BANCO BPM GROUP

Consolidated 2019 Annual Report

Consolidated 2019
Annual Report

This document is a courtesy translation into English of the document in Italian approved by the Board of Directors. In case of any discrepancies or doubts between the English and the Italian versions of the Report, the Italian version prevails.

Banco BPM S.p.A.

Registered office: Piazza F. Meda, 4 - 20121 Milan, Italy
Administrative headquarters: Piazza Nogara, 2 - 37121 Verona, Italy
Fully paid up share capital as at 31 December 2019: Euro 7,100,000,000.00
Tax Code and Milan Companies' Register Enrolment No.: 09722490969
A company representing Banco BPM VAT Group, VAT No. 10537050964
Member of the Interbank Deposit Guarantee Fund and the National Guarantee Fund
Parent Company of Banco BPM Banking Group
Enrolled in the Bank of Italy Register of Banks and the Register of Banking Groups

OFFICERS, DIRECTORS AND INDEPENDENT AUDITORS AS AT 31 DECEMBER 2019

	Board of Directors
Chairman	Carlo Fratta Pasini
Acting Deputy Chairman	Mauro Paoloni (*)
Deputy Chairman	Guido Castellotti (*)
Deputy Chairman	Maurizio Comoli (*)
Chief Executive Officer	Giuseppe Castagna (*)
Directors	Mario Anolli
	Michele Cerqua
	Rita Laura D'Ecclesia
	Carlo Frascarolo
	Paola Elisabetta Maria Galbiati
	Cristina Galeotti
	Piero Sergio Lonardi (*)
	Giulio Pedrollo
	Fabio Ravanelli
	Manuela Soffientini
	Costanza Torricelli
	Cristina Zucchetti

(*) members of the Executive Committee

	Board of Statutory Auditors
Chairman	Marcello Priori
Standing Auditors	Maria Luisa Mosconi
	Gabriele Camillo Erba
	Claudia Rossi
	Alfonso Sonato
Alternate Auditors	Chiara Benciolini
	Marco Bronzato
	Paola Simonelli

	General Management
Joint General Manager	Domenico De Angelis
Joint General Manager	Salvatore Poloni

Manager Responsible for Preparing the Company's Financial Reports
Gianpietro Val

Independent Auditors
PricewaterhouseCoopers S.p.A.

LETTER TO SHAREHOLDERS

Dear Shareholders,

At the next Shareholders' Meeting, you will be asked, among other things, to approve the draft financial statements for 2019, which envisage the distribution of the first dividend, in addition to re-electing the corporate bodies of Banco BPM for the next three years.
The approval of the new three-year strategic plan further emphasises how the Bank is going through a particularly significant time, a real milestone in its history.
In the recent past, we conceived, desired and implemented the union of two cooperative banks that had accepted the challenge to change. Now we must once again conceive and implement a balanced combination of old and new, local and global, identity and innovation.
We are therefore experiencing a time where our legitimate pride in the results achieved is combined with efforts to understand how to effectively face a future marked, at the same time, by the ever-increasing pace of evolution and spread of digital technologies and by the emergence of factors and economic trends destined to negatively influence the performance of the economy.
Specifically, this is a time, more than any other, in which the Bank and its people need the ability to understand and the courage to make decisions, also tackling those elements and situations that have existed for years, but no longer have any valid reason for doing so and could even represent a present, and more importantly, a future obstacle to Banco BPM's ability to compete.
It is precisely with this in mind, united by the spirit of service that has always formed the basis of our work, that several of us have decided not to resubmit our candidacy. This will enable the Bank, in addition to confirming the Chief Executive Officer Giuseppe Castagna, to substantially replace its board, which will see at least half of its future members chosen from new candidates, as well as a new Chairman, which is hoped will be Massimo Tononi.
The planned and upcoming payment of a dividend should also be seen in this perspective: our recognition, which was necessarily postponed in previous years, of the loyalty of many shareholders, and, specifically, small shareholders - customers inherited from the founding cooperative banks, as well as being the foundation for future results.
At the end of these three years, we are convinced, more than ever, that the bank that we imagined - that is, a bank with deep roots in the economic heart of Italy, focused on the needs and aspirations of all companies, households, all expressions of subsidiary and public powers, which could be perceived as a community of businesses among our local communities - has finally taken shape and gained speed.
In imagining our future trajectory as part of the upcoming strategic plan, we have not included extraordinary transactions. Based on our specific experience, we understand that these transactions cannot be planned, they are opportunities that may emerge along the way, events that involve our bank as a direct or indirect actor, which, in order to positively take shape, must be fuelled by confidentiality and determination.
As we possess both these qualities, it was not difficult to build our strategic plan on a stand-alone basis, and to decisively move forward to close the gap as soon as possible with the leading domestic intermediaries, also in terms of stock market capitalisation.
To you shareholders, who have generously afforded us so much confidence, maintaining it over a long and complex process, we once again ask for your trust at a time when, with a new board, Banco BPM may once again compete with the best, expand further, to serve economies and social and local communities where it operates, and thus complete its process of affirmation in the banking system and the country.

