BANCO BPM

PRESS RELEASE

RESULTS AS AT 30 SEPTEMBER 2021:

► NET PROFIT UP AT €472 MILLION (+79.8% YOY); ADJUSTED NET PROFIT[1] AT €565 MILLION

► PROFIT FROM OPERATIONS OF €1,533 MILLION (+20.8% YOY), CONFIRMING THE POSITIVE TREND IN REVENUES AND IN THE REDUCTION OF COSTS RECORDED IN THE LAST FEW QUARTERS

► COST/INCOME[2] AT 55.2% COMPARED TO 59.1% AT THE END OF SEPTEMBER 2020

► CORE NET PERFORMING LOANS[3] UP TO €99.7 BILLION (+3.2% YOY)

► GROSS NPE RATIO[4] IMPROVING TO 5.9%, WHICH DROPS TO 4.8% CALCULATED ACCORDING TO THE EBA METHODOLOGY[5]

► CET 1 RATIO FULLY PHASED GROWS QOQ TO 13.3% - MDA BUFFER FULLY PHASED AT 453 BASIS POINTS

---

[1] Amount net of non-recurring components as indicated in section 5 of the Explanatory Notes of this press release.
[2] Calculated as the ratio between operating expenses and operating income resulting from the reclassified Income Statement.
[3] Mortgages, loans, current accounts and personal loans.
[4] Ratio of gross non-performing exposures and total exposures relating to the balance sheet item "Loans to customers measured at amortised cost".
[5] Methodology used by EBA for the presentation of data in the context of the EU Transparency Exercise.

ECONOMIC RESULTS FOR THE PERIOD GROWING SHARPLY SUSTAINED BY "CORE"[6] REVENUES

- **CORE REVENUES AT €3,106 MILLION, + 10.3% YoY**
- **OPERATING INCOME AT €3,424 MILLION, +10.5% YoY**
- **INCOME FROM OPERATIONS[7] AT €1,533 MILLION, +20.8% YoY**
- **COST OF RISK AT 83 BPS, DROPPING TO 48 BPS EXCLUDING "NON-CORE" COMPONENTS[8]: ADDITIONAL PROVISIONS RELATED TO THE NEW DERISKING TARGET WERE FACTORED IN THE THIRD QUARTER (DISPOSALS FOR €650MILLION)**

FURTHER ACCELERATION IN DE-RISKING STRATEGY:

- **THE DISPOSAL OF NON-PERFORMING LOANS, EQUAL TO €1.5 BILLION IN BAD LOANS FINALISED IN Q2 ("ROCKETS" PROJECT) COUPLED WITH WORKOUT ACTIVITIES ENABLED:**

- **A REDUCTION IN GROSS BAD LOANS TO €2.1 BILLION FROM €3.6 BILLION AS AT 31 DECEMBER 2020 (-40.0%), WITH A DECREASE IN THE INCIDENCE ON GROSS LOANS FROM 3.1% AT THE END OF DECEMBER TO 1.9%**
- **A REDUCTION IN GROSS NON-PERFORMING LOANS TO €6.6 BILLION, FROM €8.6 BILLION AS AT 31 DECEMBER 2020 (-23.2%), WITH A DECREASE IN THE GROSS NPE RATIO FROM 7.5% AT THE END OF DECEMBER TO 5.9%**

- **THE INCREASE IN THE OBJECTIVES FOR THE DISPOSAL OF A FURTHER €0.50 BILLION WILL ALLOW A DROP IN THE GROSS NPE RATIO TO 5.3% (4.3% USING THE EBA METHODOLOGY)**
- **TEXAS RATIO[9] FURTHER IMPROVEMENT TO 29.2% AGAINST 38.6% AT THE END OF 2020**

SIGNIFICANT GROWTH IN CORE BUSINESS VOLUMES

- **CORE NET PERFORMING LOANS TO CUSTOMERS EQUAL TO €99.7 BILLION (+3.2% YOY)**
- **NEW DISBURSEMENTS TO CUSTOMERS AMOUNTED TO €16.9[10] BILLION, OF WHICH €6.1 BILLION RELATING TO THE MEASURES SECURED BY STATE GUARANTEES**
- **CORE DIRECT FUNDING[11] EQUAL TO €102.5 BILLION (+6.2% YOY)**
- **MANAGED ASSETS EQUAL TO €63.7 BILLION (+9.7% YOY)**

---

[6] Aggregate consisting of net interest income, net fee and commission income and profits from equity-accounted interests in associates and joint ventures.

[7] This interim result does not include banking industry charges, equal to €-140.2 million, the accounting effects of the Purchase Price Allocations (PPA) carried out in previous years, equal to €-30.2 million, or the effects deriving from the change in the credit rating of the Group on its certificate issues, equal to €-8.0 million. Effective from 31 December 2020, these components are stated, net of taxes, in separate items of the reclassified income statement. The data from previous periods used for comparison have been re-stated accordingly.

[8] Management figures.

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

[10] Management figures.

[11] Current accounts and deposits.

RESILIENT PORTFOLIO UNDER THE COVID-19 MORATORIA

- **PERFORMING COVID-19 MORATORIA DECREASED TO €4.2 BILLION AT THE END OF SEPTEMBER**
- **EQUAL TO ABOUT 4.0% OF THE LOAN PORTFOLIO**
- **DOWN 73% COMPARED TO THE ORIGINAL €16.2 BILLION**
- **DEFAULT RATE ON PAST DUE EXPOSURES EQUAL TO ROUGHLY 1% (COMPARED TO 1.25% BEFORE JUNE 2021)**

CONFIRMATION OF THE ROBUST EQUITY POSITION WITH A CET 1 RATIO FULLY PHASED AT 13.3% AND AN MDA BUFFER FULLY PHASED AT 453 BASIS POINTS WHICH REMAINS HIGH EVEN AFTER THE ABSORPTION OF REGULATORY HEADWINDS (-95 BASIS POINTS)

SOLID LIQUIDITY POSITION[12], WITH LCR >200%, NSFR >100% AND UNENCUMBERED ELIGIBLE ASSETS FOR €12.3 BILLION

During the first nine months of 2021, despite the difficult macroeconomic framework, continuing to be impacted by the Covid-19 health crisis, the Group's sales and organisational efforts have enabled it to record a notable recovery in operating results. In particular, operating income recorded an excellent performance, amounting to €3,424 million, marking growth of 10.5% compared to the same period in the previous year.

The operating income performance allowed the Group to record profit from operations equal to €1,533 million, up by 20.8% compared to the first nine months of 2020.

Pre-tax profits reached €788 million, against €449 million as at 30 September 2020, with a 75.3% increase. Adjusted profits were higher, at €1,013 million, with a 138.8% increase.

By virtue of the dynamics reported above, the net result for the period reached €472 million, against €263 million in the previous year, with a 79.8% increase. The adjusted net result rose to €565 million (+114.1% YoY).

As regards non-performing loans, the Parent Company has embarked on a further acceleration of the de-risking process, with an increase of €650 million in the disposal target, which comes on top of the disposal of €1.5 billion in bad loans finalised in June ("Rockets Project").

[12] Monthly Liquidity Coverage Ratio in September 2021 and management Net Stable Funding Ratio referred to the third quarter of 2021.

This derisking strategy, combined with workout activities, enabled a significant reduction in bad loans, bringing their incidence on total gross loans from 3.1% as at 31 December 2020 to 1.9% as at 30 September 2021, bringing total gross non-performing loans from €8.6 billion to €6.6 billion, with a gross NPE ratio down from 7.5% to 5.9% (4.8% calculated using the EBA methodology).

The loan portfolio continues to be closely monitored, through a constant review of the customers' credit profile: special attention was given to positions for which Covid-19 moratoria have been granted, which, also given the low adherence of customers to the "Sostegni BIS" Decree Law (Second Support Decree Law), decreased significantly to €4.2 billion at the end of September (-73% against €16.2 billion granted originally) and which, in relation to past due positions at the end of September[13], recorded a default rate of roughly 1.0%.

Disbursements secured by State guarantee over the period were equal to €6.1 billion (out of a total disbursed amount of medium/long-term loans of €16.9 billion), bringing the total disbursed amount of said secured loans to €16.3 billion from 2020 to 30 September 2021.

The capital position is confirmed as very solid, even after factoring in, in the first nine months of 2021, the impact of the expected regulatory headwinds for the whole of 2021 (-95 bps):

- ***CET1 Ratio phased-in and CET1 Ratio fully phased sit respectively at 14.5% and 13.3%;***
- ***MDA buffer on TCR phased-in and fully phased equal to 594 and 453 basis points respectively.***

Key balance sheet items

- Net loans to customers equal to €108.7 billion: stable YoY (of which performing loans +1.6% and non-performing loans -31.8%) and down slightly (-0.6%) compared to 31 December 2020;
- Direct funding from customers[14] equal to €121.4 billion: +3.4% YoY and +1.1% compared to the end of December 2020: the growth trend in the core funding was confirmed (+€6.0 billion YoY and +€2.5 billion compared to the end of 2020);
- Indirect funding from customers[15] equal to €96.6 billion: +9.2% YoY and +5.5% compared to 31 December 2020, of which:
    - asset management €63.7 billion;
    - asset administration €32.9 billion.

