NEWS RELEASE

RESULTS AS AT 31 DECEMBER 2017[1]

COMPLETED THE STRATEGIC PLAN PROJECTS SCHEDULED FOR THE FIRST YEAR OF THE MERGER

THE SIGNIFICANT CAPITAL BOLSTERING MAKES HEADWAY (PRO-FORMA FL CET1 RATIO AT 12.02%, ALREADY INCLUDING THE NEGATIVE IMPACT OF IFRS9 FTA OF 175 BPS) DRIVEN AMONG OTHER THINGS BY:

- **THE RATIONALIZATION OF THE ASSET MANAGEMENT, BANCASSURANCE AND DEPOSITARY BANK BUSINESS LINES**
- **ROLLOUT AND REVISION OF AIRB INTERNAL MODELS [2]**

NET INCOME OF + € 558 MILLION (INCLUSIVE OF THE GAIN GENERATED BY THE SALE OF ALETTI GESTIELLE SGR)

PROFIT FROM OPERATIONS OF € 1,579 MILLION (+60.9% Y/Y)

GROWTH SUSTAINED BY "CORE" TOTAL INCOME[3] (+4.9% Y/Y) AND BY THE DECLINE IN OPERATING COSTS OF € 3,050 MILLION (-18.8% Y/Y)

OUR SOLID CAPITAL POSITION LENDS A STRONG MOMENTUM TO THE DE-RISKING ACTION:

- **-€ 3.2 BILLION OF NET NON-PERFORMING LOANS IN 2017, WITH THE TOTAL NPL TO LOAN RATIO DECLINING FROM 14.7% TO 12.0% (-261 BPS)**
- **NEW DERISKING PLAN, RAISING BAD LOAN SALES FROM € 8 BILLION TO ~ € 13 BILLION BY 2020**

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[1] The operating figures commented in this News Release are derived from the reclassified income statement, where revenues and costs contributed by the subsidiary Aletti Gestielle SGR have been consolidated on a line by line basis. Attached is also the reclassified income statement where the contribution of the SGR, classified as non-current asset held for sale and discontinued operations under the accounting standard IFRS 5, is reported under the line-item "Gain (Loss) of disposal groups net of tax", and the comparative data have been restated, in compliance with the requirements of the above standard. For further details, please refer to the Explanatory Notes (par. 1) of this News Release.

[2] Draft Decision received by the ECB at the beginning of February following the release of a final report. The validation is expected to become effective with the report as at 31 March 2018.

[3] "Core total income" combines the P&L items "net interest income" and "net fees and commissions".

- **NPL STOCK FROM € 30 BILLION AT THE END OF 2016 TO ~ € 13 BILLION IN 2020 (- € 17 BILLION)**
- **GROSS NPL TO LOAN RATIO FROM 24.1% TO ~ 11.5%**
- **NET BAD LOAN TO LOAN RATIO FROM 7.1% TO ~ 2.3%**

IFRS9: ADOPTION OF THE NEW ACCOUNTING STANDARD ON 1 JANUARY 2018 WILL BRING THE AVERAGE NPL COVERAGE RATIO UP TO ABOUT 54% AND THE BAD LOAN COVERAGE RATIO TO ABOUT 67%

EXCELLENT LIQUIDITY POSITION, WITH UNENCUMBERED ELIGIBLE ASSETS OF € 20 BILLION[4]

Key balance sheet items[5]

- Customer loans of € 108.2 billion, of which performing +0.8% and non-performing -19.6% compared to 31 December 2016;
- Direct customer funds of € 107.3 billion[6] (€ 110 billion at the end of December 2016), where the decline has been driven by the reduction of more expensive funding sources, while "core" funding is surging (+€ 6.5 billion y/y);
- Indirect customer funds[7] of € 99.3 billion (compared to € 97.2 billion at 31 December 2016), up by 2.2%, of which:
  - Assets under management € 62.5 billion
  - Assets under administration € 36.8 billion.

Key P&L items

- "Core" total income of € 4,207 million (€ 4,179 net of non-recurring items of € 28 million[8]), up by 4.9% (+4.2% "adjusted") compared to the 2016 aggregate;
- Net fees and commissions of € 2,093 million (+10.0%);
- Operating costs € 3,050 million (€ 2,972 million net of non-recurring items), down by 18.8% (-3.6% "adjusted") compared to the 2016 aggregate;
- Profit from operations of € 1,579 million, up by 60.9% compared to € 981 million in FY 2016 (+0.9% "adjusted");
- Loan loss provisions of € 1,661 million, on a marked downtrend compared to € 2.958 million in 2016;

[4] Management data as at 2 February 2018.
[5] Comparative data at 31 December 2016 reflect the sum of the data resulting from the financial statements of former Gruppo Banco Popolare and former Gruppo BPM, net of intercompany relationships and write-downs illustrated in the Explanatory Notes (par. 2) of this News Release.
[6] Direct Customer Funds include certificates with unconditional capital protection (€4.0 billion at 31 December 2017 compared to € 4.6 billion at the end of 2016) but are net of repos.
[7] Net of certificates with unconditional capital protection included in "direct customer funds".
[8] For more details on non-recurring items, please refer to the Explanatory Notes (par. 11) of this News Release. P&L aggregates net of these items are defined as "*adjusted*".

- Net income of € 2,616 million, which, net of a badwill of € 3,076 million and a goodwill impairment of € 1,018 million, comes in at € 558 million, as compared to a loss of € 1,614 million in FY 2016 (- € 1,335 net of goodwill impairment).

Capital position:
- Phase-in CET 1 ratio 12.36%
- Fully-loaded CET 1 ratio 11.92%;
- Pro-forma fully-loaded CET 1 ratio 12.02%

Credit quality
- Net NPL stock of € 13.0 billion, down by € 3.2 billion Y/Y (-19.6%) and by € 1.0 billion compared to 30 September 2017 (-6.8%).

  Coverage[9]:
  - NPLs: 48.8% vs 37.5% in 2016 (50.1% and 47.9%, respectively, including write-offs);
  - Bad loans: 58.9% vs 45.7% in 2016 (60.5% and 60.0%, respectively, including write-offs).

Liquidity profile
- Unencumbered eligible assets of € 20 billion at 2 February 2018 (12% of total assets), composed almost entirely of Government bonds, guaranteeing an ample flexibility when managing funding sources.
- LCR >125% and NSFR >100%[10]

First Time Adoption of IFRS 9

Based on available information, the first-time adoption of IFRS 9 on 1 January 2018 will imply an estimated total decrease in stated net equity of € 1.2 billion, gross of tax effect, deriving from the adoption of the new impairment model for loans and receivables and debt securities[11]. The impact on the Common Equity Tier 1 capital will be spread over a 5-year time horizon given that we opted for the adoption of the specific transitional provisions[12].

Milano, 7 February 2018 – In today's meeting, the Board of Directors of Gruppo Banco BPM, chaired by Mr. Carlo Fratta Pasini, has approved the draft annual report and consolidated financial statements as at 31 December 2017 of Banco BPM.

