsidiaries as of 1 January 2017 were combined into the new Gruppo Banco BPM, the comparative balances relate to Banco Popolare Soc. Coop., namely, the entity that, from an accounting perspective, is considered the acquirer.
For the purposes of this news release, combined reclassified comparative financial statements have been prepared, as at 31 December 2016 for the balance sheet and as at 31 March 2016 for the income statement, in order to provide an adequate disclosure on the evolution of the Group's assets and liabilities, equity, revenues and expenses. Specifically, the statements have been prepared by combining the data derived from the consolidated financial statements as at 31/12/2016 and as at 31/03/2016 of former Gruppo Banco Popolare and former Gruppo BPM, and making the following adjustments:

- elimination of main inter-company balance sheet and P&L relationships;
- value-adjustment based on the equity method of the equity investments held in the associates Alba Leasing and Factorit, for the corresponding share which before the merger was classified in the "AFS financial assets" portfolios of former Gruppo BPM for Alba Leasing and former Gruppo Banco Popolare for Factorit;
- elimination of the investment held by former Gruppo BPM in Release S.p.A. under "AFS financial assets", against the reduction in "Minority interest", as it was a fully consolidated subsidiary of former Gruppo Banco Popolare.

4. New DTA regulations under Law Decree no. 59/2016

Article 11 of L.D. no. 59 of 3 May 2016, transposed into law by amending Law no. 119 of 30 June 2016, introduced a new optional regime, whereby the guarantee to transform into tax credits those deferred tax assets (DTAs) complying with the requirements set forth by Law no. 214 of 22 December 2011 is subordinated to the payment of a fee, due for financial years from 31 December 2015 to 31 December 2029, whose amount is to be calculated every year. The election into the optional regime is irrevocable.
More specifically, the annual fee to be paid to be authorized to convert the eligible DTAs into tax credits must be calculated every year by applying a 1.5% charge to a "base" obtained by adding together the difference between convertible DTAs recognized in the reference annual report and the corresponding DTAs recognized in the 2007 annual report, the amount of DTAs converted into tax assets from 2008 up until the reference financial year, and by subtracting the taxes specified in the Decree and paid over the same period. Fees are deductible for both IRES and IRAP purposes in the financial year they have been paid.
For FY 2016, the two merging groups had elected into the optional regime by paying the fee for FY 2015 by 31 July 2016. The total fee amount came in at € 27.2 million, and was fully charged in Q2 2016,
On 21 February 2017, the law transposing the Decree Law no. 237/2016 (known as *Salva Risparmio)* was published in the Official Gazette (L. no. 15 of 17 February 2017,); more specifically, art. 26 bis, paragraph 4, amended article 11 of D. L. 59/2016, postponing the period over which the annual fee is due, now from 31 December 2016 to 31 December 2030. Because of the new regulations, in the first quarter the line-item "Other administrative expenses" includes the non-recurring gain produced by the reversal of the 2015 "extraordinary" fee and recognized in the 2016 financial statements (€ 27.2 million).
The line-item "Other administrative expenses" includes also the estimated fee accrued in Q1 2017 of € 6.7 million; this pro-rata temporis accrual accounting method has been applied in keeping with the prevailing opinion, as no official interpretation is available. In particular, accrual accounting is based on the fact that in substance it is a cost whose amount varies depending on the evolution of one calculation base over time. However, we cannot rule out that in the future interpretations may take hold that differ from the common practices followed up to now to recognize the item under consideration.

5. TLTRO II – "Targeted Longer Term Refinancing Operations"

At 31 March 2017, funding operations with the ECB, entirely made up of TLTRO II facilities, totaled € 21,440 million, of which € 15,000 pertaining to the Parent company Banco BPM and € 6,440 to the subsidiary BPM (€ 18,300 million the aggregate figure at 31 December 2016).
For each TLTRO II operation, having a fixed maturity of four years after the disbursement (which occurred based on four quarterly auctions as of June 2016), the reference rate is the one applied to main refinancing operations at the date of each award, that is, zero. However, there is the possibility of benefitting from a more favorable interest rate on deposits with the ECB, up to max. 0.4%, if between 1 February 2016 and 31 January 2018, net eligible loans should exceed by at least 2.5% a given benchmark.
At 31 March 2017, since both Banco BPM and BPM have reached the target set for 31 January 2018, and since a plan is in place to maintain this result, the interest on the financing has been assessed taking the negative interest rate of 0.4% as reference, based on the amortized cost method under IAS 39, deemed applicable for this type of operation.
Please note, that the interest thus calculated over the quarter total € 50.0 million, of which € 31.7 million refer to non-recurring accruals as they refer to the second half of 2016, that were not recognized in the 2016 financial statements because at the date of preparation of the annual report there were no clear and sustainable elements to support the probability of attaining the potential benefit.