The Board of Directors

Verona/Milan, Italy, 18 February 2020

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BANCO BPM

NOTICE TO CONVENE THE ORDINARY AND EXTRAORDINARY SHAREHOLDERS' MEETING

Pursuant to articles 13 and 43 of the Articles of Association, the Ordinary and Extraordinary Shareholders' Meeting of Banco BPM S.p.A. shall be convened on single call on **Saturday, 4 April 2020, at 9 o'clock, in Milan, at MiCo – Milano Congressi,** Gate 4, Viale Scarampo/Via B. Colleoni, to discuss and resolve on the following

AGENDA

Ordinary meeting

1) Approval of the Annual Report as at 31 December 2019 of Banco BPM S.p.A., inclusive of the reports prepared by the Board of Directors, the Board of Statutory Auditors and the Auditing firm. Presentation of the consolidated financial statements of Gruppo Banco BPM.
2) Resolutions on profit allocation and distribution.
3) Decisions regarding the remuneration and incentive policies; approval of the report in compliance with current legal provisions. Relevant and consequent resolutions.
4) Approval of the criteria to calculate any amount to be recognized in case of early termination of employment or office, including the caps set to said amounts. Relevant and consequent resolutions.
5) Banco BPM S.p.A share-based compensation plans: annual incentive scheme (2020). Relevant and consequent resolutions.
6) Authorization request for the purchase and sale of own shares to implement the Banco BPM S.p.A. share-based compensation plans. Relevant and consequent resolutions.
7) Appointment of the members of the Board of Directors for financial years 2020-2021-2022, including the Chairman and Vice Chairman.
8) Appointment of the Auditors and Chairman of the Board of Statutory Auditors for financial years 2020-2021-2022.
9) Compensation of the members of the Board of Directors.
10) Compensation of Statutory auditors.

Extraordinary meeting

1) Proposed amendments to articles 1.3., 5.2., 5.3., 5.4., 10.1., 11.3., 11.4., 12.1., 12.2., 17.1., 20.1.1., 20.1.6., 20.3.6., 20.4.2., 20.8., 20.8.1., 20.11.1., 20.11.4., 23.1.2., 23.5.1., 24.2.1., 24.2.2., 24.4.1., 25.1., 26., 27., 28., 28.1., 29.1., 29.2., 30.1., 30.2., 30.3., 30.4., 31.1., 31.2., 31.3., 32.1., 32.2., 32.3., 32.4., 32.5., 33.1., 33.2., 33.3., 33.4., 33.5., 33.6., 33.7., 34.1., 35.1., 35.2., 35.3., 35.4., 35.5., 36.1., 36.2., 36.3., 36.4., 36.5., 36.6., 36.7., 36.8., 36.9., 36.10., 36.11., 37.1., 37.2., 37.3., 37.4., 37.5., 37.6., 37.7., 37.8., 37.9., 37.10., 37.11., 37.12., 37.13., 38.1., 38.2., 38.3., 38.4., 38.5., 38.6., 38.7., 38.8., 38.9., 39.1., 40.1., 40.2., 41.1., 41.2., 42.1., 43.1., 44., 45., 46. of Banco BPM's Articles of Association.

Please find below all necessary information in compliance with art. 125-*bis* of Lgs.D. no. 58/1998 and following amendments (T.U.F.).

ATTENDANCE AT SHAREHOLDERS' MEETINGS AND PROXY

All shareholders with voting rights, who within the third trading day prior to the date of the General Meeting, i.e., by **1 April 2020**, have duly sent to the Company the intermediary's notification certifying that they are entitled to participate in the Shareholders' Meeting and to exercise their voting rights, are entitled to participate in the Shareholders' Meeting.
In compliance with art. 83-sexies of T.U.F. and art. 42 of the joint order on post-trading issued by Consob and the Bank of Italy on 13/08/2018 ("Joint Order"), the intermediary's notification to the Bank shall be based on the records at the end of the accounting day of the seventh trading day prior to the date of the General Meeting (**26 March 2020 – "*record date*"**).

Anyone whose shareholding has been recorded after the above date will not be entitled to attend and vote at the General Meeting.
The right to attend and vote at the meeting shall still be valid in the event that the notifications have reached the Company after the above deadline of 1 April 2020, provided they are received before the opening of the meeting.
Shareholders - whose shares are already deposited in a custody and administration account with the Parent Company Banco BPM S.p.A. or with Banca Aletti & C. S.p.A., and as such have already been dematerialized - must in any case, under art. 42 of the Joint Order, give specific instructions by **1 April 2020** that the notification be issued, and obtain an immediate copy thereof, to be used as admission ticket to the Shareholders' meeting.
For Shareholders whose shares are deposited with other authorized intermediaries, note that, pursuant to the above-mentioned art. 42 of the Joint Order, the notification instructions must still be submitted **no later than 1 April 2020**, making sure to obtain a copy of the notification.
Shareholders in possession of shares that have not been dematerialized yet, must turn them in to Banco BPM S.p.A. or to another Bank of the Group, or to another authorized intermediary for their dematerialization, and give instructions for the issuance of the notification to participate in the Shareholders' meeting.