In 2017, the first year of operation after the merger, Banco BPM has implemented a set of actions aimed at reorganizing the Group, at focusing on "core" activities, at strengthening our capital position and at accelerating and increasing the derisking process. Despite the number and volume

[9] For more details on the accounting treatment of write-offs, see the Explanatory Notes, par. 6, of this News Release.
[10] NSFR at 30 September 2017, Latest data available.
[11] For more details please refer to par. 13 of the Explanatory Notes.
[12] The transitional provisions are illustrated in par. 14 of the Explanatory Notes.

of extraordinary actions deployed by the Group, the bank reported an excellent operating performance, with net profit from operations growing by 60.9% compared to 2016, driven by the positive performance of core operating revenues, up by 4.9% compared to the prior year, and by a significant containment of operating costs, down by -18.8%; (-3.6% net of non-recurring items). These factors contributed to generating a net income at 31 December 2017 of € 558 million (down to € 13.5 million net of the non-recurring items reported over the year).
In December 2017, in keeping with the guidelines of the strategic plan, we finalized the sale to Anima Holding of the entire stake in the share capital of Aletti Gestielle SGR, generating a gross capital gain of about € 700 million, while retaining the role of principal shareholder through a shareholding of roughly 15%. During the year, the Bancassurance reorganization process made headway, leading to the termination of the partnerships with Gruppo Unipol and Gruppo Aviva, and the attendant exercise by Unipolsai of its put option on the shareholding in Popolare Vita and by Aviva of its put option on the shareholding in Avipop Assicurazioni. Subsequently, Banco BPM and Cattolica Assicurazioni reached an agreement covering the sale of a 65% stake in Popolare Vita and in Avipop Assicurazioni for a total price of € 853.4 million; the agreement also sets out a 15-year strategic partnership between Banco BPM and Cattolica.
The asset management and bancassurance reorganization actions on the one hand bring about an important business value, by strengthening our presence in sectors that are considered strategic, and on the other they generated positive capital effects, bolstering our capital ratios, in line with the Strategic Plan targets.
Today, we finalized the sale of the Depositary Bank business line to BNP Paribas Securities Services, generating a gross capital gain of roughly € 200 million, and the management of insurance reserves to Anima Holding S.p.A.. The two deals have a positive effect of 53 bps on pro-forma fully-loaded CET1.
The completed capital bolstering actions allow the group to rely on a very wide capital buffer compared to the capital requirements set by the Supervisory Authorities, that enables us to increase NPE coverage levels when first adopting IFRS 9, thus leading to a significant acceleration of the derisking process.
Indeed, the Group's new derisking plan targets an increase of about € 5 billion in bad loan sales by 2020, which brings total sales to about € 13 billion euro, compared to the strategic plan target of € 8 million. Compared to the targets set in the 2016-2019 Strategic Plan, the new projections point at more than halved NPL levels (-57%) by the end of 2020.
In terms of volumes, the new projection indicates a decline of total NPLs from € 30 billion at the end of 2016 to roughly € 13 billion in 2020. Hence, the gross NPE ratio in 2020 is expected to hover around 11.5% compared to 24.1% at the end of 2016, and the bad loan to total loan ratio is expected to stand at around 2.3% compared to 7.1% at the end of 2016.
Despite the effect from the first-time adoption of IFRS 9 and the related new derisking plan, the pro-forma fully-loaded Common Equity tier 1 ratio stands at 12.02%.
In addition to the capital strengthening actions and the consolidation of the derisking strategies, on January 2018 Banco BPM's new branch network model has come on stream, focused on customer-centricity and on a stronger presence on the territory, and it has almost completed the reorganization of the Group's Private Banking and Corporate & Investment Banking business lines, centralizing the Private Banking activities in Banca Aletti and Corporate & Investment Banking in Banca Akros.

Operating performance

Net interest income came in at € 2,114.0 million compared to the aggregate figure of € 2,107.8 million in FY 2016, reporting an increase of 0.3%. On a like-for-like basis, net of non-recurring items, net interest income reports a decline of 1%, mainly ascribable to the contribution from the securities portfolio generated by the fair value measurement (under the PPA) of the debt securities held by former Banca Popolare di Milano in its AfS portfolio, and by the decline in the average customer spread. This effect is partly offset by the lower cost of funding and by the recognition of the benefit from refinancing operations with the ECB. In Q4, net interest income reported an increase (+0,7%) driven by the reduction in the cost of funding against a customer spread that remained practically stable compared to Q2.

The **gain on investments in associates carried under the equity method** came in at € 166.0 million, up from € 147.9 million reported in the prior year (which included the € 12.7 million contribution of Anima 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), with a Q4 contribution of € 45.2 million, higher compared to the contributions made in the first three quarters, mainly as a result of the higher contribution made in the last quarter by consumer credit.

Net fees and commissions added up to € 2,093.0 million, up by 10.0% compared to € 1,903.4 million the prior year. The growth was driven by the excellent performance of brokerage, management and advisory services, which increased by € 244 million in absolute terms compared to the 2016 aggregate figure (+27.7%), essentially driven by the growth in asset management and portfolio management products. The Q4 contribution of € 515.9 million exceeds both the Q3 contribution (€ 486.3 million) and the contribution made in Q4 of the prior year (€ 511.5 million).

Other net operating income totaled € 99.1 million compared to € 139.2 million in 2016. The lower contribution was due on the one hand to the lower contribution of fixed commissions ("*commissioni di istruttoria veloce*"), down by 19.6%, and on the other hand to a greater impairment of "client relationships", totaling € 24.4 million, tied to the recognition on 1 January 2017 of new intangible assets associated with the PPA of the merger of the former Gruppo BPM.

Net financial income totaled € 156.6 million compared to € 440.1 million in the prior year. The lower contribution is mainly ascribable to the reduced disposal of available-for-sale assets, in particular debt securities, generating a total income of € 54.0 million (€ 254.1 million at 31 December 2016). Trading income contributed as well to the year-end result with € 50.4 million (€ 119.5 million in 2016), together with the collection of dividends from non-strategic equity investments, with € 30.0 million (€ 27.3 million in 2016). The Q4 contribution came in at € 41.8 million, up from € 13.3 million reported in Q3, mainly as a result of the sale of debt securities.

As a result, **total income** added up to € 4,628.7 million compared to € 4,738.3 million in 2016 (-2.3%). "Core" total income totaled € 4,206.9 million, up by 4.9% compared to € 4,011.2 million in the prior year.

Personnel expenses, totaling € 1,792.7 million, went down by 20.2% compared to the aggregate figure of € 2,245.5 million in the prior year, driven by the headcount reduction (-1,349 units compared to 31 December 2016). Net of the items related to the redundancy fund, personnel expenses came in at € 1,795.8 million compared to the like-for-like 2016 figure of € 1,878.8 million, reporting a 4.4% decline. The total headcount at 31 December 2017 added up to 23,331 employees, compared to 23,975 and 24,680 resources at 30 September 2017 and at the end of 2016, respectively.

Other administrative expenses amounted to € 989.9 million, down by 16.8% compared to € 1,190.5 in the prior year. Once "adjusted" (to account for the positive effect of € 27,2 million, tied to the recovery of the charge paid in 2016 to convert DTAs in 2015, and for integration, merger and corporate reorganization charges of € 55.2 million), this line-item went down by 2.8%. Including also "systemic charges" (ordinary contributions to the Single Resolution Fund SRF, the fee to retain the right to deduct DTAs, and the contributions to the Fondo Interbancario di Tutela dei Depositi for the deposit guarantee scheme) which over the year increased by € 13.1 million, other administrative expenses declined by 4.7%, thanks to efficiency gain actions.

Net write-downs of tangible and intangible assets for the year stood at € 267.3 million, down by 16.7% compared to € 320.9 million at 31 December 2016. The line-item includes an impairment of € 52.5

million (€ 107.8 million at 31 December 2016). Net of these non-recurring items, the aggregate performed similarly to the prior year (+0.8%).

Total **operating costs** added up to € 3,049.9 million compared to € 3,756.9 million in 2016, down by 18.8%. Net of the non-recurring items mentioned above, total operating costs declined by 3.6%.

Net write-downs on impairment of customer loans stood at € 1,661.0 million compared to € 2,958.2 million in the prior year. The cost of credit, measured as the net loan loss provision to net loan ratio, came in at 154 bps reporting a steep decline from 268 bps in the previous year, when it had been affected by the decision to increase the average NPL coverage. Net NPL inflows from performing loans have also plummeted (-55%, approx. € 1.1 billion, against approx. € 2.5 billion in the prior year). In particular, in Q4 write-downs added up to € 673.1 million, reporting a sharp increase compared to the previous quarter (€ 340.8 million); these write-downs reflect the intention of maintaining high coverage ratios while selling unsecured loans (which due to their intrinsic characteristics had higher-than-average coverage levels), as well as a one-off effect following the introduction of new loan valuation policies, not attributable to the FTA of IFRS9, aimed at guaranteeing an approach featuring an even greater discipline and in line with the new regulatory framework, and at favoring the Group's derisking activity.