6. Charges generated by the contribution to resolution mechanisms

In April 2017, the Bank of Italy communicated to the banks of the Group the contribution amount to be paid to the Single Resolution Fund for FY 2017, totaling € 62.4 million (€ 58.7 million being the ordinary contributions for FY 2016). The contribution was fully charged to income in Q1 under the line-item "other administrative expenses". Please note that in 2017, as in the prior year, the Group decided not to exercise the option of paying up to 15% of the total contributions due with irrevocable payment commitments (IPC).

7. Changes in consolidation scope

At 1 January 2017, the consolidation scope of Gruppo Banco BPM, represented by subsidiaries and companies under significant influence, corresponded to the sum of equity investments in subsidiaries and associates of the two merging groups. More specifically, with regard to controlling stakes, the controlling shareholding in the company Release S.p.a. has increased: the investment held by former Gruppo BPM, equal to 2.92% and classified in the "AFS financial assets" portfolio, has been added to the 80% interest held by former Gruppo Banco Popolare.
With regard to investments in associates, certain shareholdings increased as a result of the reclassification of the following investment which was previously classified in the "AFS financial assets" portfolio:

- Alba Leasing (39.189% interest held by Gruppo Banco BPM): the stake held by former Gruppo BPM (9.039%) was added to the interest held by former Gruppo Banco (30.15%), classified under equity investments;
- Factorit (39.5% interest held by Gruppo Banco BPM): the share classified by former Gruppo Banco Popolare (9.5% of share capital) has been classified under equity investments under significant control, and it incremented the stake already held by former Gruppo BPM and classified as equity investment (30% of share capital).

The only noteworthy change in Q1 2017 was the exit of Energreen S.A. from the scope of consolidation of associates; once we analyzed the events occurred over the period, we deemed we could rule out the possibility of classifying the investment as being under significant influence. Therefore, the equity investment was reclassified in the "AFS financial assets" portfolio; the positive difference between the newly recognized fair value and the previous book value, coming in at plus € 11.7 million, was posted in the consolidated income statement of Q1 2017, under line-item "gain or loss on the disposal of equity and other investments".

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

In compliance with the instructions set forth in Consob's Communication no. DEM/6064293 dated 28 July 2006, the effects of the main non-recurring items are illustrated in the operating report. In particular, based on what has been explained in the items above, note that:

- the line-item "net interest income" includes interest income on the TLTRO II facility for FY 2016, totaling 31.7 million, gross of tax effect;
- the negative effect generated by the increase in the book value of financial liabilities in issue measured at fair value driven by the upgrade of Banco BPM's creditworthiness reported over the period came in at€ -4.9 million, gross of tax effect);
- a contingent asset of € 27.2 million, gross of tax effect, was recognized under the line-item "other administrative expenses", referring to the reversal of the fee paid out for FY 2015 to obtain the guarantee to transform given DTAs, into tax credits, that was charged in FY 2016 but was no longer due for that year pursuant to the regulatory provisions introduced with Law no. 15 of 17 February 2017 n. 15;
- the € -8.4 million write-down, gross of tax effect, of the Atlante Fund investment, classified in AFS financial assets, was recognized under the line-item "net write-downs of other assets";
- net non-recurring gains of € 17.1, gross of tax effect, were recognized under the line-item "Gain on disposal of equity and other investments". The main component (€ 11.7 million) refers to the valuation effect generated by the reclassification of the equity investment in Energreen under the "AFS financial assets" portfolio, as explained above.

9. Capital requirements regulation

On 1 January 2014, the new harmonized prudential rules for banks and investment firms contained in the Capital Requirements Regulation (EU) no. 575/2013 ("CRR") and in the Capital Requirements Directive 2013/36/EU (CRD IV") of 26 June 2013 have come into effect, transposing the banking supervisory standards defined by the Basel Committee (Basel 3 framework) in the European Union. The Regulation and its technical rules are directly applicable in national legislations and represent the so called "Single Rulebook".
Note that the new regulation defined in the "Single Rulebook" provides for a phase-in period for the gradual implementation of certain new rules. The estimated capital ratios the Group is expected to reach at the end of the "phase-in" period are called "Basel 3 Fully-Loaded".