Shareholders with voting rights are entitled to be represented by proxy at the Meeting, under the law, and for this purpose may use the proxy form at the foot of the notification issued to the Shareholder by one of the Group banks or by another authorized intermediary, or the facsimile of the proxy form available on the Company's website (www.bancobpm.it - "*Corporate Governance* – Shareholders' Meetings" section) or at the Head office of Banco BPM S.p.A. (Affari Societari di Gruppo, Piazza Filippo Meda, 4 - 20121 Milan).
To this purpose, all Shareholders concerned may:
(i) deliver their hard-copy proxies to the branches of Banco BPM S.p.A or Banca Aletti & C. S.p.A. **by 1 April 2020**;
or
(ii) send the proxies by certified electronic mail, to soci@pec.bancobpmspa.it, **by 2 April 2020.**

In the event that a copy of the proxy form is delivered or presented to the Company by the proxy holders, upon registering to attend the Shareholders' meeting they will have to attest under their own responsibility the conformity of the copy to the original proxy form and the identity of the holder.
Proxies submitted after the above deadline or at the Shareholders' meeting must in any case be filled out along the same modalities described above.
The Chairman of the Board of Directors, in his capacity as Chairman of the Shareholders' Meeting, has full powers, also via staff appointed specifically for this task, to verify the validity of the proxies, and in general the shareholders' actual entitlement to attend the Shareholders' Meeting and to cast their vote.

PROXY DESIGNATED BY THE COMPANY
The proxy may also be given free of charge – supplemented with voting instructions on all or some of the proposals on the agenda – to the company Computershare S.p.A. in its capacity as "Designated Proxy" pursuant to art. 135-*undecies* of T.U.F., by the end of the second trading day prior to the General Meeting date (**2 April 2020**). The proxy shall be valid exclusively for the proposals for which voting instructions have been given. The proxy and the voting instructions may be revoked by the above deadline.
To give one's proxy to the Designated Proxy, please use the specific form available on the website (www.bancobpm.it - "*Corporate Governance* – Shareholders' Meeting" section). If necessary, a paper proxy form will be sent, provided a request is submitted to Computershare S.p.A. by calling tel. no. 0110923200, or Banco BPM S.p.A. (Affari Societari di Gruppo – toll-free no. 800.013.090).

The proxy form, complete with the voting instructions for the Designated Proxy, must be submitted by the above deadline of 2 April 2020, to one of the following addresses:

(i) in electronic PDF format, sent to bancobpm@pecserviziotitoli.it provided that the shareholders, even when legal entities, send it through their certified electronic mail, or otherwise, sign the electronic document with an advanced, qualified or digital signature, or
(ii) by fax to tel. no. 011 0923202, or
(iii) by sending the original proxy form to Computershare S.p.A., Via Nizza 262/73, 10126, Turin.

ADDITIONS TO THE AGENDA AND PRESENTATION OF NEW RESOLUTION PROPOSALS

Shareholders, who even jointly represent no less than 1/40 of the share capital, may ask, **by 2 March 2020** (within ten days of the publication of this notice calling the shareholders' meeting), to make additions to the list of items on the Meeting's agenda (with the exception of matters to be resolved by the General Meeting, under the law, proposed by the Board of directors or based on a project or report submitted by the latter, other than those specified in art. 125-*ter*, paragraph 1, T.U.F.), specifying in the request the additional subject-matters they propose, pursuant to art. 13.3 of the Articles of Association, or proposing additional resolutions on items already on the agenda, in compliance with art. 126-*bis* T.U.F.. Shareholders with voting rights may individually present proposed resolutions in the Shareholders' meeting.

The written request must be sent to the Company by registered mail (Affari Societari di Gruppo, Piazza Filippo Meda, 4 - 20121 Milan) or by certified e-mail to the certified e-mail address soci@pec.bancobpmspa.it.

The entitlement to exercise the right is attested by filing a copy of the notification or certification issued by the intermediary under art. 43 of the Joint Order.

Shareholders requesting the addition to the agenda or proposing new resolutions on subject-matters already on the agenda shall prepare a report explaining the reasons for the proposed resolutions on new subject-matters they are submitting to the discussion or the reason for the additional resolution proposals on matters already on the agenda. The report shall be sent to the Board of Directors within the deadline for the presentation of the request for additions, as described above. The Board of Directors shall make the report available to the public, together with any additional assessment, upon publishing the notice of the additions to the agenda or the presentation of new proposed resolutions, along the procedures prescribed by current regulations.

Any additions to the agenda or the proposal of additional resolutions on items already on the agenda are disclosed along the same procedure prescribed for the publication of the notice calling the meeting, at least fifteen days prior to the date scheduled for the General Meeting (19 March 2017). Additional proposed resolutions on items already on the agenda are made available to the public along the procedures prescribed by current regulations, upon publishing the notice of the presentation.