Net write-downs on impairment of bank receivables and other assets of € 140.2 million were charged to income for the year (€ 112.5 million at 31 December 2016), which include the impairment of € 83 million of assets available for sale (of which € 61.0 for the shares held in the Atlante Fund, and € 15.3 for the other exposures to the Venetian banks), as well as the € 56.1 million intervention of the voluntary scheme of the Fondo Interbancario di Tutela dei Depositi to bail-out certain Savings Banks.

Net provisions for risks and charges reported a charge of € 13.8 million compared to € 55.1 million in the prior year, and mainly comprise estimated charges for legal and fiscal disputes.

In FY 2017, € 25.7 million of **gains on disposal of equity and other investments** were reported, which include € 11.7 million for the measurement at fair value of the stake in Energreen and € 10.2 million for the disposal of property (at 31 December 2016 the reported gain had been of € 15.6 million).

A net capital gain of € 673.5 million from the sale of Aletti Gestielle SGR has been posted under the line-item "Gains from discontinued operations".

Income tax on continuing operations at 31 December 2017 came in at plus € 85.1 million (+€ 629.7 million at the end of 2016).

Considering the net income attributable to non-controlling interest (+€ 9.7 million), FY 2017 closed with a **net income for the period ex badwill and goodwill impairment** of € 557.8 million, compared to the net loss of € 1,334.7 million reported in the prior year.

The badwill that came out upon completing the PPA process and that was posted to income amounted to € 3,076.1 million, while the impairment of goodwill and other intangibles added up to € 1,040.9 million (€ 1,017.6 million net of tax effect), resulting in a net income for the year of € 2,616.4 million (compared to a loss of € 1,613.7 million in 2016).

Net of non-recurring items, which includes badwill and impairment, the "adjusted" Net income comes in at € 14 million.

<u>Key balance sheet items</u>

Direct funding [13] at 31 December 2017 totaled € 107.3 billion, down by 2.5% compared to € 110.0 billion at 31 December 2016, and by 0.1% compared to 30 September 2017. The y/y comparison shows a very strong growth of checking accounts and demand deposits held with the branch network (+9.2%, from € 70.9 to € 77.4 billion), more than offset by the decline in bond issues (-26.4%),

[13] Includes checking accounts and demand and term deposits, issued bonds, certificates of deposit and other securities, facilities and other debts, capital protected certificates. Repos are not included.

which dropped to € 18.9 billion from € 25.7 billion at 31 December 2016, and in term deposits, which slipped to € 3.6 billion compared to € 4.8 billion at the end of 2016 (-24.6%). This dynamic is in line with the policy aiming at progressively reducing the cost of funding by cutting back on the more expensive funding sources. The funding guaranteed by the stock of certificates issued by the Group, which at 31 December 2017 was € 4.0 billion, reported a decline both compared to € 4.6 billion at year-end 2016, and compared to 30 September 2017, with € 4.2 billion.

Indirect funding, net of capital-protected certificates, amounted to € 99.3 billion, up by 2.2% compared to € 97.2 billion at 31 December 2016. The growth was driven by the asset under management component (+7.5%), totaling € 62.5 billion, buoyed by the good performance of funds and SICAVs, which over the period grew by € 5.2 billion (+15.1%). The growth in assets under management was only partly offset by the decline in assets under administration, which totaled € 36.8 billion, and contributed € 2.2 billion (-5.7% compared to year-end 2016).

Financial assets represented by securities totaled € 32.4 billion, down by 4.2% compared to € 33.8 billion at 31 December 2016 and by 10.2% compared to € 36.1 billion at 30 September 2017. This dynamic was driven on the one hand by the increase in assets held to maturity, which went from € 8.4 billion at year-end 2016 to € 11.6 billion at 31 December 2017, and on the other hand by the reduction in financial assets available for sale, down by € 4.3 billion compared with the prior year. At 31 December 2017, the portfolio composition was as follows: € 30.2 billion of debt securities, € 1.7 billion of equity securities and € 0.5 billion of units in collective investment undertakings. The Sovereign bond exposure was € 25.2 billion (down by € 3.4 billion compared to € 28.6 billion at 30 September 2017), of which € 20.7 billion (€ 24.7 billion at 30 September 2017) represented by Italian government bonds, accounting for roughly 82.1% of the total exposure (86.1% at 30 September 2017).
Al 31 December 2017, **net customer loans** came in at € 108.2 billion, down by 2.1% compared to € 110.6 billion at the beginning of the year. The decline was mainly driven by the sharp drop in net non-performing loans, that over the year decreased by approx. € 3.2 billion, while performing loans reported a total growth of € 0.8 billion; net of repos and the Leasing division component, the performing loan portfolio reported an increase of € 1.3 billion. Even in comparison with 30 September 2017, NPLs have been trending down by approx. € 1 billion.

Net non-performing exposures (bad loans, unlikely-to-pay and past dues) at 31 December 2017 totaled € 13.0 billion, down by € 3.2 billion (-19.6%) compared to year-end 2016 and by € 1.0 billion (-6.8%) compared to 30 September 2017. The decline was driven by the drop in net NPL flows (€ 1.1 billion over the year, down by 55.3% compared to € 2.5 billion in the prior year, by the internal workout, by the disposals carried out over the period, as well as by loan write-downs applied upon measuring the fair value of the NPLs of the former Gruppo BPM under the PPA and the introduction of the new credit valuation policies mentioned above.
The analysis of the single loan categories shows the following dynamic:

- Net bad loans of € 6.5 billion, down by 17.1% y/y (-5.9% vs. 30 September 2017);
- Net Unlikely-to-pay loans of € 6.5 billion, down by 21.7% y/y (-7.0% compared to 30 September 2017);
- Net past-due loans of € 0.1 billion, down by 35.6% y/y (-46.3% compared to 30 September 2017).

The aggregate NPL coverage ratio stood at 48.8% (rising to 50.1% when including write-offs), up compared to 37.5% (47.9% including write-offs) at 31 December 2016, and in line with 30 September 2017 at 49.1%.
In greater detail, at 31 December 2017 the coverage ratios broke down as follows:

- Bad loans 58.9%, rising to 60.5% when including write-offs (60.0% at 31 December 2016);
- Unlikely-to-pay loans 32.4% (27.2% at 31 December 2016);

- Past-due exposures 15.7% (18.2% at 31 December 2016).

<u>Group capital ratios [14]</u>

Thanks to the deployed capital management actions, at 31 December 2017 the Group Own Funds reached € 11,544 million, up compared to € 10,649 million at 30 September.
The Common Equity Tier 1 ratio (CET1 ratio) came in at 12.36% compared to 11.01% at 30 September 2017 (11.94% pro-forma at 1 January 2017). The quarterly rise was driven by the positive operating result reported in the quarter as a result of the finalization of the sale of the entire stake held in the subsidiary Aletti Gestielle SGR and the execution of the contract with Cattolica Assicurazioni for the sale of 65% of the share capital of the associates Popolare Vita and Avipop Assicurazioni. Although the sale to Cattolica will be finalized in 2018, by having identified the new insurance partner we could eliminate as of 31 December 2017 the temporary increase in capital deductions that had been reported as of 30 June 2017 further to the exercise of the put option on the stake held in the two insurance companies mentioned above by the previous two insurance partners.
The Tier 1 ratio came in at 12.66% compared to 11.24% at 30 September 2017, while the Total Capital ratio was 15.21% compared to 13.86% at 30 September 2017.
The additional benefits that are expected to be reaped from rolling out the AIRB models to former Gruppo BPM, from completing the bancassurance reorganization project and from the additional capital management actions under way will allow the Group to absorb the impacts that are expected to come from the first time adoption of IFRS 9. Based on available information, the estimated impact comes in at -175 bps, mainly due to the € 5 billion increment to the loan reduction plan compared to the targets of the current business plan. The fully-loaded CET1 ratio is expected to remain above the target level of 12%.
In any case, the bank has opted for the full adoption of the transitional provisions introduced by the new article 473 bis of EU Regulation no. 575/2013, which phases in the impact on own funds generated by the adoption of the new impairment model introduced by IFRS9[15].