[13] Expired moratoria include positions for which payments have resumed, positions fully repaid and cancelled and those replaced by other classifications.

[14] Direct funding includes certificates with unconditional capital protection (€3.7 billion at 30 September 2021, stable compared to the end of 2020), and excludes repurchase agreements.

[15] Management data net of certificates with unconditional capital protection included under "direct funding".

Key income statement items

- Net interest income:
  - €516.4 million in Q3 2021 (€522.4 million in Q2 2021; -1.1%)
  - €1,535.6 million as at 30 September 2021 (€1,473.5 million in the first nine months of 2020; +4.2%)
- Net fee and commission income:
  - €475.3 million in Q3 2021 (€478.7 million in Q2 2021; -0.7%)
  - €1,425.4 million as at 30 September 2021 (€1,234.6 million in the first nine months of 2020; +15.5%)
- Operating expenses:
  - €615.6 million in Q3 2021 (€631.6 million in Q2 2021; -2.5%)
  - €1,891.1 million as at 30 September 2021 (€1,830.3 million in the first nine months of 2020; +3.3% which, however, included the positive non-recurring components connected to the pandemic crisis
- Profit (loss) from operations:
  - €485.1 million in Q3 2021 (€564.2 million in Q2 2021; -14.0%)
  - €1,533.1 million as at 30 September 2021 (€1,269.0 million in the first nine months of 2020, +20.8%).
- Net adjustments to customer loans:
  - €200.6 million in Q3 2021 (€255.5 million in Q2 2021; -21.5%)
  - €673.2 million as at 30 September 2021 (€800.6 million in the first nine months of 2020; -15.9%)
- Profit (loss) before tax from continuing operations[16]:
  - €261.8 million in Q3 2021 (€266.7 million in Q2 2021; -1.8%)
  - €787.6 million as at 30 September 2021 (€449.2 million in the first nine months of 2020; +75,3%)
- Profit (loss) before tax from adjusted continuing operations[17]:
  - €369.2 million in Q3 2021 (€309.2 million in Q2 2021; +19.4%)
  - €1,013.3 million as at 30 September 2021 (€424.3 million in the first nine months of 2020; +138.8%)
- Net result:
  - €110.7 million in Q3 2021 (€261.2 million in Q2 2021; -57.6%)
  - €472.0 million as at 30 September 2021 (€262.5 million in the first nine months of 2020; +79.8%)
- Adjusted net result:
  - €182.8 million in Q3 2021 (€231.2 million in Q2 2021; -20.9%)
  - €564.8 million as at 30 September 2021 (€263.9 million in the first nine months of 2020; +114.1%).

[16] See note 6.
[17] Amount net of non-recurring components as indicated in section 5 of the Explanatory Notes of this press release.

Equity position[18]**:**

- CET1 ratio "IFRS9 *fully-phased*" 13.3% (12.9% as at 30 June 2021);
- CET1 ratio "IFRS9 *phased-in*" 14.5% (14.1% as at 30 June 2021);
- MDA buffer on TCR "IFRS9 *fully phased*" 453 basis points
- MDA buffer on TCR "IFRS9 *phased-in*" 594 basis points

Credit quality

- Stock of net non-performing loans equal to €3.5 billion: -19.1% compared to the end of 2020 and -31.8% YoY;
- Decrease in the incidence of gross bad loans on the total portfolio of non-performing loans (to 32.6% from 41.7% at the end of 2020) and an increase in the secured component of bad loans to 67%, compared to 64% at the end of 2020 (calculated on gross values);
- *Coverage:*
  - Bad loans: 56.5% (57.6% as at 30 September 2020); considering also write-offs, the coverage was 66.6%;
  - Unlikely to pay loans: 43.3% (42.7% as 30 September 2020);
  - Total non-performing loans: 47.4% (48.0% as at 30 September 2020); considering also write-offs, the coverage was 52.1%.

Liquidity profile

- *Unencumbered eligible assets* of €12.3 billion at 30 September 2021;
- TLTRO III at €37.5 billion
- LCR >200% and NSFR >100%[19].

Milan, 5 November 2021 – The Board of Directors of Banco BPM, which met yesterday under the chairmanship of Mr. Massimo Tononi, approved the balance sheet and income statement as at 30 September 2021 of the Banco BPM Group. At the same meeting, the Board of Directors approved the Strategic Plan 2021-2024, for which, also today, a dedicated press release is published.

The management of the first nine months of 2021, still characterised by the repercussions on the global economy and on companies' operations deriving from the international Coronavirus epidemic, is further focused on the development of business activities and on the continuation of the Group's derisking and reorganisation activities, also continuing with the implementation of the measures approved last year finalised at the protection of customers and employees, as well as on

[18] Ratios calculated by including the 2021 H1 profit and deducting the expected dividend pay-out on said profit.
[19] Monthly LCR in September 2021 and management NSFR relating to the third quarter of 2021.

the practical support to companies, families and communities in which the Group operates, affected by the crisis caused by the ongoing health emergency.

As part of the economic support measures, the total amount of moratoria on performing loans granted by the Decreto Cura Italia (Heal Italy Decree) and by the Protocollo ABI (Italian Banking Association protocol) in place at 30 September 2021 amounted to €4.2 billion, down by 73% compared to an original €16.2 billion, with a default rate on expired moratoria as at 30 September 2021 limited to roughly 1.0%. Disbursements secured by state guarantee over the first half were equal to €6.1 billion (out of a total disbursed amount of medium/long-term loans of €14.9 billion), bringing the total disbursed amount of said guaranteed loans to €16.3 billion.

During the first nine months of the year, the Group further accelerated the de-risking process through a plan for the assignment of non-performing loans which, in Q3, increased further by €500 million, which come on top of the "Project Rockets", which has entailed the disposal of bad loans for a gross amount of €1.5 billion.
That operation was finalised in June, in the form of a securitisation, with the assignment of loans to the special purpose vehicle Aurelia SPV S.r.l., which issued the Notes (Senior, Mezzanine and Junior). The Senior Notes are covered by a state guarantee (the "GACS"), the extension of which was approved by the European Commission. 95% of the Mezzanine and Junior notes were purchased by companies controlled by Elliott funds.

Therefore, as at 30 September 2021, the residual disposal target, net of the above-mentioned Rockets transaction already completed, amounts to €650 million. The higher level of provisions deriving from the increase in the derisking target have already been recognised in the income statement of Q3.

This derisking strategy had a significant positive effect for the Group in terms of the reduction in the stock of gross non-performing loans, which fell from €8.6 billion at the end of 2020 to €6.6 billion as at 30 September, and improvement in the credit quality indicators, with a reduction of the gross NPE ratio from 7.5% to 5.9%. With regard solely to gross bad loans, the decrease from €3.6 billion to €2.1 billion (-40.0%) reduced their incidence on total gross loans from 3.1% to 1.9%.

Other significant events in the first nine months of 2021

In March, the Group signed an important agreement with Cattolica Assicurazioni, which regulates the terms and methods of continuation of the partnership in the bancassurance sector.
More specifically, the agreement provides, in exchange for Banco BPM's waiving of the call already exercised[20], for the recognition to Banco BPM of a right of early exit from the partnership, originally due to end in 2033, which can be exercised in the period between 1 January and 30 June 2023. In particular, the parties agreed to grant Banco BPM an unconditional purchase option on the 65% stake held by Cattolica in the JV Vera Vita and Vera Assicurazioni.
The agreement provides for protection mechanisms for both parties linked to the exercise price of the call and to the price adjustments for any retained profits, distributions of reserves or extraordinary dividends or share capital increases or capital payments in regard to the joint ventures.

Moreover, at the end of June, Banco BPM redefined the agreements for the partnership currently in place with the Covéa, referring to the joint ventures Bipiemme Vita, 81%-owned by Covéa

[20] On 15 December 2020, Banco BPM informed Cattolica of its intention to exercise the call option on the controlling stakes held by Cattolica in the capital of the Vera Vita and Vera Assicurazioni joint ventures.

Coopérations and 19%-owned by Banco BPM, and Bipiemme Assicurazioni, wholly-owned by Bipiemme Vita.
These agreements provide for, inter alia, the recognition in favour of Banco BPM of an unconditional option to purchase 81% of the share capital of Bipiemme Vita, which can be exercised in the period between 8 September 2021 and 31 December 2023. Where said option is not exercised, the partnership can continue until the end of 2028, except where the put and call options recognised respectively to Covéa and the Bank are exercised in given time windows.

In May, through its subsidiary Banca Akros, Banco BPM acquired 100% of the capital of Oaklins Italy S.r.l., for a consideration of €3.5 million.
This acquisition has enabled Banca Akros to access an international network active in M&A activities, complementary to the domestic investment banking activity already performed by the Bank, thus strengthening its offer to customers of M&A and financial advisory services.