The 2016 minimum capital requirements are:
- minimum Common Equity Tier 1 ratio ("CET1 ratio"): 4.5% + 2.5% Capital Conservation Buffer ("CCB");
- minimum Tier 1 ratio: 6.0% + 2.5% CCB;
- minimum Total Capital ratio: 8% + 2.5% CCB.

Please note that on 4 October 2016, the Bank of Italy, with Update no. 18 of Circular no. 285, brought the CCB down to 1.25% for 2017 and to 1.875% for 2018.

With measure dated 16 December 2016, the Bank of Italy confirmed that the countercyclical capital buffer (CCyB) has been kept unchanged at zero percent also for Q1 2017.

On 24 February 2017, the European Central Bank (ECB) communicated to Banco BPM its final decision regarding minimum capital ratios Banco must comply with on an ongoing basis.
The decision rests on the supervisory review and evaluation process (SREP) conducted in compliance with art. 4(1)(f) of Regulation (EU) no. 1024/2013, based on the individual evaluations of the former Groups Banco Popolare and Banca Popolare di Milano.
Therefore, pursuant to art. 16 (2) (a) of EU Regulation no. 1024/2013, which gives the ECB the power to require that supervised banks hold an amount of own funds higher than the minimum capital requirements set by the current regulations, a requirement of 2.40% was introduced, to be added on top of the requirements listed above.
Taking into account the CCB, CCyB and SREP requirements, at consolidated level Gruppo Banco BPM must fulfill the following capital requirements:
- *CET1 ratio*: 8.15%;
- *Tier 1 ratio*: 9.65%;
- *Total Capital ratio*: 11.65%.

10. Other explanatory notes

The reclassified balance sheet and income statement reflect on a consolidated basis the financial accounts of Banco BPM and its subsidiaries with respect to 31 March 2017, or, when not available, to the most recently approved financial reports.
Similarly, the equity method-based treatment of associates was carried out based on the accounting information submitted to Banco BPM as at 31 March 2017, or, if not available, the most recent financial reports prepared by the associates.

Banco BPM Group attachments

Consolidated reclassified balance sheet
Consolidated reclassified income statement
Consolidated reclassified income statement – Quarterly evolution

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BANCO BPM GROUP

Reclassified consolidated balance sheet

Reclassified assets *(in euro thousand)*	**31/03/2017**	**31/12/2016 pro-forma**	**Chg.**	
Cash and cash equivalents	780,307	897,704	(117,397)	(13.1%)
Financial assets and hedging derivatives	39,210,354	36,580,435	2,629,919	7.2%
Due from banks	5,692,416	6,678,493	(986,077)	(14.8%)
Customer loans	110,341,098	110,550,576	(209,478)	(0.2%)
Equity investments	1,455,341	1,594,849	(139,508)	(8.7%)
Property and equipment	3,004,018	2,695,781	308,237	11.4%
Intangible assets	2,399,897	1,833,509	566,388	30.9%
Non-current assets held for sale and discontinued operations	9,744	77,369	(67,625)	(87.4%)
Other assets	7,250,107	7,346,204	(96,097)	(1.3%)
Total	**170,143,282**	**168,254,920**	**1,888,362**	**1.1%**

Reclassified liabilities *(in euro thousand)*	**31/03/2017**	**31/12/2016 pro-forma**	**Chg.**	
Due to banks	26,707,518	23,276,415	3,431,103	14.7%
Due to customers, debt securities issued and financial liabilities designated at fair value	113,085,563	116,773,095	(3,687,532)	(3.2%)
Financial liabilities and hedging derivatives	10,689,794	10,682,892	6,902	0.1%
Liability provisions	1,642,848	1,706,089	(63,241)	(3.7%)
Liabilities associated with assets held for sale	941	960	(19)	(2.0%)
Other liabilities	5,652,082	3,816,296	1,835,786	48.1%
Minority interests	57,814	58,238	(424)	(0.7%)
Shareholders' equity	12,306,722	11,940,935	365,787	3.1%
Total	**170,143,282**	**168,254,920**	**1,888,362**	**1.1%**