OPERATIONAL OUTLOOK

Against a favorable global macroeconomic scenario, the Italian economy is expected to consolidate its expansionary trend, with a pick-up in investment and consumer spending driven by the recent employment dynamics.
This dynamic should support the expansion of lending to the private sector and to enterprises, especially manufacturing companies, and it should also usher in an overall improvement of credit quality.
The Group has already completed a significant number of projects set out in the 2016-2019 Strategic Plan, including the full deployment of the organizational unit devoted to the management of non-performing loans, the IT integration, the definition of the asset management and bancassurance partnership frameworks, the reorganization of the branch network, and it will now focus on the rationalization of the private and investment banking business and on the digital transformation

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[14] Based on art. 26 paragraph 2 of EU Regulation no. 575/2013 of 26 June 2013 (CRR), the inclusion of interim net income in the Common Equity Tier 1 Capital (CET1) is subject to the prior authorization of the competent authority (ECB), for which it is required that they are audited by the auditing company.
Banco BPM has already communicated to the European Central Bank its intention to request that the 2017 net income be included in the Common Equity Tier 1 Capital, and it will submit a formal application to the European Central Bank. Pending the authorization, the capital ratios illustrated in this news release have been calculated by including the entire 2017 net income amount in CET 1.
[15] The transitional provisions are illustrated in par. 14 of the Explanatory Notes.

project, while accelerating the overall derisking process, leveraging the excellent results achieved up to now and the solid capital position.

The ordinary course of business will hinge on recovering profitability, that will benefit from the synergies created by the merger.

Although income margins will still be under competitive pressure, the income dynamic may benefit from an additional reduction in average funding costs, thanks to the residual optimization of its mix, the growth in loans and the trends that are characterizing fees and commissions, in particular from management, brokerage and advisory services.

The containment of operating costs through efficiency gains, specific actions to optimize expenses and the rationalization of organizational functions will continue to represent the main focus areas.

NPL coverage levels will remain high, and the NPL stock will keep on decreasing thanks to internal work-out activities and, as already mentioned, through the acceleration of the derisking plan.

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The financial reporting officer, 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 Annual report as at 31 December 2017 will be made available to the public, under the law, at the head office and at Borsa Italiana, as well as on the website www.bancobpm.it and on the website of the authorized central storage mechanism www.emarketstorage.com.

The results as at 31 December 2017 of Gruppo Banco BPM will be presented to the financial community during a conference call to be held today 7 February 2018 at 18.30 (C.E.T). The documentation supporting the conference call is available on the website of the authorized central storage mechanism (www.emarketstorage.com), as well as on the Bank's website (www.bancobpm.it), where all the instructions to connect to the event are also available.

Explanatory Notes

The comments on the performance of the key balance sheet and P&L items illustrated in this press release refer to the reclassified consolidated balance sheet and income statement attached below.
Please find below some explanatory notes that are deemed useful to better understand the approach followed in preparing the above-mentioned accounting statements and the information on FY results contained in this press release.

1. Accounting policies and reference accounting standards

The reclassified balance sheet and income statement 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 2017 of Banco BPM, which are in line with the criteria applied for the preparation of 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, 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 "Merger difference (*Badwill*)", as will be better explained in par. 4 below.
it should be pointed out that as a result of the finalization of the sale of the subsidiary Aletti Gestielle SGR to Anima Holding on 28 December 2017, in the accounting situation as at 31 December 2017 the contribution of the subsidiary refers to the contribution to the consolidated income statement up until the sale, posted under the line-item "Gain (Loss) from disposal groups after tax", both for 2017, and for the prior year comparison, which have therefore been restated compared to what had been published originally. The line-item includes also the capital gain generated by the sale of the shareholding.

Based on the reclassified income statement described above, another income statement has been prepared, where the costs and revenues related to the consolidated contribution of the subsidiary Aletti Gestielle SGR are reported on a line-by-line basis, retaining under the line-item "Gain (Loss) from disposal groups after tax" only the amount related to the capital gain generated by the sale. In order to guarantee the continuity with the published comments relating to H1,Q1 and Q3 2017 results, the aggregates resulting from this latter statement have been taken as a reference for the economic trend comments illustrated in this News Release.

Two versions of the reclassified income statement are attached to this document, one with the aggregate contribution from Aletti Gestielle SGR, and the second with the line-by-line classification. Similarly, also a double version of the income statement quarterly evolution over the year is provided.
The accounting criteria followed to prepare the consolidated annual report as at 31 December 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 December 2017, pursuant to the EC Regulation no. 1606 of 19 July 2002.
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 annual report as at 31 December 2017.
Considering the 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 annual report as at 31 December 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.

2. Formation of key comparative combined balance sheet and P&L items

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.
For the purpose of this News Release, in order to provide an adequate disclosure on the evolution of the Group's capital, financial and operating situation, we have prepared comparative reclassified financial statements, on a combined basis, namely the balance sheet as at 31 December 2016 and the income statement for financial year 2016. More precisely, the financial statements have been prepared by combining the data taken from the consolidated financial statements as at 31 December 2016 of former Gruppo Banco Popolare and former Gruppo BPM, and introducing the following adjustments:

- elimination of main inter-company balance sheet and P&L relationships;
- value-adjustment based on the equity method of the 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;
- restatement of the effects linked to changes in own credit risk for liabilities designated at fair value (FVO) under a specific equity reserve, instead of through profit and loss. In the reclassified income statement of FY 2016 these effects had already been posted in a specific line-item, as they were deemed irrelevant to the correct understanding of the operating performance. For additional details please refer to the following par. 3.

3. New presentation of effects tied to the changes in own credit risk of liabilities designated at fair value (FVO) – Early adoption of the rules under the new IFRS 9

With Regulation EU no. 2067 of 22 November 2016, the accounting standard IFRS 9 was ratified, to come mandatorily into effect on 1 January 2018. Under this standard, it is permitted to make an early adoption limited to the provisions covering the presentation of changes in own credit risk for financial liabilities designated at fair value (known as "Fair Value Option - FVO") before 1 January 2018, without extending it to the other provisions of the standard. To this regard, please note that as of the condensed half-yearly report as at 30 June 2017, Gruppo Banco BPM decided to make use of this option. More precisely, based on the new standard provisions, the effects of own credit risk changes are recognized under a specific equity reserve, and not through profit and loss, even if the liability is expired or has been paid off.

At 31 December 2017, changes in own credit risk of liabilities under fair value option, net of the associated taxes, generated a negative effect of € 14.0 million. To provide a like-for-like comparison, the comparative balances of the reclassified accounting statements have been restated; namely, the positive effect from the changes in own credit risk referring to financial year 2016, amounting to € 4.2 million, has been posted as an off-set entry to the line-item "Capital and reserves" of the reclassified balance sheet.