During the first nine months, the Group also carried out several important capital management operations: in January, the third issue of Additional Tier 1 instruments was launched for an amount of €400 million, targeted to institutional investors, while in June, the placement of a Subordinated Tier 2 Bond issue, targeted to institutional investors, for a nominal value of €300 million and a 10-year maturity was completed, as part of the Group's Euro Medium Term Notes Programme.
Moreover, within the ESG context, in July Banco BPM completed the distribution of its first € 500 million Senior Preferred Social Bond issue for institutional investors, with an annual coupon of 0.875% and maturity on 15 July 2026.
The bond, issued under the recently published Green, Social and Sustainability Bond Framework and part of the € 25 billion EMTN programme, is aimed at financing a selected portfolio of SMEs which were granted government guaranteed loans under the "Decreto Liquidità" (Liquidity Decree) to tackle the Covid-19 emergency.

It should also be noted that, during the period, in agreement with the Trade Union Organisations, the agreed number of employees that will be encouraged to retire on a voluntary basis was increased from 1,500 to 1,607 (without additional expenses) while the number of new hires to be carried out was increased from 750 to around 800. More than half the exits agreed took place by June 2021; consequently, the cost savings deriving from the exits were recognised starting Q3 of 2021. During the period, the period, the reorganisation and streamlining plan of the commercial network was completed, which involved the closure of 300 small branches.

Moreover, as part of the initiatives to streamline the Group's corporate and operational structure, simplify the structure, optimise and enhance the value of resources, and reduce costs, on 19 July, the merger by incorporation of the subsidiary ProFamily S.p.A. into Banco BPM was finalised; these initiatives also include the transactions for the plan for merger by incorporation of the subsidiaries Bipielle Real Estate and Release into the Parent Company, whose completion is anticipated in the first months of 2022.

Lastly, on 30 July 2021, the EBA announced the results of the EU-wide stress tests, in which Banco BPM also participated.
The Stress Tests were conducted using a particularly penalizing adverse scenario, together with a starting point (final data as at 31 December 2020) which had already been impacted by the consequences of the pandemic.
Banco BPM achieved significant results, highlighting:

- the ability to generate value in the Baseline scenario;

- resilience to significant shock in the adverse scenario, achieving better results than in the previous stress tests conducted in 2018, even considering the particularly penalising scenario, as noted;
- results exceeding the minimum capital requirements.

In this context, which continues to be characterised by significant uncertainty at the global and Italian level, directly or indirectly related to the Coronavirus epidemic, the Group reported an operating profit[21] of €1,533.1 million and a net profit of €472.0 million. Excluding non-recurrent elements, net profit amounts to €564.8 million.

Economic performance of operations in the first nine months of 2021 compared to 30 September 2020

Net interest income was equal to €1,535.6 million, a 4.2% increase on the first nine months of 2020 (€1473.5 million): this was due to the greater contribution made by TLTRO III financing operations which, in view of the achievement of the *net lending* objectives, starting from 24 June 2020, provide for the payment of a *special interest* rate (-0.50%) in addition to the rate applied (-0.50%) for the entire duration of the loan.[22]

The **profit from equity investments measured with the equity method** was equal to €144.9 million, up compared to the figure for the corresponding period of last year (€107.1 million). The amount in the first nine months of 2021 includes the contribution of the associate Anima Holding[23] (equal to €43.2 million), measured at equity since the second quarter of 2020.
The main contribution to the item in question is provided by consumer credit channelled from the equity interest held in Agos Ducato, equal to €81.9 million, up compared to €74.8 million as at 30 September 2020.

Net fee and commission income in the first nine months totalled €1,425.4 million, marking significant growth (+15.5%) compared to the same period of the previous year.
This trend is attributable to the contribution from both management, brokerage and advisory services (+21.5% compared to 30 September 2020), and the commercial banking services segment (+9.7% compared to the first nine months of 2020).

Other **net operating income** totalled €66.2 million, compared to the figure of €43.3 million for the first nine months of the previous year.

The **financial net profit (loss)[24]** as at 30 September 2021 was a positive €252.1 million compared to the figure of €240.8 million recorded in the first nine months of the previous year; specifically, during

[21] See note 6.
[22] For the period from 24 June 2020 to 23 June 2021 (*special interest period*), the Bank was able to benefit from a *special interest* rate on TLTRO III refinancing operations equal to -0.50% in addition to the average rate applicable to *Deposit facilities* (currently -0.50%), given that, as at 31 March 2021, the amount of *eligible loans* significantly exceeded the amount of those loans as at 1 March 2020. The afore-mentioned 0.50% special interest rate will also be applied to the 24 June 2021-23 June 2022 period, provided that the amount of eligible loans as at 31 December 2021 is at least equal to their amount as at 1 October 2020. As at 30 September 2021, the amount of *eligible loans* was widely above this threshold.
[23] For an illustration of the methods used to recognise the contribution of Anima Holding, please refer to Explanatory Note no. 8.
[24] The item does not include the accounting effect, shown in a separate item of the reclassified income statement, of the change in the credit rating of the Group in regard to the *fair value* measurement of its own *certificate* issues, which led to the recognition of a €-11.9 million charge in the period, compared to the positive impact of €+43.9 million recorded as at 30 September 2020.

the period, excellent results derived from the gains in disposal of securities for €120.1 million, profit on trading of €100.7 million and the total result of the measurement of assets and liabilities at fair value for €21.5 million.

By virtue of the trends described, the total **operating income** therefore amounted to €3,424.2 million, a considerable increase compared to €3,099.3 million recorded in the same period of the previous year (+10.5%).

Personnel expenses, of €1,253.9 million, showed growth of 6.8% compared to the €1,173.9 million in the first nine months of 2020, which had benefited from the savings relating to the provisions allocated for the incentive system in the previous year as well as other cost reductions related to the effects of the health emergency. As at 30 September 2021, the total number of employees was 20,565, down compared to 21,663 resources at the end of 2020, due to the exit of around 1,000 resources on 30 June 2021 as part of the programme entailing the use of the Solidarity Fund for the sector.

Other **administrative expenses**[25], at €452.0 million, fell by 3.5% compared with the first nine months of 2020, when they totalled €468.5 million, thanks to the streamlining of the commercial network and constant, rigorous cost control.

Write-downs of property, plant and equipment and intangible assets amounted to €185.2 million, compared to €187.9 million as at 30 September 2020.

Total **operating expenses** therefore amounted to €1,891.1 million, up by 3.3% compared to €1,830.3 million in the first nine months of 2020.

The **result of operations** as at 30 September 2021 stood at €1,533.1 million, up by 20.8% compared to €1,269.0 million in the same period of the previous year.

Net adjustments to loans to customers in the first nine months amounted to €673.2 million, down from the same period last year (€800.6 million), mainly due to lower adjustments on performing loans resulting from the improvement in the expected macroeconomic scenario. The item in question includes the extraordinary charge deriving from the sale of receivables finalised as part of the "Rockets" project for €94.0 million and the additional impact, estimated at €100.0 million, deriving from the further increase in the targets for the sale of non-performing receivables decided by the Parent Company.

As at 30 September 2021, the cost of credit, measured by the ratio of net value adjustments on loans to net loans, was 83 basis points, decreasing to 48 basis points excluding "non-core" components[26].

Fair value gains (losses) on property, plant and equipment show a loss of €44.7 million at 30 September 2021, compared to €5.7 million in the first nine months of the previous year, following the updating of appraisals on some significant properties.

The item **net adjustments to securities and other financial assets** includes net gains of €0.8 million (€-8.3 million in net adjustments as at 30 September 2020).

---

[25] The aggregate does not include the "banking industry charges", represented by the contributions to the Resolution Funds and to the Interbank Deposit Guarantee Fund, reported in a separate item of the reclassified income statement, net of tax effect.
[26] Management figures.

Net provisions for risks and charges in the first nine months were equal to €28.3 million, while in the corresponding period of the previous year, net provisions of €6.7 million were recognised. The increase relates to revocations as well as legal and tax disputes.

As at 30 September 2021, no significant **gains (losses) on disposal of interests in associates and joint ventures and other investments were recognised** (the figure for the first nine months of last year was €+1.5 million).

Due to the trends described, the **gross profit (loss) before tax from continuing operations** was equal to €787.6 million compared to €449.2 million as at 30 September of 2020.

Taxation charges on profit or loss from continuing operations were equal to €-216.6 million (€-61.5 million in the first nine months of 2020).

Net profit (loss) after tax from continuing operations therefore was equal to €571.0 million, a 47.3% increase compared to €387.8 million in the same period last year.

Furthermore, **expenses relating to the banking system, net of taxes**, were charged to the income statement for the period, amounting to €140.2 million (€128.7 million in the first nine months of 2020) relating to the ordinary contribution to the Single Resolution Fund (SRF), the estimate of the contribution due to the Interbank Deposit Protection Fund and the additional contribution paid to the National Resolution Fund. The total value of these pre-tax charges was €207.7 million, compared to €190.7 million at 30 September 2020.