BANCO BPM GROUP

Reclassified consolidated income statement

Reclassified income statement *(in euro thousand)*	**31/03/2017**	**31/12/2016 pro-forma**	**Chg.**
Net interest income	556,230	558,501	(0.4%)
Income (loss) from investments in associates carried at equity	41,585	44,615	(6.8%)
Net interest, dividend and similar income	**597,815**	**603,116**	**(0.9%)**
Net fee and commission income	547,357	468,120	16.9%
Other net operating income	30,198	33,055	(8.6%)
Net financial result (excluding FVO)	37,699	75,624	(50.1%)
Other operating income	**615,254**	**576,799**	**6.7%**
Total income	**1,213,069**	**1,179,915**	**2.8%**
Personnel expenses	(458,721)	(480,554)	(4.5%)
Other administrative expenses	(263,180)	(283,481)	(7.2%)
Amortization and depreciation	(53,024)	(48,813)	8.6%
Operating costs	**(774,925)**	**(812,848)**	**(4.7%)**
Profit (loss) from operations	**438,144**	**367,067**	**19.4%**
Net adjustments on loans to customers	(291,437)	(749,568)	(61.1%)
Net adjustments on other assets	(8,357)	(4,937)	69.3%
Net provisions for risks and charges	504	(3,087)	
Profit (loss) on the disposal of equity and other investments	17,066	1,562	992.6%
Income (loss) before tax from continuing operations	**155,920**	**(388,963)**	
Tax on income from continuing operations	(38,645)	111,418	
Income (loss) after tax from discontinued operations	(13)	(1,480)	(99.1%)
Income (loss) attributable to minority interests	3,138	2,218	41.5%
Net income (loss) for the period excluding FVO	**120,400**	**(276,807)**	
Fair Value Option result (FVO)	(4,900)	15,038	
Tax on FVO result	1,347	(4,971)	
FVO Impact	**(3,553)**	**10,067**	
Net income (loss) for the period excluding Badwill	**116,847**	**(266,740)**	
Badwill	**3,123,873**		
Net income (loss) for the period	**3,240,720**		

BANCO BPM GROUP

Reclassified consolidated income statement: quarterly evolution

Reclassified income statement	2017	2016 pro-forma			
(in euro thousand)	Q1	Q4	Q3	Q2	Q1
Net interest income	556,230	496,246	517,183	535,841	558,501
Income (loss) from investments in associates carried at equity	41,585	36,642	33,826	32,779	44,615
Net interest, dividend and similar income	**597,815**	**532,888**	**551,009**	**568,620**	**603,116**
Net fee and commission income	547,357	511,456	449,288	474,532	468,120
Other net operating income	30,198	40,744	32,622	32,794	33,055
Net financial result (excluding FVO)	37,699	119,770	111,967	132,722	75,624
Other operating income	**615,254**	**671,970**	**593,877**	**640,048**	**576,799**
Total income	**1,213,069**	**1,204,858**	**1,144,886**	**1,208,668**	**1,179,915**
Personnel expenses	(458,721)	(661,419)	(620,291)	(483,205)	(480,554)
Other administrative expenses	(263,180)	(372,397)	(269,118)	(265,507)	(283,481)
Amortization and depreciation	(53,024)	(152,668)	(67,282)	(52,168)	(48,813)
Operating costs	**(774,925)**	**(1,186,484)**	**(956,691)**	**(800,880)**	**(812,848)**
Profit (loss) from operations	**438,144**	**18,374**	**188,195**	**407,788**	**367,067**
Net adjustments on loans to customers	(291,437)	(1,029,512)	(793,128)	(385,944)	(749,568)
Net adjustments on other assets	(8,357)	(88,619)	(5,941)	(12,964)	(4,937)
Net provisions for risks and charges	504	(41,489)	(16,373)	5,887	(3,087)
Impairment of goodwill and equity investments	-	(279,000)	-	-	-
Profit (loss) on the disposal of equity and other investments	17,066	122,846	2,688	30,894	1,562
Income (loss) before tax from continuing operations	**155,920**	**(1,297,400)**	**(624,559)**	**45,661**	**(388,963)**
Tax on income from continuing operations (excluding FVO)	(38,645)	310,027	209,098	(869)	111,418
Income (loss) after tax from discontinued operations	(13)	4,009	-	(5)	(1,480)
Income (loss) attributable to minority interests	3,138	2,311	12,832	1,991	2,218
Net income (loss) for the period excluding FVO	**120,400**	**(981,053)**	**(402,629)**	**46,778**	**(276,807)**
Fair Value Option result (FVO)	(4,900)	(2,277)	(1,627)	(5,281)	15,038
Tax on FVO result	1,347	627	447	2,288	(4,971)
FVO Impact	**(3,553)**	**(1,650)**	**(1,180)**	**(2,993)**	**10,067**
Net income (loss) for the period excluding Badwill	**116,847**	**(982,703)**	**(403,809)**	**43,785**	**(266,740)**
Badwill	**3,123,873**				
Net income (loss) for the period	**3,240,720**				