4. PPA (Purchase Price Allocation) effects for the business combination with former Gruppo Banca Popolare di Milano

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 € 259.9 million, net of associated tax effect (€ 405.5 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 € 4,624.3 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 € 482.5 million due to the joint effect of the higher value of performing exposures (€ 363.0 million) and the lower fair value assigned to non-performing exposures (€ 364.3 million for unlikely-to-pay loans and € 481.2 million for bad loans);
- write-up of tangible assets represented by property, of € 311.1 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 € 31.8 million;
- fair value adjustment to certain financial assets and liabilities, resulting in a net total amount of € 31.2 million;
- increase of € 4.0 million in provisions for risks and charges;
- net liabilities tied to the tax effects of the items listed above, amounting to € 145.6 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 (€ 4,624.3 million), equal to minus € 3,076.1 million, was posted to income as gain from "*bargain purchase*" and is listed as a separate line-item of the reclassified income statement for FY 2017. The PPA process has been definitively approved by the Board of Directors of the Parent company in the meeting held on 8 June 2017.
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 FY 2017, as a result of the reversal of the above-mentioned value adjustments, came in at plus € 92.4 million, as itemized below by single reclassified income statement line-item:

- net interest income: overall € 31.2 million positive impact on net income for FY 2017, as a combined effect of performing loans (negative impact of € 107.1 million) and unlikely-to-pay loans (positive impact of € 138.3 million), as a result of the higher and lower values recognized under the PPA;
- other operating income: negative impact over the FY of € 26.4, driven by the amortization of finite-lived intangible assets (client relationships);
- Write-down of tangible assets: negative impact on FY 2017 of € 8.9 million, referring to the depreciation of the higher values recognized on property;
- loan write-downs: lower net write-downs in FY 2017, amounting to €+197.2 million, as a result of the reversal of lower values recognized under the PPA;
- Income tax for the year: total tax payable with respect to the above adjustments comes in at € -63.9 million.

For a better understanding of the contribution of PPA effects to the net income of FY 2017, please find attached the PPA quarterly evolution for FY 2017 (inclusive of the residual effect of the business combinations illustrated in par. 5 below.)

5. P&L effects caused by the Purchase Price Allocation of the business combinations of former Gruppo Banca Popolare Italiana and former 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 € 20 million at 31 December 2017, and posted under the line-item "Other operating income". Taking into account the additional reversals of adjustments under the PPA of the business combination under consideration, the overall negative effect on the net consolidated income of FY 2017 came in at € 17.3 million.

6. Presentation of loan loss provisions on exposures under insolvency procedure

With regard to the recognition of loan loss provisions, in the 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.
The practice of writing off bad loans stemmed from the need to guarantee an immediate accounting recognition of losses from loans under insolvency procedures, due to the different tax treatment of loan losses compared to loan impairments under the regulations in force before the coming into effect of Law no. 132 of 6 August 2015.
To this respect, former BPM applied a different accounting practice.
When it came to harmonizing the accounting policies of the two merging groups, the basis of presentation of gross bad loans adopted by Banco BPM included the write-offs posted in the past by Banco Popolare, with loan loss provisions increased by an equal amount to ensure consistency. This decision did not give rise to any balance sheet and P&I effect for Banco BPM, since the choice between cancelling the amount of the loan that is deemed unlikely to be recovered and keeping the same loan on the books, against a loan loss provision equal to the amount deemed unlikely to be recovered is totally neutral.

At 31 December 2017, outstanding bad loans to borrowers under insolvency procedures not included in the stated gross bad loans and associated loan loss provisions came to € 645.6 million (€ 896.1 million al 30 September). This information is provided exclusively to calculate the coverage level of bad loans and impaired loans in a consistent manner, so that it can be compared with past reports of the merging banks.

7. 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 out.
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 Q1 2017 the line-item "Other administrative expenses" includes the non-recurring gain produced by the reversal of the 2015 "extraordinary" fee, recognized in the 2016 financial statements (€ 27.2 million).
The line-item "Other administrative expenses" includes also the estimated fee accrued in 2017, amounting to € 26.7 million.

8. TLTRO II – "Targeted Longer-Term Refinancing Operations"

At 31 December 2017, funding operations with the ECB, entirely made up of TLTRO II facilities, came to a principal of € 21.4 billion, of which € 15 billion pertaining to the Parent company Banco BPM and € 6,4 billion to the subsidiary BPM.
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 December 2017, since both Banco BPM and BPM have predictably 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 FY 2017 totaled € 115.5 million (€ 21.9 million in Q4), 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.

9. Charges generated by the contribution to resolution mechanisms, to the deposit guarantee scheme and by joining the FITD Voluntary Scheme

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 did not exercise the option of paying up to 15% of the total contributions due with irrevocable payment commitments (IPC).

As to the deposit guarantee scheme, the contribution defined by the Fondo Interbancario di Tutela dei Depositi (FITD) for FY 2017 amounts to € 44.5 million (the contribution for FY 2016 had amounted to € 34.6 million), which has been fully charged under the line-item "other administrative expenses" in Q3, which is considered the period in which the obligation to pay the contribution accrues.

As to the Voluntary Scheme, the banks belonging to Gruppo Banco BPM (Banco BPM, BPM, Banca Aletti, Banca Akros) have opted into the Voluntary Scheme of FITD, which was set up in November 2015, with the aim of carrying out actions to support its member banks under extraordinary administration or in distress, or in danger of failing. Based on the communications sent by the Voluntary Scheme, on 21 December 2017 the intervention to support three banks was fully finalized, and Caricesena, Carim and Carismi were purchased by Crédit Agricole Cariparma. In detail, the intervention was finalized along the following terms: i) recapitalization of the three banks by the Voluntary Scheme for a total amount of € 464 million (to be added to the disbursement of € 280 million made in 2016 in favor of Caricesena), ii); subscription of € 12 million mezzanine notes and € 158 million junior notes as part of the securitization of a loan portfolio made up of bad loans and unlikely-to-pay loans originated by the three banks.

The overall intervention put in place by the Voluntary Scheme in 2017 adds up to € 634 million, of which 510 million were finalized based on the call for resources made to member banks on 20 September and 7 December 2017 and € 130 million based on the proceeds of the sale of the three banks to Crédit Agricole Cariparma. The amount was used by the Voluntary Scheme to fund the entire operation. The surplus amount left over from the resources contributed by the member banks (€ 510 million vs. actual need of € 504 million) is due to the smaller payment made to Caricesena as a result of lower capital write-downs upon closing the deal compared to initial estimates. Considering the participation of Gruppo Banco BPM in the Voluntary Scheme, and the call dates, the total contribution paid in FY 2017 totals € 42.2 million (€ 64.3 million including payments made by the two merging groups in 2016). As to the P&L impact in 2017, please note that:

- the share of investment to support the recapitalization of the three banks was fully charged to income under the line-item "100. Gain (loss) on disposal of financial assets available for sale", as the sale of the three banks to Crédit Agricole Cariparma has practically made the investment unrecoverable. The loss amounts to € 44.3 million, i.e., Gruppo Banco BPM's contribution share for the recapitalization of the three banks (€ 49.7 million) net of write-downs on impairment recognized in 2016 by the merging banks (€ 5.4 million);
- the share of investment in junior notes under the securitization, amounting to € 13.1 million, has been written down by € 11.8 million. The valuation was based on the fair value measurement carried out by PricewaterhouseCoopers Advisory S.p.A, advisor hired by the Voluntary Scheme to value the mezzanine and senior notes and disclosed by the Voluntary Scheme in its communication dated 19 January 2018.

In the reclassified Income Statement, the total cost for the year (amounting to € 56.1 million) has been included in the line-item "Net write-downs on impairment of bank receivables and other assets"
Considering what described above, at 31 December 2017 the Group's residual investment with the Voluntary Scheme, accounted for in the "Afs – debt securities" portfolio, totaled € 2.3 million.

10. 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).

During the year, further to the completion of the liquidation procedures and the cancellation from the Company Register, the subsidiaries Bipitalia Residential and BPV Mortgages are no longer falling within the full consolidation scope as of Q1.

Moreover, following the finalization of specific intragroup merger deals, the subsidiaries Italease Gestione Beni, Sviluppo Comparto 2, TT Toscana Tissue, Essegibi Promozioni Immobiliari, Nadir Immobiliare (merged into Bipielle Real Estate) and HCS (merged into Terme Ioniche) are no longer falling within the full consolidation scope.