The item **Impact of the realignment of tax values to book values** includes the positive impact on the income statement for €79.2 million, resulting from the exercise of the right of realignment of the tax values of the Group's operating properties to book values.

In the period, the **change in the credit rating on Certificates issued by the Group, net of taxes**, has a negative impact equal to €8.0 million (€-11.9 million including taxes), with respect to the income recognised in the first nine months of 2020 equal to €29.4 million (€43.9 million pre-tax).

As at 30 September 2021, the impact of the **Purchase Price Allocation net of taxes** was equal to -€30.2 million, against -€29.9 million in the first nine months of 2020.

Considering the share of income due to non-controlling interests, equal to €+0.1 million, the first nine months of 2021 closed with a **net profit (loss) for the period** equal to €472.0 million (€262.5 million as at 30 September 2020).

The **adjusted net profit (loss)** at 30 September 2021 was €564.8 million compared to €263.9 million in the first nine months of 2020 (+114.1%).

Economic performance of operations in Q3 2021 compared to Q2 2021

The **net interest margin** was €516.4 million, down 1.1% compared with the figure for the second quarter of 2021 (€522.4 million), mainly due to the lower contribution from TLTRO loans following the rescheduling of some of these loans.

The **result of investee companies measured using the equity method** is a positive €46.8 million, with a decreased contribution compared to that of the second quarter, amounting to €56.5 million. Within this aggregate, the main contribution was provided by consumer credit, driven by the investment held in Agos Ducato and the result of Anima Holding[27].

Net commissions in the third quarter amounted to €475.3 million, confirming the positive trend recorded during the year. Compared to the second quarter, the aggregate decreased by 0.7%, due exclusively to the seasonality of management, intermediation and advisory services (-8.5% compared to the second quarter). By contrast, the contribution of commissions relating to commercial banking services grew by 7.6% during the quarter.

Other net operating income totalled €26.3 million, compared to the figure of €21.7 million for the second quarter of 2021.

The financial net profit (loss) in the third quarter was a positive €35.9 million, compared to €116.5 million in the second quarter, mainly due to the changes registered in the fair value measurement of the stakes held in Nexi S.p.A. and SIA S.p.A.

By virtue of the trends described, the **total operating income** therefore amounted to €1,100.7 million, down by 8.0% compared to €1,195.9 million recorded in the second quarter due to the lower financial net profit (loss) for the quarter.

Personnel expenses, of €409.8 million showed a decrease of 1.8% compared to the €417.1 million of the second quarter. Net of the effect of "one-off" remuneration components constituting an indirect effect of the pandemic, this reduction amounted to 5.0%, thanks to the savings resulting from the reduction in the workforce due to the voluntary recourse to the extraordinary services of the sector's Solidarity Fund.

Other **administrative expenses[28]** fell by 6.4% from €153.9 million in the second quarter of 2021 to €144.0 million in the third quarter of 2021, thanks to the streaming of the commercial network and constant and rigorous cost control.

Net adjustments to property, plant and equipment and intangible assets totalled €61.8 million, compared with €60.6 million in the second quarter.

Total **operating expenses** therefore came to €615.6 million, marking a decrease of 2.5% compared to €631.6 million in the second quarter.

The **result of operations** in the quarter stood at €485.1 million, down by 14.0% compared to €564.2 million in the second quarter.

Net **adjustments to loans to customers** amounted to €200.6 million, down 21.5% compared with the second quarter, partly as a result of the reduction in the volume of non-performing loans following the derisking operations carried out during the year.

The loss from the fair value measurement of property, plant and equipment came to €7,8 million in

[27] For an illustration of the methods used to recognise the contribution of Anima Holding, please refer to Explanatory Note no. 8.
[28] The aggregate does not include the "banking industry charges", represented by the contributions to the Resolution Funds and to the Interbank Deposit Guarantee Fund, reported in a separate item of the reclassified income statement, net of tax effect.

the third quarter.

Net **provisions for risks and charges** amounted to €15.5 million in the quarter, compared with €5.6 million in the second quarter, and related to provisions for clawback actions as well as legal and tax disputes.

As a result of the trends described above, the **income from continuing operations before taxes** came to €261.8 million compared to the €266.7 million recorded in the second quarter.

Income tax on continuing operations for the period amounted to €83.3 million (€50.6 million in the second quarter).

Expenses relating to the banking system net of taxes were charged to the income statement in the quarter for €61.6 million, represented by the estimate of the annual contribution for 2021 which will be required by the Interbank Deposit Protection Fund; the additional contribution to the National Resolution Fund of €19.3 million was charged in the second quarter.

In the third quarter, the **change in the credit rating on Certificates issued by the Group, net of taxes**, generated a positive impact of €4.0 million (€5.9 million before taxes), compared to the charge of €5.1 million in the second quarter (€7.6 million gross).

In the third quarter, the impact of the **Purchase Price Allocation net of taxes** was equal to -€10.2 million, against -€9.7 million in the second quarter of 2021.

Given the share of the profit or loss attributable to non-controlling interests, the third quarter of 2021 ended with a net **profit for the period** of €110.7 million, compared to the net profit of €261.2 million recorded in the first quarter.

Adjusted net profit for the third quarter amounted to €182.8 million compared to €231.2 million in the second quarter of 2021.

Changes in key balance sheet items

Direct funding [29]as at 30 September 2021 amounted to €121.4 billion, up compared to 31 December 2020 by +1.1 and by 3.4% compared to 30 September 2020.
More specifically, over the period, there was an increase of 2.9 billion in the segment represented by the current accounts and demand deposits of the commercial network (+2.9%).[30] As regards bonds issued, the stock as at 30 September came to €13.7 billion, down by €1.1 billion compared to 31 December 2020, due to higher reimbursements of securities that had matured than new issues in the period.
In comparison on an annual basis, demand deposits increased by €6.5 billion (+6.9%)[31], while the decrease in securities issued was equal to €2.3 billion (-14.4%).
The funding guaranteed by the *stock* of *certificates* with unconditionally protected capital as at 30 September 2021 was equal to €3.7 billion, in line with respect to 31 December 2020 (€3.3 billion as at 30 September 2020).

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

Indirect funding, net of protected capital *certificates*, was equal to €96.6 billion, up 5.5% compared to 31 December 2020 and 9.2% on an annual basis.
The component of managed assets was equal to €63.7 billion, up from €59.6 billion as at 31 December 2020 (+6.9%), thanks to the contribution of funds and SICAVs, which increased by €3.6 billion since the beginning of the year (+8.9%); growth in asset management and *bancassurance* was more limited.
Administered assets reached €32.9 billion, an increase of approximately €1 billion (2.9%) compared to the end of 2020.
On an annual basis, managed assets increased by 9.7%, mainly due to the contribution of funds and SICAVs (+€5.2 billion, or 13.2%), while the administered asset component increased by 8.3%.

Financial assets were equal to €42.9 billion, up by 4.1% compared to €41.2 billion as at 31 December 2020; the increase was mainly concentrated in debt securities (+2.9 billion) and, in particular, in the portfolio of securities measured at *fair value* through other comprehensive income. The aggregate in question as at 30 September 2021 consisted of debt securities for €36.8 billion, equities and UCITS units for €3.4 billion, derivative instruments for €2.1 billion and other financial assets, mainly repurchase agreements, for €0.6 billion. Holdings of debt securities issued by sovereign states were equal to €31.8 billion, of which €18.9 billion represented by Italian government securities. Investments in Italian government securities are classified under financial assets at amortised cost for €12.7 billion, in the portfolio of financial assets measured at fair value through other comprehensive income for €4.3 billion and in the portfolio of financial assets at fair value through profit and loss for €1.9 billion, being held for trading.

Net loans to customers [32]totalled €108.7 billion as at 30 September 2021, slightly down (-0.6%) compared to the figure as at 31 December 2020. Performing exposures rose (+0.2%), with a volume of new loans to households and businesses of €16.9 [33]billion in the period, non-performing exposures fell 19.1% compared to the end of 2020, due to the assignments finalised in the period.On an annual basis, net loans were essentially stable: *performing* loans rose by €1.6 billion (+1.6%), while impaired loans fell by €1.6 billion (-31.8%).

Net non-performing loans (bad loans, unlikely to pay and past due and/or non-performing overdue) amounted to €3.5 billion as at 30 September 2021.
An analysis of the individual items shows the following dynamics:

- net bad loans of €0.9 billion, down by 36.1% compared to 31 December 2020 and 39.0% compared to 30 September 2020;
- unlikely to pay loans of €2.5 billion, down by 10.8% compared to 31 December 2020 and 28.6% compared to 30 September 2020;
- net past-due exposures of €52 million (€46 million as at 31 December 2020 and €78 million as at 30 September 2020).

The coverage rate for the entire impaired loans aggregate came to 47.4% (50.0% as at 31 December 2020).
More specifically, as at 30 September 2021, the coverage ratio was as follows:

- bad loans 56.5% (59.1% as at 31 December 2020);
- Unlikely to pay loans 43.3% (43.7% as at 31 December 2020);

[32] The aggregate does not include loans to customers which, following the application of IFRS 9, must be measured at fair value. These loans, amounting to €0.3 billion, are included in financial assets measured at fair value.
[33] Management figures.