RIGHT TO ASK QUESTIONS ON ITEMS ON THE AGENDA

Shareholders with voting rights may ask questions on items on the agenda even before the General Meeting, by sending them no later than the fifth day prior to the date of the General Meeting (**30 March 2020**) by certified e-mail to the address assembleasoci@pec.bancobpm.it or by delivering them in a sealed envelope to Banco BPM S.p.A., Piazza Filippo Meda, 4 – 20121 Milan, for the attention of Affari Societari di Gruppo.

The applicants must deliver to the Company – through their intermediaries – the notifications certifying their entitlement to exercise this right; in the event that they have instructed their intermediaries to issue the notification to attend the General Meeting, it will be sufficient to specify the notification reference numbers or at least the name of the intermediary in the application.

Questions that are relevant to the items on the agenda shall be answered under the law during the General Meeting at the latest. The Company may provide a comprehensive answer to questions covering the same content.

APPOINTMENT OF MEMBERS OF THE BOARD OF DIRECTORS AND OF THE BOARD OF STATUTORY AUDITORS

The resolutions regarding the appointment of members of the Board of Directors and of the Board of Statutory Auditors under items 7 and 8 of the agenda of the ordinary general meeting shall be passed in compliance with the current applicable laws and regulations and with the provisions of the Articles of association of Banco BPM (article 20 for the appointment of directors and articles 35, 36, 37 for the appointment of the auditing board).

The election shall be based on a list of candidates to be submitted along the following procedures: the shareholders are called to elect 15 (fifteen) Directors, even among non-shareholders, including a Chairman and a Vice-Chairman, 5 (five) standing Auditors and 3 (three) alternate Auditors.

The term of office for the Board of Directors and the Board of Statutory Auditors is 3 financial years and it shall expire at the date of the General meeting called to approve the annual report as at 31 December 2022.

Entitlement to present lists

The election of the members of the Board of Directors for financial years 2020 - 2022 shall be based on lists – where candidates are assigned a progressive numbering – which can be submitted by (i) the Board of Directors (the "List of the Board"); (ii) by one or more shareholders jointly holding at least a 1% (one per cent) stake in the share capital of Banco BPM and entitled to vote in the ordinary General meeting (the "List of Shareholders"); (iii) by one or more shareholders who are both employees working for Banco BPM or one of its subsidiaries, and jointly hold at least a 0.12% (zero point twelve per cent) stake in the share capital of Banco BPM (the "List of Employee-Shareholders").

The election of the members of the Board of Statutory Auditors for financial years 2020 - 2022 shall be based on lists – where candidates are assigned a consecutive numbering – to be submitted by one or more shareholders with voting rights who, either individually or jointly, hold a stake of at least 1% (one per cent) in the share capital of Banco BPM.

Shareholders who have been issued the notification pursuant to art. 43 of Consob's and the Bank of Italy's Joint order on post-trading of 13/08/2018 (the "Joint Order") and to art. 83-sexies of Lgs.D. no. 58/1998 ("TUF") and related implementation rules, are entitled to present lists for the appointment of the members of the Board of Directors and of the Board of Statutory Auditors, in compliance with the requirements described above.

List composition

The composition of the Board of Directors must ensure the gender balance in accordance with current applicable regulations. Pursuant to current regulations, the less-represented gender shall hold at least two fifths of the seats on the board of directors for six consecutive terms.

The List of the Board must comply with the following requirements:

- it must list 15 (fifteen) candidates;
- the first two names on the list shall indicate the candidate for the office of Chairman of the Board of Directors, first on the list, and the candidate to be proposed to the Board of Directors for the office of Chief Executive Officer, second on the list;
- the third name on the list will indicate the candidate for the office of Vice-Chairman of the Board of Directors.

The composition of the List of the Shareholders and the List of Employee-Shareholders does not need to comply with the requirements set forth for the List of the Board. It is therefore possible to submit lists with less than 15 (fifteen) candidates, provided that:

- the lists with 3 (three) or more candidates shall include candidates of different genders, in order to ensure that the composition of the Board of Directors complies with the gender balance provided for under the current applicable laws and regulations;
- they shall also include candidates who meet the independence requirements under art. 20.1.6. of the Articles of association: at least 7 (seven) candidates when the list comprises 15 (fifteen) candidates, or at least half of the listed candidates (rounding it down if the first decimal point is equal or below 5, or up in all other cases) if the list contains less than 15 (fifteen) candidates.

The composition of the Board of Statutory Auditors shall ensure the gender balance in compliance with current applicable regulations. Pursuant to current regulations, the less-represented gender shall hold at least two-fifths of the elected standing Auditors seats for six consecutive terms.
Under the relevant by-law provisions, the list must meet the following requirements:

- the list, divided into two sections, one for candidates for the office of Standing auditor and one for candidates for the office of Alternate auditor, shall indicate a number of candidates not exceeding the number of Statutory Auditors to be appointed, listed along a progressive numbering;
- a list which, considering both sections, has 3 (three) or more candidates, shall include also candidates of different gender, so as to ensure that the composition of the Board of Statutory Auditors complies with the gender balance applicable laws.