Moreover, following the *datio in solutum* agreement between Banco BPM and the Zunino group, in July Banco BPM has been assigned certain financial assets, including the 100% share in Agriurbe S.r.l. under liquidation, which in turn holds a 100% share in the farming company Sagim S.r.l. Both companies have been included in the full consolidation scope.
Similarly, the associate Terme Ioniche Società Agricola, set up in December after the demerger of the farming business of Terme Ioniche is included in the full consolidation scope.

Finally, in December the sale of the entire stake held in the subsidiary Aletti Gestielle SGR was finalized.

As to associates carried at equity, for Energreen S.A. and Soc. Coop. Luigi Luzzatti the equity method no longer applies due to the various events occurred during the year, so that the requirements and terms to exercise a significant influence by the Parent Company no longer exist, and therefore the equity investments have been reclassified under assets under disposal at the fair value calculated upon reassigning them.

As to equity method investments, Energreen S.A. exited the scope of consolidation of associates; once we analyzed the events occurred in 2017, 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".
Also the equity investment held in Soc. Coop. Luigi Luzzatti has been reclassified under Financial assets available for sale", with no significant P&L effects.

Finally, please note that the reorganization of the Bancassuance business, following the non-renewal of the distribution agreements with Gruppo Unipol for the life-insurance business and with Gruppo Aviva for the P&C insurance business, and the subsequent agreement signed with Cattolica Assicurazioni, did not entail any change in the consolidation scope as at 31 December 2017 for the shareholdings held in Popolare Vita and Avipop Assicurazioni, over which as at 31 December 2017 the Group is still exercising a significant influence. However, following the agreement signed with Cattolica Assicurazioni that foresees the acquisition by the latter of a 65% stake in the total shareholdings held by the Group in Avipop Assicurazioni and in Popolare Vita, a 15% share in the capital of the two companies has been recognized under "Assets under disposal" against a total amount of 78.8 million.

11. 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, as summarized below:

- 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 (for more details please refer to par. 8 above); the line-item includes also the negative impact of 4.1 million from interest expense paid on the settlement agreement to close a past tax litigation;
- the line-item "gains or losses on investments in associates carried under the equity method" includes the € 10.5 million share of loss reported by SelmaBipiemme Leasing in Q2 2017, almost entirely linked to non-recurring charges tied to the cancellation of collection notices from tax disputes;
- the line-item "personnel expenses" includes the € 3.1 million positive effect, related to the recalculation of the Redundancy Fund;
- 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, as described in par. 7 above. The same line-item includes the registration tax on the intergroup transfer of a line of business, amounting to € 4.5 million, as well as merger and integration costs of € 50.7 million;
- the line-item "Impairment of tangible and intangible assets" includes the € 34.5 million impairment resulting from the revision of the useful life of the software applications used by former Gruppo BPM after the IT system integration carried out in July, and an overall impairment of € 18.0 million, mainly related to property investments, to bring their carrying value in line with the lower appraisal value;
- the line-item "Net impairment of bank receivables and other assets" includes the impairment of the investments in the Atlante Fund and in the subordinated note issued by Banca Popolare di Vicenza, classified as available-for-sale assets, of € 61.0 million and € 15.3 million respectively, gross of tax effect. This charge follows the decision made by the Government to wind up the Veneto banks. The line-item also includes the total charges of € 56.1 million generated by the Group's participation in the Voluntary Scheme of the Fondo Interbancario di Tutela dei Depositi (FITD), as illustrated in par. 9 above;
- the line-item "Gains on disposal of equity and other investments" includes € 25.7 million of net non-recurring proceeds, gross of tax effect. The main components are represented by the valuation effect generated by the reclassification of the investment in Energreen (€ 11.7 million) in the "Afs" portfolio, as explained in par. 10 above, and by the sale of certain property (€ 14.0 million);
- the line-item "Gain (Loss) from discontinued operations net of taxes", amounting to € 673.1 million, includes the capital gain from the sale of Aletti Gestielle SGR;
- the line-item "income tax on continuing operations" includes the overall positive tax effect of the non-recurring items itemized above, totaling +€ 44.9 million, and the costs following the closing of a tax dispute amounting to € 13.7 million, as well as the positive impact tied to intragroup transaction totaling € 5,9 million.

As a result, non-recurring items in FY 2017 made a positive contribution of € 543.2 million; considering non-controlling interest, the positive impact on the net income for the period of the above items came in at 544.3 million.
For the purposes of this News Release, the term "adjusted" refers to P&L aggregates net of the non-recurring items illustrated above.

12. Impairment of goodwill and other defined life intangibles.

The impairment test conducted on goodwill and other defined life intangibles called for the need to carry out a full impairment of goodwill allocated to the Branch Network CGU (€ 616 million) and on the Private & Investment Banking CGU (€ 418 million) for a total amount of € 1,033.5 million (€ 1,012.7 million, net of tax effect).

Moreover, Client Relationship was written down by € 7.4 million (€ 4.9 million, net of tax effect).

13. Adoption of the new accounting standard IFRS 9

On 1 January 2018 the adoption of the new accounting standard IFRS 9 will become mandatory. The impact from the adoption of the new standard will be directly recognized as a change in the stated net equity at that date.
In summary, the new accounting standard sets out new rules to classify and measure financial assets and it introduces a ne impairment model. The new impairment model will generate an increase in loss provisions for loans and debt securities, ne it performing or non-performing, as compared to the amount of loss provisions recognized in the balance sheet as at 31 December 2017 under IAS 39 then in effect. The impact from the adoption of the new accounting standard is being calculated. Based on the available information, the following impacts have been estimated:

- application of the new impairment model for non-performing loans: it will cause an increase in loan loss provisions of 1.2 billion. The impact follows the inclusion of disposal scenarios under the loan valuation process;
- application of the new impairment model to performing loans and debt securities: it will cause an increase in loss provision of € 0.1 billion following the measurement of the expected loss over the entire residual life of the financial assets against which a significant increase in credit risk has been identified as compared to the origination date;
- application of the new rules on classification and measurement of financial assets: it will entail an increase in the book value of € 0.1 billion following their measurement at fair value.

In order to spread over time the impact generated by the adoption of the new accounting standard on own funds calculated according to prudential supervisory rules, the transitional provisions described in par. 14 below have been introduced.

14. 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".
The phase-in period for the gradual implementation of certain new rules introduced by the above-mentioned regulation ends on 1 January 2018.

The 2018 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 communication dated 23 June 2017 and 23 September 2017, the Bank of Italy confirmed that the countercyclical capital buffer (CCyB) has been kept unchanged at zero percent also for Q3 and for Q4 2017.

With communication dated 30 November 2017, the Bank of Italy identified the banking group Banco BPM as a systemically important institution (Other Systemically Important Institution, O-SII). For 2018 the O-SII reserve is equal to zero, while Banco BPM is required to gradually build a reserve equal to 0.25% with linear increments between 1 January 2019 and 1 January 2022.

On 27 December 2017, the European Central Bank (ECB) communicated to Banco BPM its final decision regarding minimum capital ratios Banco BPM 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 2.50% was introduced, to be added on top of the requirements listed above.
Considering what illustrated above, at consolidated level in FY 2018 Gruppo Banco BPM must fulfill the following capital requirements:

- *CET1 ratio*: 8.875%;
- *Tier 1 ratio*: 10.375%;
- *Total Capital ratio*: 12.375%.