- past due 16.6% (26.4% at 31 December 2020).

The evolution of the coverage of non-performing loans is correlated to the significant decrease in the incidence of gross bad loans on the total portfolio of non-performing loans (from 41.7% at the end of 2020 to 32.6% as at September 2021) resulting from the finalisation of the Rockets assignment and an increase in the secured component of bad loans (from 64% at the end of 2020 to 67% in September 2021).

The *coverage ratio* of performing loans came out at 0.44%, stable compared to 31 December 2020.

Group capital ratios[34]

As at 30 September 2021, the phased-in Common Equity Tier 1 ratio stood at 14.5%, against 14.1% as at 30 June 2021. The increase in the ratio in the third quarter is mainly attributable to the decrease in risk-weighted assets against a small reduction in regulatory capital which, on the one hand, increases due to the positive result of the quarter, but, on the other hand, sees a decrease in valuation reserves. The decrease in risk-weighted assets was affected by the dynamics of the credit portfolio and, particularly, by the improvement in risk parameters measured with internal models, as well as the reduction in market risks.
The *phased-in ratio* benefits from the exercise of the option for the full application of the transitional rules introduced with the new Article 473-bis of Regulation (EU) no. 575/2013, which dilutes over time the impact on own funds deriving from the application of the new impairment model introduced by the accounting standard IFRS 9. Excluding the impacts of the afore-mentioned transitional rules, the CET 1 ratio IFRS 9 *fully phased* stood at 13.3%, up compared to the figure as at 30 June 2021, equal to 12.9%.

The *phased-in* Tier 1 ratio was 16.3% compared to 15.8% as at 30 June 2021, while the Total Capital ratio came to 19.3%, compared to 18.8% as at 30 June 2021, which was already affected by the issuance of a new Tier 2 instrument for €300 million in June 2021.

The buffer compared to the limit set for the possibility of distributing dividends (*Maximum Distributable* Amount or MDA buffer) was equal to + 594 basis points (against + 539 basis points as at 30 June 2021)[35].

The *fully-phased* Tier 1 ratio was 15.0%, up compared to 14.5% as at 30 June 2021. The Total Capital ratio came to 17.9%, compared to 17.5% as at 30 June 2021.

The buffer compared to the limit set for the possibility of distributing dividends (*Maximum Distributable Amount* or MDA buffer) was equal to +453 basis points on a fully phased basis (compared to +402 basis points as at 30 June 2021).[36]

BUSINESS OUTLOOK

[34] Ratios calculated by including the profit of the first nine months of 2021 and deducting the amount of the expected dividend pay-out for the year compared to the profit for the period under way.
[35] Data calculated by considering a countercyclical buffer of 0.002%.
[36] See previous note.

The ongoing pandemic continues to affect the global economic situation and the business outlook remains strictly dependent on both its evolution and the measures taken to combat it and contain its impacts on economic activity.
Against this backdrop, after a strong recovery in the first half of the year, the Italian economy continued to grow very strongly in the third quarter, benefiting in particular from the excellent performance of the market services and industrial sectors, to which both domestic and net foreign demand contributed positively.
The current trend, which led international organisations and research institutes to revise their estimates upwards again, could also benefit from the use of the initial funds of Next Generation EU and the continuing favourable monetary conditions.
With reference to the Group's operating performance in the last part of the year, the external context will inevitably continue to be a significant factor of potential conditioning but, barring any worsening of the reference framework and the markets, the Group confirms its expectation of a net profit per share of approximately 35 cents which, also considering the strong equity position, should allow shareholders to be remunerated, with a payout ratio of approximately 40%.
As regards medium- to long-term developments, please refer to the presentation of the new 2021-2024 Strategic Plan.

***

Mr Gianpietro Val, as the financial reporting officer, in compliance with Art. 154 bis, Par. 2 of the Consolidated Finance Law, hereby states that the accounting information illustrated in this press release is consistent with documented evidence, accounting books and book- keeping entries.

***

Banco BPM Group's results as at 30 September 2021 and the 2021-2024 Strategic Plan will be presented to the financial community in the *conference call* scheduled for today, 5 November 2021 at 9:00am (CET). The supporting documentation for the *conference call* is available on the authorised storage system's website (www.emarketstorage.com) and on the Bank's website (www.bancobpm.it), where the details for connecting to the call can also be found.

Explanatory notes

This News Release represents the document through which Banco BPM decided to disclose - on a voluntary basis - supplementary periodic information in addition to the half-year and annual reports ("quarterly reports") to the public and to the market, in compliance with the disclosure policy communicated to the market pursuant to art. 82-ter of the Issuers Regulation effective on 2 January 2017. For the sake of completeness, please note that the quarterly report also includes the result presentation handout prepared as a support for the conference call with the financial community to be held after this News Release has been released.
This quarterly report includes a comment on the quarterly operating performance that focuses on the dynamics of the key P&L, balance sheet and financial items, and is based on the reclassified balance-sheet and income statements.
Please find below some explanatory notes that are deemed useful to better understand the approach followed in preparing the above-mentioned accounting statements as at 30 September 2021 and those referring to the prior FY, as well as the dynamics of the quarterly results commented in this news release.

1. Accounting policies and reference accounting standard

The balance sheet and income statement layouts contained in this news release have been reclassified along management criteria in order to provide an indication on the Group's overall performance based on more easily understandable aggregate operating and financial data. These layouts have been prepared based on the financial statement layouts indicated in the Bank of Italy's Circular no. 262/2005, applying the same aggregation and classification criteria presented in the Consolidated Financial Statements as at 31 December 2020.
In order to guarantee a like-for-like comparison with the above consolidation and classification criteria, the data published in previous periods under comparison have been restated.
More specifically, the income effect tied to the changes in creditworthiness related to the issuance of certificates classified in the "Trading financial liabilities" portfolio – that up until Q3 2020 was included in the line-item "Net financial result" –- is now posted for all quarters under comparison under the ad hoc line-item "Impact from the change in own credit risk on certificates

issued (OCR), after tax". This choice stems from the need to isolate the income effect from the volatility of the above Own Credit Risk, reported in particular in 2020, as from a management viewpoint it is not deemed representative of the Group's actual profitability.

The accounting standards adopted to prepare the accounting position as at 30 September 2021 - with regard to the classification, recognition, measurement and derecognition of assets and liabilities, and for the recognition of costs and revenues - are the ones set forth in the international accounting standards IAS/IFRS issued by the International Accounting Standards Board (IASB) and the related interpretations by the International Financial Reporting Interpretations Committee (IFRIC), endorsed by the European Commission and in force as at 30 September 2021, pursuant to EC Regulation no. 1606 of 19 July 2002.
It should be noted that the information illustrated in this document is not prepared according to IAS 34 on interim financial reporting and is not subject to auditing.

Moreover, the communications of the Regulators (Bank of Italy, Consob, ESMA, EBA, ECB) providing recommendations on certain major accounting aspects or on the accounting treatment of specific transactions have been taken into consideration, insofar as applicable.

With regard to TLTRO III refinancing transactions, it should be pointed out that, since the accounting standards do not provide any specific indications regarding the treatment of this particular case, the Group defined an internal accounting policy, based on which the financing is equated to a floating rate financial instrument, where the measurement of the interest applicable from time to time is estimated based on the likelihood that certain net lending targets are actually met. As a result, if the achievement of the targets is certain or is deemed likely, the reduction in interest rate, amounting to 0.5% for the special interest period between 24 June 2020 and 23 June 2022, is recognized through profit and loss over said timeframe. To this regard, note that the interest accrued on the above liabilities and carried through profit and loss in the first nine months of 2021 (€255.9 million), has been ascertained to the maximum extent, namely based on the negative rate of -1% (i.e., the Deposit Facility interest rate, -0.5%, plus the additional -0.5% reduction over the special interest period). To this regard, note that the net lending target for the special period between 24 June 2020 and 23 June 2021, set to be measured on 31 March 2021, has been met. The achievement of the net lending target over the additional special interest period between 24 June 2021 and 30 September 2021, set to be definitively measured on 31 December 2021, is deemed most likely, as it had already been widely met on 30 September 2021.

The IFRS 9 impairment model was applied also when preparing the accounting position as at 30 September 2021, taking into account the NPL disposal scenarios (so called multi-scenario approach), in keeping with the Group's updated NPL management strategy, approved by the competent corporate boards of Banco BPM in October 2021. More specifically, for these exposures, in addition to considering the recovery estimates based on the ordinary management (known as work-out scenario), the expected loss measurement also included the presence – duly calibrated based on the disposal targets - of the cash flows that are deemed recoverable through disposals (known as disposal scenario). The estimate of the recoverable cash flow under a disposal scenario took into consideration the parameters considered by perspective buyers when defining the purchase price, duly calibrated to reflect comparable transactions observed on the market. The revision of the NPL management strategy led to the recognition of net loan loss provisions amounting to € 100.0 million.