List filing procedure and documents to be filed

Each shareholder may submit, either individually or jointly, only one list of candidates, even if through a third party. Shareholders belonging to the same corporate group – i.e., the parent company, the subsidiaries and the affiliates – and shareholders party to a shareholders' agreement under art. 122 del TUF regarding Banco BPM's stock cannot submit or vote more than one list, even if through a third party or a fiduciary company.
Each candidate may only be included in one list, under penalty of ineligibility.
The ownership of the minimum shareholding required to present candidate lists shall be determined based on the shares recorded in favor of the single shareholder, or of a group of joint shareholders, on the date the lists are filed with Banco BPM.
The certification of the number of owned shares required to submit lists may be delivered to the Bank even after the filing of the lists, provided that it is delivered **by the list publication deadline, on 13 March 2020, when Banco BPM will proceed with the publication of the lists** (21 days before the date of the General meeting).

For the election of the Board of Directors, the following documents shall be filed alongside each list:

- exhaustive information on the personal and professional characteristics of the candidates indicated in the list (for example including but not limited to: curriculum vitae, copy of an identity document, certificate of residence or equivalent document);
- the statements by the candidates that they accept the candidacy, and attest, under their own responsibility, that there are no grounds for ineligibility and incompatibility (also pursuant to art. 36 of Law 214/2011, "interlocking prohibition"), and that they meet the requirements prescribed by legal and regulatory provisions and by the Articles of Association for holding the office of Director (professionalism, competence, integrity, fairness, time commitment, accumulation of offices and, if necessary, independence);
- a statement by the Shareholders submitting the list – and other than those who hold, even jointly, a controlling or relative majority stake – certifying the absence (or presence) with the latter of a relationship of affiliation under art. 144 – *quinquies*, paragraph one, of Consob's Regulation 11971/1999 and the regulations in force at the time;

- the list of administration and control offices held in other companies;
- an indication of the identity of the shareholders who have submitted the list and their total shareholding percentage;
- copy of the Notification or a declaration of commitment to deliver the Notification **by the list publication deadline, on 13 March 2020, when Banco BPM will proceed with the publication of the lists (21 days before the date of the General meeting)**.

In addition to the above documentation, employee-shareholders who submit the List of Employee-Shareholders must file the documentation certifying their status as employees working for Banco BPM or one of its subsidiaries.
Submitted lists that fail to comply with the above procedures shall be deemed as never submitted. However, should the documentation related to single candidates of a list be missing, this will not automatically lead to the exclusion of the entire list, but rather of the candidates involved in said irregularities alone.
When presenting lists, the Shareholders are invited to take into due consideration the document "Quali-quantitative composition of the Board of Directors" – prepared inter alia in compliance with the corporate governance instructions of the Bank of Italy set forth in Circular no. 285/2013 – which gives indications and suggestions to Shareholders to help them draw up proposals for the composition of the Board of Directors of Banco BPM. The document is available on Banco BPM's website www.bancobpm.it (*Corporate Governance* > Assemblea Soci).

For the election of the Board of Statutory Auditors, the following documents shall be filed alongside each list:
- information on the identity of the Shareholders who have presented the lists, and the indication of their total shareholding percentage;
- exhaustive information on the personal and professional characteristics of the candidates indicated in the list (for example including but not limited to: curriculum vitae, copy of an identity document, certificate of residence or equivalent document and possibly the registration certificate in the Registry of Statutory auditors), and an indication of the directorship and audit offices held in other companies (also pursuant to disclosure requirements under art. 2400, paragraph 4, of the Civil code, and considering the limit to the accumulation of offices under the current regulations – Issuers Regulation issued with Consob resolution no. 11971/1999 and following amendments);
- the statements by the candidates that they accept the candidacy, and attest, under their own responsibility, that there are no grounds for ineligibility and incompatibility (also pursuant to art. 36 of Law 214/2011, "interlocking prohibition"), and that they meet the requirements prescribed by legal and regulatory provisions and by the Articles of Association for holding the office (professionalism, competence, time commitment, accumulation of offices integrity, fairness, and independence);
- a statement by the Shareholders submitting the list – and other than those who hold, even jointly, a controlling or relative majority stake – certifying the absence (or presence) with the latter of a relationship of affiliation under art. 144 – *quinquies*, paragraph one, of Consob's Regulation 11971/1999 and the regulations in force at the time;
- copy of the Notification or a declaration of commitment to deliver the Notification **by the list publication deadline, on 13 March 2020, when Banco BPM will proceed with the publication of the lists (21 days before the date of the General meeting)**.

Submitted lists that fail to comply with the above procedures shall be deemed as never submitted, even in the event of any discrepancy or deficiency with respect to the documentation of single candidates.
When presenting lists, the Shareholders are invited to take into due consideration the document "Quali-quantitative composition of the Board of Statutory Auditors", which gives indications and

suggestions to Shareholders to help them draw up proposals for the composition of the Board of Statutory Auditors of Banco BPM. The document is available on Banco BPM's website www.bancobpm.it (*Corporate Governance* > Assemblea Soci).