Within the deadline of 1 February 2018, Banco BPM informed the European Central Bank that it exercised the option to fully adopt the transitional provisions under the new article 473 bis of EU Regulation no. 575/2013, which phases in the impact on own funds generated by the adoption of the new impairment model introduced by IFRS9. The transitional provisions give the possibility to include in CET1 Capital a transitional positive component by a percentage of the increase in loan loss provisions brought about by the adoption of IFRS 9. The percentage decreases over time, over a five-year period, as indicated below:

- 1 January 2018 – 31 December 2018: 95% of the increase in loan loss provisions caused by the adoption of IFRS 9. The expected negative impact from the adoption of the new impairment model on own funds thus goes down to 5% of the impact to be recognized on the stated net equity on 1 January 2018;
- 1 January 2019 – 31 December 2019: 85% of the increase in loan loss provisions;
- 1 January 2020 – 31 December 2020: 70% of the increase in loan loss provisions;
- 1 January 2021 – 31 December 2021: 50% of the increase in loan loss provisions;
- 1 January 2022 – 31 December 2022: 25% of the increase in loan loss provisions.

As of 1 January 2023, the impact from the first-time adoption of IFRS 9 will be fully reflected in the calculation of own funds.

In addition to the possibility of phasing in the impact from the first adoption of the accounting standard on 1 January 2018, the transitional provisions also give the possibility to phase in any impacts that the adoption of the new impairment model may have also in the first subsequent financial years after the first adoption of the new accounting standard, albeit limited to those generated by the valuation of performing financial assets.

15. 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 December 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 December 2017, or, if not available, the most recent financial reports prepared by the associates.

Attachments

- Reclassified consolidated balance sheet as at 31 December 2017 compared with aggregate data as at 31 December 2016
- Reclassified consolidated income statement as at 31 December 2017 compared with aggregate data as at 31 December 2016
- Reclassified consolidated income statement – quarterly evolution
- Reclassified consolidated income statement as at 31 December 2017 compared with aggregate data as at 31 December 2016 – line-by-line reporting of the contribution of Aletti Gestielle SGR
- Reclassified consolidated income statement – quarterly evolution – line-by-line reporting of the contribution of Aletti Gestielle SGR
- P&L effect of the Purchase Price Allocation (PPA) – 2017 quarterly evolution

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BANCO BPM Group

Reclassified consolidated balance sheet

Reclassified assets *(euro thousand)*	**31/12/2017**	**31/12/2016 aggregated**	**Changes**	
Cash and cash equivalents	976,686	897,704	78,982	8.8%
Financial assets and hedging derivatives	33,873,977	36,580,435	(2,706,458)	(7.4%)
Due from banks	5,164,715	6,678,493	(1,513,778)	(22.7%)
Customer loans	108,176,382	110,550,576	(2,374,194)	(2.1%)
Equity investments	1,349,191	1,594,849	(245,658)	(15.4%)
Property and equipment	2,735,182	2,695,781	39,401	1.5%
Intangible assets	1,297,160	1,833,509	(536,349)	(29.3%)
Non-current assets held for sale and discontinued operations	106,121	77,369	28,752	37.2%
Other assets	7,527,351	7,346,204	181,147	2.5%
Total	**161,206,765**	**168,254,920**	**(7,048,155)**	**(4.2%)**

Reclassified liabilities *(euro thousand)*	**31/12/2017**	**31/12/2016 aggregated**	**Changes**	
Due to banks	27,199,304	23,276,415	3,922,889	16.9%
Due to customers, debt securities issued and financial liabilities designated at fair value	107,509,849	116,773,095	(9,263,246)	(7.9%)
Financial liabilities and hedging derivatives	8,707,966	10,682,892	(1,974,926)	(18.5%)
Liability provisions	1,460,989	1,706,089	(245,100)	(14.4%)
Liabilities associated with assets held for sale	35	960	(925)	(96.4%)
Other liabilities	4,365,082	3,816,296	548,786	14.4%
Minority interests	63,310	58,238	5,072	8.7%
Shareholders' equity	11,900,230	11,940,935	(40,705)	(0.3%)
Total	**161,206,765**	**168,254,920**	**(7,048,155)**	**(4.2%)**

Comparison data 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.

BANCO BPM Group

Reclassified consolidated income statement
(Aletti Gestielle SGR classified according to IFRS 5)

(in euro thousand)	2017	2016 aggregated	Changes
Net interest income	2,113,447	2,106,848	0.3%
Income (loss) from investments in associates carried at equity	166,036	147,862	12.3%
Net interest, dividend and similar income	**2,279,483**	**2,254,710**	**1.1%**
Net fee and commission income	1,950,410	1,824,677	6.9%
Other net operating income	98,817	138,258	(28.5%)
Net financial result	155,049	438,318	(64.6%)
Other operating income	**2,204,276**	**2,401,253**	**(8.2%)**
Total income	**4,483,759**	**4,655,963**	**(3.7%)**
Personnel expenses	(1,784,854)	(2,237,519)	(20.2%)
Other administrative expenses	(979,266)	(1,180,941)	(17.1%)
Amortization and depreciation	(266,915)	(320,568)	(16.7%)
Operating costs	**(3,031,035)**	**(3,739,028)**	**(18.9%)**
Profit (loss) from operations	**1,452,724**	**916,935**	**58.4%**
Net adjustments on loans to customers	(1,660,963)	(2,958,152)	(43.9%)
Net adjustments on other assets	(140,217)	(112,461)	24.7%
Net provisions for risks and charges	(13,757)	(55,062)	(75.0%)
Profit (loss) on the disposal of equity and other investments	25,698	157,990	(83.7%)
Income (loss) before tax from continuing operations	**(336,515)**	**(2,050,750)**	**(83.6%)**
Tax on income from continuing operations	122,436	650,249	(81.2%)
Income (loss) after tax from discontinued operations	762,262	46,438	N.S.
Income (loss) attributable to minority interests	9,658	19,352	(50.1%)
Net income (loss) for the period excluding Badwill and Impairment on goodwill and client relationship	**557,841**	**(1,334,711)**	
Impairment on goodwill and client relationship	(1,017,616)	(279,000)	264.7%
Badwill	3,076,137	-	
Net income (loss) for the period	**2,616,362**	**(1,613,711)**	

Comparison data reflect the sum of the data resulting from the consolidated financial statements as at 3012/2016 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, reclassified according to IFRS 5.

BANCO BPM Group

Reclassified consolidated income statement – Quarterly evolution
(Aletti Gestielle SGR classified according to IFRS 5)

	2017				2016 (***)
(in euro thousand)	IV trim.	III trim.	II trim. (*)	I trim. (*) (**)	IV trim. (*)
Net interest income	528,768	524,923	511,149	548,607	496,098
Income (loss) from investments in associates carried at equity	45,166	38,931	40,354	41,585	36,642
Net interest, dividend and similar income	**573,934**	**563,854**	**551,503**	**590,192**	**532,740**
Net fee and commission income	472,096	458,935	503,605	515,774	477,953
Other net operating income	24,738	29,401	14,362	30,316	41,016
Net financial result	41,915	12,957	63,320	36,857	118,791
Other operating income	**538,749**	**501,293**	**581,287**	**582,947**	**637,760**
Total income	**1,112,683**	**1,065,147**	**1,132,790**	**1,173,139**	**1,170,500**
Personnel expenses	(420,796)	(450,628)	(456,711)	(456,719)	(659,557)
Other administrative expenses	(212,334)	(273,178)	(233,055)	(260,699)	(370,399)
Amortization and depreciation	(95,466)	(62,160)	(56,406)	(52,883)	(152,569)
Operating costs	**(728,596)**	**(785,966)**	**(746,172)**	**(770,301)**	**(1,182,525)**
Profit (loss) from operations	**384,087**	**279,181**	**386,618**	**402,838**	**(12,025)**
Net adjustments on loans to customers	(673,127)	(340,816)	(354,530)	(292,490)	(1,029,512)
Net adjustments on other assets	(12,718)	(48,322)	(70,820)	(8,357)	(88,619)
Net provisions for risks and charges	(9,235)	4,615	(9,641)	504	(41,489)
Profit (loss) on the disposal of equity and other investments	12,064	333	(3,765)	17,066	122,846
Income (loss) before tax from continuing operations	**(298,929)**	**(105,009)**	**(52,138)**	**119,561**	**(1,048,799)**
Tax on income from continuing operations	103,202	45,612	1,122	(27,500)	319,941
Income (loss) after tax from discontinued operations	699,971	16,498	25,790	20,003	24,494
Income (loss) attributable to minority interests	867	1,397	4,256	3,138	2,311
Net income (loss) for the period excluding Badwill and Impairment on goodwill and client relationship	**505,111**	**(41,502)**	**(20,970)**	**115,202**	**(702,053)**
Impairment on goodwill and client relationship	(1,017,616)	-	-	-	(279,000)
Badwill	-			3,076,137	
Net income (loss) for the period	**(512,505)**	**(41,502)**	**(20,970)**	**3,191,339**	**(981,053)**

(*) Data reclassified according to IFRS 5.