The adoption of certain accounting standards necessarily calls for the use of estimates and assumptions that have an impact on the value of assets and liabilities recognized in the balance sheet. The assumptions used to calculate estimates take into account all information available on the date of preparation of the quarterly report as at 30 September 2021, together with any assumed scenarios considered reasonable, also based on past experience. Owing to their nature, it is therefore not possible to rule out that the presumed scenarios, albeit reasonable, may not reflect future scenarios the Group will operate in. Therefore, future actual results may differ from the estimates generated to prepare the financial statements as at 30 September 2021, and may therefore call for adjustments that cannot be predicted or estimated today with respect to the carrying amount of assets and liabilities recognized in the balance sheet. To this regard, please note that the estimates carried out to prepare the accounting position as at 30 September 2021 could be revised should the circumstances they have been based on change, as a result of new information or the longer experience accrued.

The main uncertainty factors that could affect future scenarios in which the Group operates should certainly include the negative effects on the global and Italian economies, directly or indirectly connected with the Covid-19 pandemic.
The spread of the Covid-19 pandemic and its impact on public health, on economic activities and trade, one year after the outbreak of the health emergency, are still strongly affecting the markets the Group operates in.
Despite the cautious optimism following the vaccination campaign and the gradual withdrawal of restrictions, tempered by some concern over the development of the virus variants, elements of uncertainty still remain as to how production activities will be able to recover after the events that have characterized FY 2020 and, to a lesser extent, the current year. Besides the evolution of the pandemic, the recovery will also depend on the effectiveness and time length of the expansionary measures put in place by competent authorities (Governs, ECB, European Union …) to tackle the health crisis and aimed at supporting household and corporate income, lending to the economy and market liquidity, which made it more complicated to detect the signs of loan impairment.
Up until the context of the crisis and of the national and European measures take on a more definite outline, the inclusion of the Covid-19 crisis effects in the budget estimates will be a particularly complex exercise, inasmuch as these effects will depend on a series of variables that cannot be predicted at present, if not with a significant level of uncertainty.

More specifically, in compliance with IFRS 9, when measuring expected credit losses, besides past events and current conditions, also forward-looking information upon which the likelihood of recovery of credit exposures depends must be considered. Hence, it is important to quantify the risk parameters that can include forward-looking information based on the evolution of the macroeconomic scenario, identify the triggers that may indicate a significant increase in credit risk (SICR), estimate the recoverable flows taking into account also the expected disposal prices and the expected realizable value of assets and securities.

To this respect, in the first nine months of 2021, as regards the calculation of (on- and off-balance sheet) performing exposures – with the aim of more accurately representing expected losses caused by the economic disruptions tied to Covid-19 and avoiding the possible effects of sudden shocks (i.e., "*cliff effect*"), which may be caused by the failure to identify signs of counterparty impairment due to the support measures granted by the Government – the review and fine-tuning of the existing models continued, also through a series of post-model managerial adjustments applied to the model's general results (so called post-model adjustments). The macroeconomic scenarios used to calculate the expected losses as at 30 September 2021, in terms of macroeconomic projections and the related probability of occurrence, are those already applied as at 30 June 2021, that based on the analyses that were conducted are deemed still valid.

The consolidated half-year financial report as at 30 June 2021 provided a detailed illustration of the estimate processes calling for significant judgmental elements for the selection of the underlying assumptions and hypotheses. Since this same explanation holds true for the financial report as at 30 September, to which this news release refers, please refer to said report for further information.

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

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

As of the financial report as at 31 March 2020, this impact has been recognized, net of the tax effect, under the separate line-item of the reclassified income statement "Purchase Price Allocation, after tax".

More specifically, the 9M 2021 consolidated P&L impact from the reversal effect of value adjustments of acquired net assets (mainly tied to former Gruppo Banca Popolare di Milano) came in at € -20.1 million on net interest income (in connection with the evolution of the various valuations of purchased assets) and at € -25.0 million on other net operating income (due to the depreciation of intangibles recognized under the PPA). Net of the tax effect, the overall impact at 30 September 2021, posted under the reclassified P&L line-item "Purchase Price Allocation, after tax", added up to € -30.2 million (€ -29.9 million in 9M 2020).

3. Charges generated by the contribution to the resolution mechanism

In 9M 2021, the P&L line-item "After-tax banking industry charges" was charged with the amount of ordinary and additional charges due to the Resolution Funds and the Interbank Deposit Guarantee Fund for FY 2021, which, net of the tax effect, totaled € 140.2 million (€ 128.7 million of ordinary and additional contributions had been charged to income at 30 September 2020). Gross of tax effect, the total charge added up to € 207.7 million (€ 190.7 million in 9M 2020).

4. Changes in consolidation scope

Over the period a change in consolidation scope took place with the acquisition, through the subsidiary Banca Akros, of a 100% share in the company Oaklins Italy S.r.l., which as of the closing of accounts on 30 June 2021 is accounted for on a fully consolidated basis.

The following companies are no longer consolidated on a line-by-line basis: the subsidiary FIN.E.R.T. S.p.A., that wasremoved from the Companies Registry on 1 July 2021 upon completing the liquidation procedure, Italfinance Securitisation Vehicle S.r.l., due to the early conclusion of the related securitization, as well as the real estate company Marinai d'Italia S.r.l. in liquidation and its subsidiaries Perca S.r.l. and Meleti S.r.l. following the finalization of their sale on 15 July 2021.

The merger of ProFamily into the Parent company Banco BPM took legal effect on 19 July, with accounting and fiscal effect as of 1 January 2021.

Finally, in January 2021 Banco BPM acquired the full ownership of the associate Release, following the purchase of no. 39,923,532 ordinary shares of the subsidiary from BPER Banca S.p.A..

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

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

- gains or losses on the sale of all fixed assets (shareholdings, tangible fixed assets except financial assets classified in the "Hold to Collect" (HtC) portfolio (that can be sold according to the materiality and frequency thresholds under IFRS9);
- gains and losses on non-current assets held for sale;
- loan write-downs/write-backs (due to valuations or to actual impairment losses) that were caused by a change in the NPE Strategy approved during the year by the Board of Directors entailing a change in targets and/or in the type of loans under disposal compared to what had been previously planned;
- P&L components with a large carrying amount tied to efficiency gain or reorganization actions, etc. (i.e., redundancy fund charges, voluntary redundancy schemes, merger/integration charges);

- P&L components with a large carrying amount that are not likely to occur frequently (e.g., fines, impairment of tangible assets, goodwill and other intangible assets, extraordinary debiting/crediting by the Resolution Funds and the Interbank Deposit Guarantee Fund, impact from regulatory changes, exceptional results);
- P&L impact generated by the fair value measurement of property and other tangible assets (works of art);
- tax effect tied to the above P&L impacts.

Conversely, the following impacts are generally considered recurring:

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

Whenever deemed significant, the information on the effect that events or transactions that are non-recurring or that do not take place frequently in the ordinary course of business have on the Group's balance sheet and financial position, as well as on its cash flows, is provided in the comments on the evolution of balance sheet items.

Based on the criteria described above, the following non-recurring items were reported in 9M 2021:

- the line-item "personnel expenses" includes € 14.4 million of one-off savings on wage components as an indirect consequence of the pandemic;
- the line-item "net amortization and depreciation on tangible and intangible assets" includes € 1.3 million of amortization due to fixed assets impairment;
- the line-item "net write-downs on customer loans" includes € 94.0 million tied to the losses related to the loan disposal finalized under the "Rockets" project and an additional estimated impact of € 100.0 million caused by the increase in the NPL disposal targets resolved by the Board of directors;
- the line-item "gain or loss on the fair value measurement of tangible assets" posts a net write-down of € 44.7 million;
- "Income tax for the period on continuing operations" includes the tax impact of the above non-recurring items totaling € 72.9 million;
- the line-item "after-tax banking industry charges" includes € 19.3 million of additional contributions paid to the National Resolution Fund (€ 28.6 million gross of a tax effect of € 9.3 million);
- the line-item "impact from realignment of tax values to book values" includes the € 79.2 million gain from opting to realign the tax values to the book values of the Group's operating property.

As a whole, non-recurring items in the first nine months of the year gave rise to a negative impact of € 92.8 million.

Excluding the above effects, the net (adjusted) result accruing at 30 September 2021 would come to € 564.8 million.

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

- the line-item "personnel expenses" included € 31.6 million of one-off savings on certain wage components as an indirect effect of the pandemic;
- the line-item "net amortization and depreciation on tangible and intangible assets" included € 2.4 million of amortization and depreciation;
- the line-item "gain or loss on the fair value measurement of tangible assets" included a capital loss of € 5.7 million;
- the line-item "gain or loss on disposal of equity and other investments" posted a net gain of € 1.5 million;
- "income tax for the period on continuing operations" included the tax impact of the above non-recurring items totaling € 8.4 million;
- the line-item "after-tax banking industry charges" included € 18.2 million of additional contributions paid to the National Resolution Fund (€ 26.9 million gross of a tax effect of € 8.7 million).