Terms and procedures for the filing and publication of lists

The lists of candidates and the related documentation required under the current regulations and the Articles of Association must be signed by the shareholders and filed, under penalty of forfeiture, **by 5 p.m. of 9 March 2020** (25 days before the date of the General Meeting), along one of the following procedures:

- by filing them with the Registered office of Banco BPM (Affari Societari di Gruppo function), Piazza Filippo Meda, 4, Milan during working days from 8:15 a.m. to 5 p.m.; or
- by sending them by certified email to the following address soci@pec.bancobpmspa.it, after attaching the documents in pdf format.

With regard to the election of the Board of Statutory Auditors, in the event that at the abovementioned deadline only one list has been filed, or only lists submitted by shareholders who, based on the current regulations, are affiliated with each other, Banco BPM will promptly disclose this circumstance in accordance with the procedures required under the applicable laws, and shall then proceed in compliance with the terms under the law.

Upon request, the *Affari Societari di Gruppo* function, being the dedicated structure, shall provide shareholders with the documentation and the necessary instructions to draw up lists.
The lists of candidates that have been duly submitted shall be made available to the public at least 21 (twenty-one) days before the date of the General Meeting (i.e., **by 13 March 2020**) at the Head office of Banco BPM, on Banco BPM's website www.bancobpm.it (*Corporate Governance* > Assemblea Soci) as well as on the website of the authorized central storage mechanism, "eMarket Storage" www.emarketstorage.com.
Additional information on the procedures to appoint the members of the Board of Directors and of the Board of Statutory Auditors are published on Banco BPM's website (*Corporate Governance* > Assemblea Soci).

SHARE CAPITAL INFORMATION

The share capital subscribed and paid in by the Company at the date of this notice totals Euro 7,100,000,000.00 subdivided into no. 1,515,182,126 shares with no par value. At the date of this notice, the Company holds no. 3,657,792 own shares.

DOCUMENTATION

The Directors' explanatory reports on each of the items on the agenda, together with all the other documents, including the resolution proposals, to be published before the General meeting, shall be made available to the public at the Head office of Banco BPM S.p.A. and at Borsa Italiana S.p.A., and shall be published on the corporate website (www.bancobpm.it, "*Corporate Governance* – Shareholders' Meeting" section), as well as on the website of the authorized central storage mechanism www.emarketstorage.com, in compliance with the terms and procedures under the law.
Shareholders are entitled to receive a copy of the documents once they have been regularly filed, upon request to be sent to Banco BPM S.p.A. to the certified email address soci@pec.bancobpmspa.it.
The Bank has also prepared (i) the Corporate governance and shareholding structure report pursuant to art. 123-*bis* Lgs.D. no. 58/1998 (ii) the consolidated non-financial statement in compliance with Lgs.D. no. 254/2016 and Consob's Resolution no. 20267 of 18 January 2018. The documents shall be made available to the public at the head office of Banco BPM S.p.A. and at Borsa Italiana S.p.A., and shall be published on the corporate website (www.bancobpm.it,

"*Corporate Governance*" section), as well as on the website of the authorized central storage mechanism www.emarketstorage.com, in compliance with the terms and procedures under the law.