(**) Q1 2017 data have been restated following the final approval of the Purchase Price Allocation (PPA) into the identifiable acquired assets and liabilities.

(***) 2016 data reflect the sum of the data resulting from the consolidated financial statements 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.

BANCO BPM Group

Reclassified consolidated income statement
(Aletti Gestielle SGR not classified according to IFRS 5)

(in euro thousand)	2017	2016 aggregated	Changes
Net interest income	2,113,991	2,107,771	0.3%
Income (loss) from investments in associates carried at equity	166,036	147,862	12.3%
Net interest, dividend and similar income	**2,280,027**	**2,255,633**	**1.1%**
Net fee and commission income	2,092,956	1,903,396	10.0%
Other net operating income	99,111	139,215	(28.8%)
Net financial result	156,633	440,083	(64.4%)
Other operating income	**2,348,700**	**2,482,694**	**(5.4%)**
Total income	**4,628,727**	**4,738,327**	**(2.3%)**
Personnel expenses	(1,792,682)	(2,245,469)	(20.2%)
Other administrative expenses	(989,947)	(1,190,503)	(16.8%)
Amortization and depreciation	(267,289)	(320,931)	(16.7%)
Operating costs	**(3,049,918)**	**(3,756,903)**	**(18.8%)**
Profit (loss) from operations	**1,578,809**	**981,424**	**60.9%**
Net adjustments on loans to customers	(1,660,963)	(2,958,152)	(43.9%)
Net adjustments on other assets	(140,217)	(112,461)	24.7%
Net provisions for risks and charges	(13,757)	(55,062)	(75.0%)
Profit (loss) on the disposal of equity and other investments	25,698	157,990	(83.7%)
Income (loss) before tax from continuing operations	**(210,430)**	**(1,986,261)**	**(89.4%)**
Tax on income from continuing operations	85,061	629,674	(86.5%)
Income (loss) after tax from discontinued operations	673,552	2,524	N.S.
Income (loss) attributable to minority interests	9,658	19,352	(50.1%)
Net income (loss) for the period excluding Badwill and Impairment on goodwill and client relationship	**557,841**	**(1,334,711)**	
Impairment on goodwill and client relationship	(1,017,616)	(279,000)	264.7%
Badwill	3,076,137	-	
Net income (loss) for the period	**2,616,362**	**(1,613,711)**	

Comparison data 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.

BANCO BPM Group

Reclassified consolidated income statement – Quarterly evolution
(Aletti Gestielle SGR not classified according to IFRS 5)

	2017				2016 (**)
(in euro thousand)	IV trim.	III trim.	II trim.	I trim. (*)	IV trim.
Net interest income	528,918	525,084	511,276	548,713	496,246
Income (loss) from investments in associates carried at equity	45,166	38,931	40,354	41,585	36,642
Net interest, dividend and similar income	**574,084**	**564,015**	**551,630**	**590,298**	**532,888**
Net fee and commission income	515,936	486,290	543,373	547,357	511,456
Other net operating income	24,456	29,993	14,464	30,198	40,744
Net financial result	41,838	13,255	63,841	37,699	119,770
Other operating income	**582,230**	**529,538**	**621,678**	**615,254**	**671,970**
Total income	**1,156,314**	**1,093,553**	**1,173,308**	**1,205,552**	**1,204,858**
Personnel expenses	(423,305)	(452,270)	(458,386)	(458,721)	(661,419)
Other administrative expenses	(214,891)	(276,325)	(235,551)	(263,180)	(372,397)
Amortization and depreciation	(95,569)	(62,257)	(56,495)	(52,968)	(152,668)
Operating costs	**(733,765)**	**(790,852)**	**(750,432)**	**(774,869)**	**(1,186,484)**
Profit (loss) from operations	**422,549**	**302,701**	**422,876**	**430,683**	**18,374**
Net adjustments on loans to customers	(673,127)	(340,816)	(354,530)	(292,490)	(1,029,512)
Net adjustments on other assets	(12,718)	(48,322)	(70,820)	(8,357)	(88,619)
Net provisions for risks and charges	(9,235)	4,615	(9,641)	504	(41,489)
Profit (loss) on the disposal of equity and other investments	12,064	333	(3,765)	17,066	122,846
Income (loss) before tax from continuing operations	**(260,467)**	**(81,489)**	**(15,880)**	**147,406**	**(1,018,400)**
Tax on income from continuing operations	91,359	38,792	(9,761)	(35,329)	310,027
Income (loss) after tax from discontinued operations	673,352	(202)	415	(13)	4,009
Income (loss) attributable to minority interests	867	1,397	4,256	3,138	2,311
Net income (loss) for the period excluding Badwill and Impairment on goodwill and client relationship	**505,111**	**(41,502)**	**(20,970)**	**115,202**	**(702,053)**
Impairment on goodwill and client relationship	(1,017,616)	-	-	-	(279,000)
Badwill	-			3,076,137	
Net income (loss) for the period	**(512,505)**	**(41,502)**	**(20,970)**	**3,191,339**	**(981,053)**

(*) Q1 2017 data have been restated following the final approval of the Purchase Price Allocation (PPA) into the identifiable acquired assets and liabilities.

(**) 2016 data reflect the sum of the data resulting from the consolidated financial statements 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.

BANCO BPM Group

Reclassified consolidated income statement: Purchase Price Allocation impacts

(in euro thousand)	IV trim.	III trim.	II trim.	I trim. (*)	2017
Net interest income	1,115	10,020	5,949	14,099	31,183
Income (loss) from investments in associates carried at equity					-
Net interest, dividend and similar income	**1,115**	**10,020**	**5,949**	**14,099**	**31,183**
Net fee and commission income					-
Other net operating income	(11,630)	(11,627)	(11,213)	(11,879)	(46,349)
Net financial result					-
Other operating income	**(11,630)**	**(11,627)**	**(11,213)**	**(11,879)**	**(46,349)**
Total income	**(10,515)**	**(1,607)**	**(5,264)**	**2,220**	**(15,166)**
Personnel expenses					-
Other administrative expenses					-
Amortization and depreciation	(3,783)	(3,180)	(3,077)	(3,211)	(13,251)
Operating costs	**(3,783)**	**(3,180)**	**(3,077)**	**(3,211)**	**(13,251)**
Profit (loss) from operations	**(14,298)**	**(4,787)**	**(8,341)**	**(991)**	**(28,417)**
Net adjustments on loans to customers	62,702	41,182	49,285	44,066	197,235
Net adjustments on other assets					-
Net provisions for risks and charges					-
Profit (loss) on the disposal of equity and other investments	(92)	128	(981)	-	(945)
Income (loss) before tax from continuing operations	**48,312**	**36,523**	**39,963**	**43,075**	**167,873**
Tax on income from continuing operations	(16,101)	(12,234)	(13,277)	(14,293)	(55,905)
Income (loss) after tax from discontinued operations					-
Income (loss) attributable to minority interests					-
Net income (loss) for the period excluding Badwill and Impairment on goodwill and client relationship	**32,211**	**24,289**	**26,686**	**28,782**	**111,968**

(*) Q1 2017 data have been restated following the final approval of the Purchase Price Allocation (PPA) into the identifiable acquired assets and liabilities.