As a whole, considering also the effect attributable to minority interest (amounting to € 0.3 million), non-recurring items over the period gave rise to a negative P&L impact of € 1.3 million.

Excluding the above amount, net (adjusted) income would have come to € 263.9 million.

6. Capital requirements regulation

The minimum capital requirements for 2021 are:

- minimum Common Equity Tier 1 ratio ("CET1 ratio"): 4.5% + 2.5% of Capital Conservation Buffer ("CCB");
- minimum Tier 1 ratio: 6.0% + 2.5% of CCB;
- minimum total capital ratio: 8% + 2.5% of CCB.

The Bank of Italy confirmed the Countercyclical Capital Buffer ratio for exposures to Italian counterparties at zero per cent also for Q3 2021.

With communication of 30 November 2017, the Bank of Italy identified the banking group Banco BPM as an 'Other Systemically Important Institution' (O-SII). The 2021 O-SII buffer is equal to 0.19% and will reach 0.25% on 1 January 2022.
On 11 December 2019, the European Central Bank (ECB) notified Banco BPM its final decision on the minimum capital ratios that Banco BPM is required to comply with on an ongoing basis as of FY 2020.

The decision is based on the supervisory review and evaluation (SREP) conducted in accordance with art. 4(1)(f) of EU Regulation no. 1024/2013.
In compliance with art. 16(2)(a) of the same Regulation no. 1024/2013, which gives the ECB the power to require that supervised banks hold an amount of own funds greater than the minimum capital requirements provided for under current regulations, the top-up to be added to the above requirements was 2.25%.

Following the Covid-19 health emergency, with letter dated 8 April 2020 the ECB decided to amend the decision made in December 2019 illustrated above, establishing that the 2.25% SREP requirement must be maintained by Banco BPM based on the following ratios: 56.25% as Common Equity Tier 1 (CET1) and 75% as Tier 1 Capital (Tier 1).

Therefore, taking also into account the countercyclical capital buffer established by the competent national authorities for exposures towards countries where the Group operates, equal to 0.003%, the minimum requirements Banco BPM must comply with in 2021and until a new communication is issued, are[37]:

- CET1 ratio: 8.459% at phase-in level and 8.519% fully loaded;
- Tier 1 ratio: 10.381% at phase-in level and 10.441% fully loaded;
- Total Capital ratio: 12.943% at phase-in level and 13.003% fully loaded.

Banco BPM elected to fully apply the transitional provision under article 473 bis of EU Regulation no. 575/2013, which phases in the impact on own funds generated by the adoption of the new impairment model introduced by IFRS9. Under the transitional provision, it is possible to include a transitional positive component to the Tier 1 capital by a percentage of the increase in expected loan loss provisions further to the adoption of IFRS 9. The percentage decreases over time over a 5-year period, as described below:

- period between 1 January and 31 December 2018: 95% of the increase in expected loan loss provisions further to the adoption of IFRS 9;
- period between 1 January 2019 and 31 December 2019: 85% of the increase in expected loan loss provisions;
- period between 1 January 2020 and 31 December 2020: 70% of the increase in expected loan loss provisions;
- period between 1 January 2021 and 31 December 2021: 50% of the increase in expected loan loss provisions;
- period between 1 January 2022 and 31 December 2022: 25% of the increase in expected loan loss provisions.

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

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

7. Sovereign risk exposure represented by debt securities

The table below provides an illustration of the Group's sovereign risk exposure (debt securities included in the financial assets portfolios) at 30 September 2021, broken down by single Country and by category of the classification accounting portfolio:

30 September 2021 *(in million euro)* **Countries/Accounting portfolios**	**Fin. ass. measured at amortized cost**	**Fin. ass. measured at fair value through other comprehensive income**	**Fin. ass. measured at fair value through profit or loss**	**Total**
Italy	12.738	4.255	1.900	18.893
France	1.901	2.038	271	4.210
USA	2.359	1.187	-	3.546
Spain	1.379	1.354	282	3.015
Germany	731	611	7	1.349
Other Countries	536	276	-	812
Total	**19.644**	**9.721**	**2.460**	**31.825**

At 30 September 2021, the Group's sovereign debt exposure totaled € 31.8 billion (€ 29.0 billion at 31 December 2020), of which 61.7% were classified in the portfolio of financial assets measured at amortized cost, 30.6% under financial assets measured at fair value through other comprehensive income, and 7.7% in the portfolio of financial assets measured at fair value through profit or loss, as they were held for trading.
Out of this exposure, about 88% refers to securities issued by members of the European Union; notably about 59.4% by Italy.
As regards financial assets measured at fair value through other comprehensive income, at 30 September 2021 the reserves generated by the fair value measurement of debt securities totaled € 82.1 million, gross of tax effect, of which € 19.0 million refer to government bonds (€ + 24.7 million for Italian government bonds and € - 5.7 million for other government bonds).

[37] These requirements are calculated as follows:

- The pillar I minimum requirement of 8% (of which 4.5% CET1; 1.5% AT1 and 2% AT2)
- the P2R requirement of 2.25% set by the ECB must be met by 56.25% with CET1 and by 75% with TIER1;
- the capital conservation buffer of 2.50% to be fully met with CET1;
- the O-SII buffer of 0.19% for 2021 and of 0.25% as of 1 January 2022 to be fully met with CET1;
- the countercyclical capital buffer of 0,002% to be fully met with CET1 capital.

As to financial assets measured at amortized cost, the book value came out at € 19.6 billion, of which € 12.7 billion represented by Italian government bonds. For information purposes only, note that the fair value of the government bonds classified in this accounting category, measured based on the market prices at 30 September 2021 (level 1 in the fair value classification) totaled € 20.2 billion (€ 13.1 billion being the fair value of the Italian government bonds alone).
The debt securities management still follows the same decisions made in the prior financial years; no business model change calling for a portfolio reclassification took place during the period.

8. Other explanatory notes

The reclassified balance sheet and income statements reflect on a consolidated basis the financial accounts of Banco BPM and its subsidiaries with respect to 30 September 2021, or, when not available, to the most recently approved financial reports. Similarly, the equity method-based treatment of associates was carried out based on the accounting information as at 30 September 2021 submitted to Banco BPM, or, if not available, on the most recent financial reports prepared by the associates. It should be pointed out that, for the investment held in Anima Holding, measured under the equity method as of 1 April 2020, the contribution to the consolidated income statement for 9M 2021 includes also the share of operating result generated by the associate in the last quarter of 2020, amounting to € 9.8 million. Please note that, when preparing the 2020 annual report, it had not been possible to recognize the Q4 contribution, as Anima Holding approved its draft financial statements on 1 March 2021, hence after Banco BPM.

Attachments

- Reclassified consolidated statement of financial position at 30 September 2021 compared with data as at 31 December 2020
- 9M 2021 reclassified consolidated income statement compared with data referring to the same period of 2020
- Reclassified consolidated income statement – 2021 and 2020 quarterly evolution
- 9M 2021 reclassified consolidated income statement net of non-recurring items

Contacts:

Investor Relations
Roberto Peronaglio
+39 02.94.77.2108
investor.relations@bancobpm.it

Communication
Matteo Cidda
+39 02.77.00.7438
matteo.cidda@bancobpm.it

Press Office
Monica Provini
+39 02.77.00.3515
monica.provini@bancobpm.it

Gruppo BANCO BPM

Reclassified consolidated balance sheet

(in euro thousand)	30/09/2021	31/12/2020	Chg.	Chg. %
Cash and cash equivalents	19,732,492	8,858,079	10,874,413	122.8%
Financial assets at amortised cost	120,556,355	120,455,666	100,689	0.1%
- Due from banks	11,823,849	11,120,681	703,168	6.3%
- Customer loans	108,732,506	109,334,985	-602,479	-0.6%
Other financial assets	42,869,378	41,175,632	1,693,746	4.1%
- Financial assets designated at FV through P&L	8,559,956	9,118,571	-558,615	-6.1%
- Financial assets designated at FV through OCI	12,869,920	10,710,796	2,159,124	20.2%
- Financial assets at amortised cost	21,439,502	21,346,265	93,237	0.4%
Equity investments	1,731,766	1,664,772	66,994	4.0%
Property and equipment	3,383,695	3,552,482	-168,787	-4.8%
Intangible assets	1,214,227	1,218,632	-4,405	-0.4%
Tax assets	4,612,760	4,704,196	-91,436	-1.9%
Non-current assets held for sale and discontinued operations	128,427	72,823	55,604	76.4%
Other assets	2,551,887	1,982,900	568,987	28.7%
Total assets	**196,780,987**	**183,685,182**	**13,095,805**	**7.1%**
Direct funding	119,003,578	116,936,669	2,066,909	1.8%
- Due to customers	105,306,125	102,162,461	3,143,664	3.1%
- Debt securities issued and financial liabilities designated	13,697,453	14,774,208	-1,076,755	-7.3%
Due to banks	44,083,715	33,937,523	10,146,192	29.9%
Leasing debts	704,673	760,280	-55,607	-7.3%
Other financial liabilities designated at fair value	13,356,112	14,015,427	-659,315	-4.7%
Liability provisions	1,243,887	1,415,473	-171,586	-12.1%
Tax liabilities	308,626	464,570	-155,944	-33.6%
Other liabilities	5,098,970	3,928,139	1,170,831	29.8%
Total Liabilities	**183,799,561**	**171,458,081**	**12,341,480**	**7.2%**
Minority interests	1,252	1,894	-642	-33.9%
Shareholders' equity	12,980,174	12,225,207	754,967	6.2%
Consolidated Shareholders' Equity	**12,981,426**	**12,227,101**	**754,325**	**6.2%**
Total Liabilities and Shareholders' Equity	**196,780,987**	**183,685,182**	**13,095,805**	**7.1%**