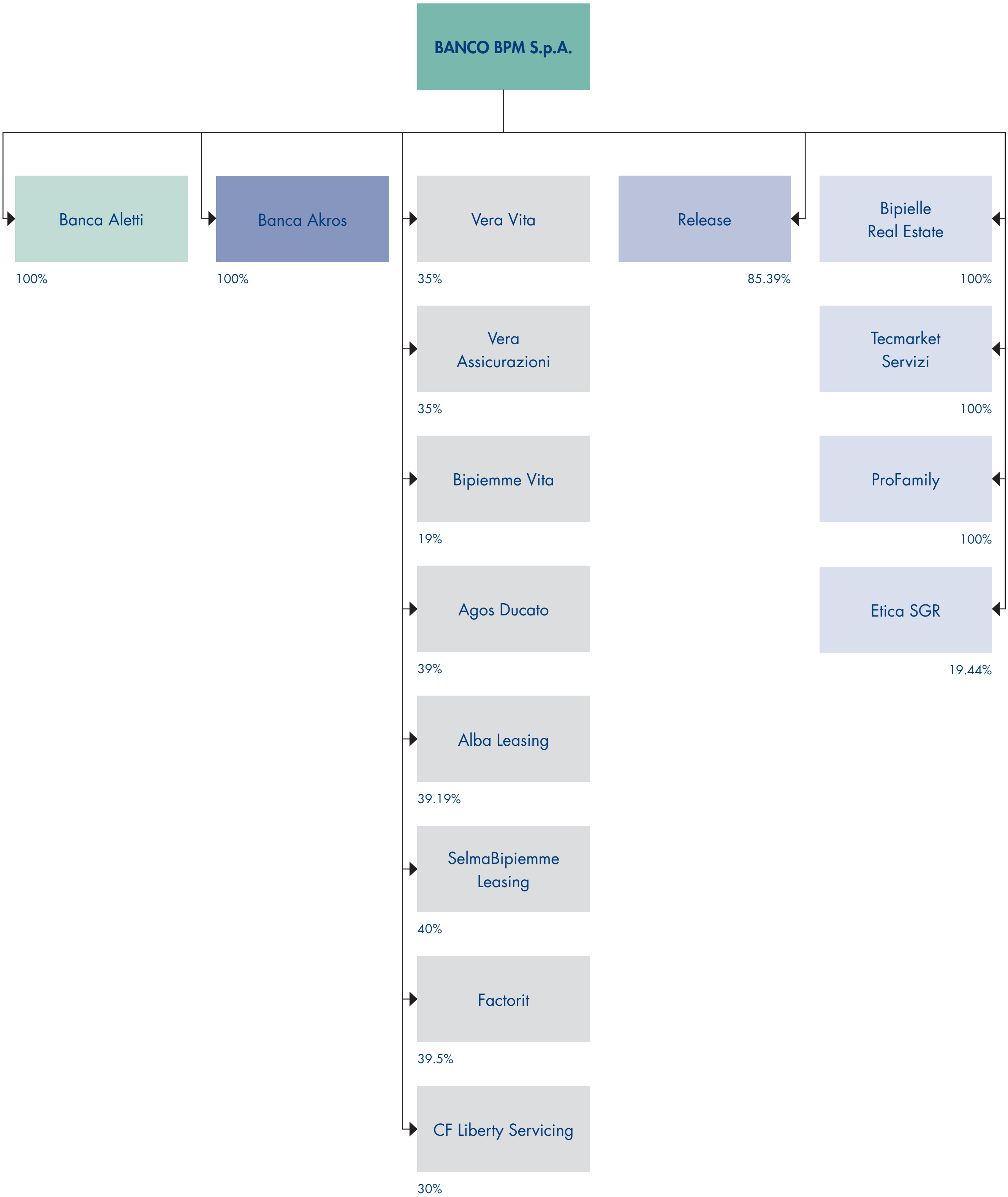
This notice to convene – prepared inter alia pursuant to art. 84 of Consob's Regulation 11971/99 and following amendments (Issuers Regulation) – in addition to the modalities described above, shall also be published on the daily newspapers "***Il Sole 24 Ore***" and ***"MF"***, in compliance with articles 125-bis T.U.F. and 13.4 of the Articles of association.
To receive additional information on the procedure to attend the General Meeting, please contact Banco BPM S.p.A. (Affari Societari di Gruppo, Piazza Filippo Meda n. 4 – 20121 Milano), or call the toll-free number 800.013.090 during working days from 9 a.m. to 5 p.m., or, send a request to the certified e-mail address soci@pec.bancobpmspa.it.
In compliance with Privacy regulations (EU Regulation 2016/679 of the European Parliament and of the Council of 27 April 2016), the Data controller is Banco BPM S.p.A.. For full disclosure on data handling with respect to the exercise of rights related to the General Meeting, please visit the website www.bancobpm.it, "*Corporate Governance* – Shareholders' Meeting" section.

Milan-Verona, 18 February 2020

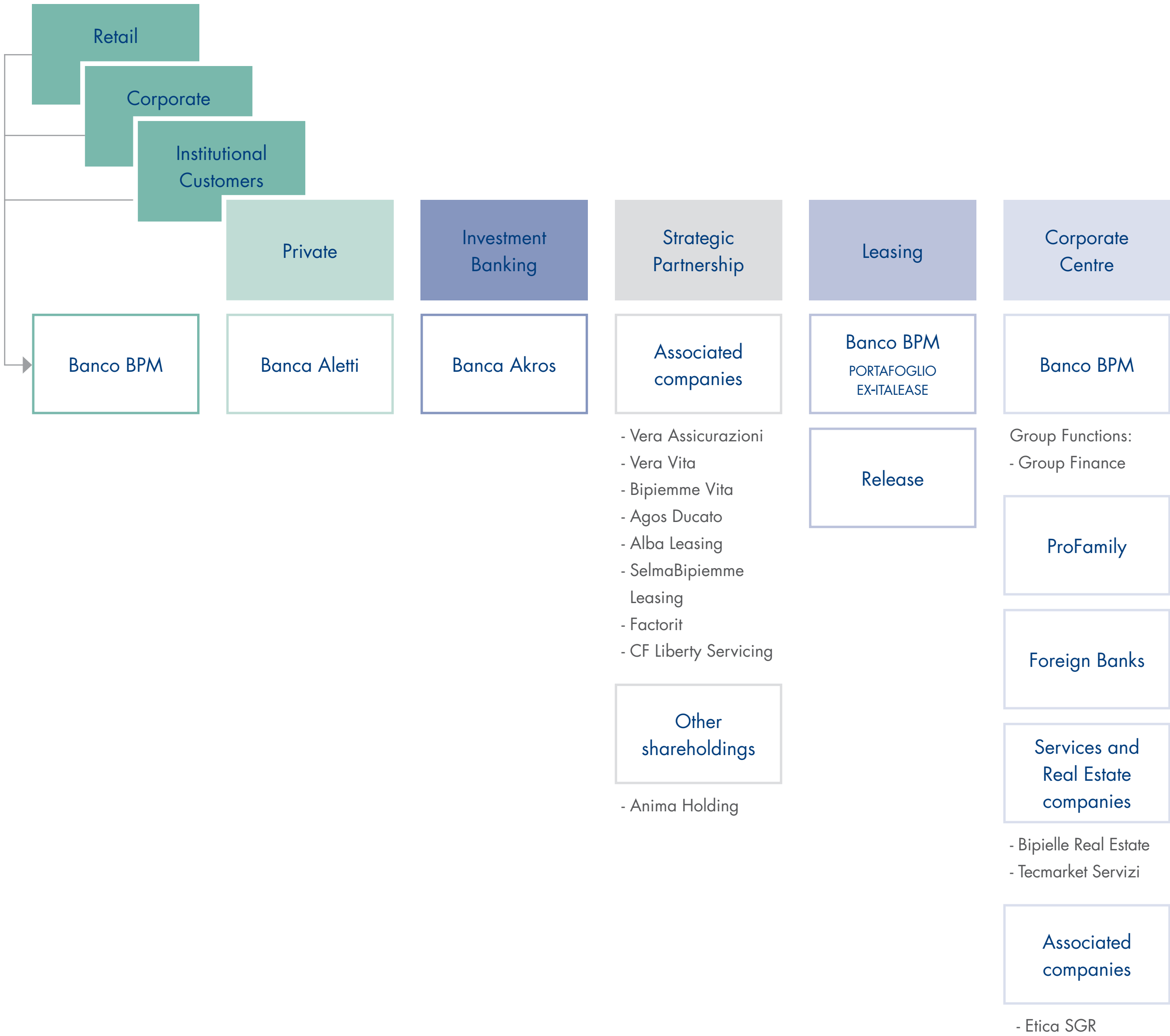
On behalf of the BOARD OF DIRECTORS
The Chairman
(Avv. Carlo Fratta Pasini)