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

Gruppo BANCO BPM

Reclassified consolidated income statement

(in euro thousand)	30/09/2021	30/09/2020	Chg.	Chg. %
Net interest income	1,535,623	1,473,542	62,081	4.2%
Income (loss) from investments in associates carried at equit	144,874	107,070	37,804	35.3%
Net interest, dividend and similar income	**1,680,497**	**1,580,612**	**99,885**	**6.3%**
Net fee and commission income	1,425,382	1,234,585	190,797	15.5%
Other net operating income	66,214	43,274	22,940	53.0%
Net financial result	252,138	240,797	11,341	4.7%
Other operating income	**1,743,734**	**1,518,656**	**225,078**	**14.8%**
Total income	**3,424,231**	**3,099,268**	**324,963**	**10.5%**
Personnel expenses	-1,253,862	-1,173,929	-79,933	6.8%
Other administrative expenses	-452,045	-468,471	16,426	-3.5%
Net value adjustments on property and equipment and intangi	-185,215	-187,885	2,670	-1.4%
Operating costs	**-1,891,122**	**-1,830,285**	**-60,837**	**3.3%**
Profit (loss) from operations	**1,533,109**	**1,268,983**	**264,126**	**20.8%**
Net adjustments on loans to customers	-673,221	-800,582	127,361	-15.9%
Profit (loss) on fair value measurement of tangible assets	-44,706	-5,732	-38,974	N.S.
Net adjustments on other assets	770	-8,279	9,049	
Net provisions for risks and charges	-28,294	-6,707	-21,587	321.9%
Profit (loss) on the disposal of equity and other investments	-42	1,544	-1,586	
Income (loss) before tax from continuing operations	**787,616**	**449,227**	**338,389**	**75.3%**
Tax on income from continuing operations	-216,600	-61,464	-155,136	252.4%
INCOME (LOSS) AFTER TAX FROM CONTINUING OPER	**571,016**	**387,763**	**183,253**	**47.3%**
Systemic charges after tax	-140,203	-128,685	-11,518	9.0%
Realignment of fiscal values to accounting values	79,220	-	79,220	
Impact from the change in Own Credit Risk on certificates issued, net of tax	-7,966	29,377	-37,343	
Purchase Price Allocation (PPA) net of tax	-30,209	-29,949	-260	0.9%
Income (loss) attributable to minority interests	140	4,028	-3,888	-96.5%
NET INCOME (LOSS) FOR THE PERIOD	**471,998**	**262,534**	**209,464**	**79.8%**

Gruppo BANCO BPM

Reclassified consolidated income statement - Quarterly evolution

(in euro thousand)	III Q 2021	II Q 2021	I Q 2021	IV Q 2020	III Q 2020	II Q 2020	I Q 2020
Net interest income	516,427	522,367	496,829	509,019	519,921	479,507	474,114
Income (loss) from investments in associates carried at equit	46,795	56,535	41,544	23,729	36,768	48,036	22,266
Net interest, dividend and similar income	**563,222**	**578,902**	**538,373**	**532,748**	**556,689**	**527,543**	**496,380**
Net fee and commission income	475,308	478,679	471,395	429,225	417,651	376,371	440,563
Other net operating income	26,296	21,747	18,171	12,731	11,675	14,855	16,744
Net financial result	35,878	116,533	99,727	77,845	157,325	82,712	760
Other operating income	**537,482**	**616,959**	**589,293**	**519,801**	**586,651**	**473,938**	**458,067**
Total income	**1,100,704**	**1,195,861**	**1,127,666**	**1,052,549**	**1,143,340**	**1,001,481**	**954,447**
Personnel expenses	-409,823	-417,135	-426,904	-407,212	-356,950	-397,954	-419,025
Other administrative expenses	-144,012	-153,903	-154,130	-125,341	-159,797	-154,094	-154,580
Net value adjustments on property and equipment and intang	-61,762	-60,603	-62,850	-67,229	-64,796	-61,710	-61,379
Operating costs	**-615,597**	**-631,641**	**-643,884**	**-599,782**	**-581,543**	**-613,758**	**-634,984**
Profit (loss) from operations	**485,107**	**564,220**	**483,782**	**452,767**	**561,797**	**387,723**	**319,463**
Net adjustments on loans to customers	-200,643	-255,513	-217,065	-536,225	-324,340	-262,999	-213,243
Profit (loss) on fair value measurement of tangible assets	-7,817	-36,964	75	-30,989	-316	-5,094	-322
Net adjustments on other assets	242	939	-411	7,249	104	-3,728	-4,655
Net provisions for risks and charges	-15,489	-5,615	-7,190	-35,587	907	-9,809	2,195
Profit (loss) on the disposal of equity and other investments	395	-393	-44	-354	1,324	129	91
Income (loss) before tax from continuing operations	**261,795**	**266,674**	**259,147**	**-143,139**	**239,476**	**106,222**	**103,529**
Tax on income from continuing operations	-83,274	-50,628	-82,698	47,946	-22,464	-13,293	-25,707
INCOME (LOSS) AFTER TAX FROM CONTINUING OPER	**178,521**	**216,046**	**176,449**	**-95,193**	**217,012**	**92,929**	**77,822**
Systemic charges after tax	-61,650	-19,309	-59,244	-10,216	-53,001	-18,169	-57,515
Restructuring costs	-	-	-	-187,030	-	-	-
Realignment of fiscal values to accounting values	-	79,220	-	128,324	-	-	-
Godwill impairment	-	-	-	-25,100	-	-	-
Impact from the change in Own Credit Risk on certificates issued, net of tax	3,954	-5,105	-6,815	-41,116	2,194	-110,739	137,922
Purchase Price Allocation (PPA) net of tax	-10,172	-9,705	-10,332	-11,543	-11,422	-11,962	-6,565
Income (loss) attributable to minority interests	28	78	34	220	2,520	1,537	-29
NET INCOME (LOSS) FOR THE PERIOD	**110,681**	**261,225**	**100,092**	**-241,654**	**157,303**	**-46,404**	**151,635**

Gruppo BANCO BPM

Reclassified consolidated income statement net of Non-Recurring items

(in euro thousand)	30/09/2021	30/09/2020	Chg.	Chg. %
Net interest income	1,535,623	1,473,542	62,081	4.2%
Income (loss) from investments in associates carried at equit	144,874	107,070	37,804	35.3%
Net interest, dividend and similar income	**1,680,497**	**1,580,612**	**99,885**	**6.3%**
Net fee and commission income	1,425,382	1,234,585	190,797	15.5%
Other net operating income	66,214	43,274	22,940	53.0%
Net financial result	252,138	240,797	11,341	4.7%
Other operating income	**1,743,734**	**1,518,656**	**225,078**	**14.8%**
Total income	**3,424,231**	**3,099,268**	**324,963**	**10.5%**
Personnel expenses	-1,268,220	-1,205,512	-62,708	5.2%
Other administrative expenses	-452,045	-468,471	16,426	-3.5%
Net value adjustments on property and equipment and intang	-183,941	-185,453	1,512	-0.8%
Operating costs	**-1,904,206**	**-1,859,436**	**-44,770**	**2.4%**
Profit (loss) from operations	**1,520,025**	**1,239,832**	**280,193**	**22.6%**
Net adjustments on loans to customers	-479,194	-800,582	321,388	-40.1%
Net adjustments on other assets	770	-8,279	9,049	
Net provisions for risks and charges	-28,294	-6,707	-21,587	321.9%
Income (loss) before tax from continuing operations	**1,013,307**	**424,264**	**589,043**	**138.8%**
Tax on income from continuing operations	-289,545	-53,084	-236,461	N.S.
INCOME (LOSS) AFTER TAX FROM CONTINUING OPEF	**723,762**	**371,180**	**352,582**	**95.0%**
Systemic charges after tax	-120,903	-110,516	-10,387	9.4%
Impact from the change in Own Credit Risk on certificates issued, net of tax	-7,966	29,377	-37,343	
Purchase Price Allocation (PPA) net of tax	-30,209	-29,949	-260	0.9%
Income (loss) attributable to minority interests	140	3,762	-3,622	-96.3%
NET INCOME (LOSS) FOR THE PERIOD	**564,824**	**263,854**	**300,970**	**114.1%**