Reports on operations and consolidated financial statements for the year

GROUP STRUCTURE: MAIN COMPANIES



GROUP STRUCTURE: BUSINESS LINES



GROUP TERRITORIAL NETWORK

N° BRANCHES

NORTH	1,384
CENTRE	274
SOUTH AND ISLANDS	150
TOTAL	1,808

Banco BPM Group Branches in Italy	Number
Banco BPM	1,752
Banca Aletti	55
Banca Akros	1
Total	**1,808**

Presence abroad

The Group's foreign operations include the subsidiary company Banca Aletti Suisse and Representative Offices in China (Hong Kong) and India (Mumbai). The procedure to close the Representative Office in Shanghai was completed in June.

Group financial highlights and economic ratios

Highlights

The highlights and main ratios of the Group, calculated based on the reclassified financial statements, are presented below. The underlying calculations for these are illustrated in the "Results" section of this Report.

(millions of euro)	2019	2018	Change
Income statement figures			
Financial margin	2,129.2	2,452.0	(13.2%)
Net fee and commission income (*)	1,794.4	1,860.9	(3.6%)
Operating income	4,293.0	4,772.9	(10.1%)
Operating expenses	(2,604.0)	(2,792.8)	(6.8%)
Profit (loss) from operations	1,688.9	1,980.1	(14.7%)
Profit (loss) before tax from continuing operations	1,019.7	(129.7)	
Parent Company's net income (loss)	797.0	(59.4)	

(*) The figure for the previous year has been restated for a like-for-like comparison.

(millions of euro)	31/12/2019	31/12/2018	Change
Balance sheet figures			
Total assets	167,038.2	160,464.8	4.1%
Loans to customers (net)	105,845.5	104,014.6	1.8%
Financial assets and hedging derivatives	37,069.1	36,852.9	0.6%
Group shareholders' equity	11,861.0	10,259.5	15.6%
Customers' financial assets			
Direct funding	109,506.3	105,219.7	4.1%
Indirect funding	92,672.2	88,212.7	5.1%
- Asset management	58,324.9	55,689.6	4.7%
- Mutual funds and SICAVs	39,049.8	35,992.0	8.5%
- Securities and fund management	3,904.4	4,804.7	(18.7%)
- Insurance policies	15,370.7	14,892.9	3.2%
- Administered assets	34,347.4	32,523.1	5.6%
Information on the organisation			
Average number of employees and other staff (*)	21,013	21,846	
Number of bank branches	1,808	1,804	

(*) Weighted average of full-time equivalent personnel resources, calculated on a monthly basis. This does not include the Directors and Statutory Auditors of Group Companies.

Financial and economic ratios and other Group figures

	31/12/2019	31/12/2018
Alternative performance measures		
Profitability ratios (%)		
Return on equity (ROE)	7.20%	n.s.
Return on assets (ROA)	0.48%	n.s.
Financial margin / Operating income	49.60%	51.37%
Net fee and commission income (*) / Operating income	41.80%	38.99%
Operating expenses / Operating income	60.66%	58.51%
Operational productivity figures (1000s of euro)		
Loans to customers (net) per employee (**)	5,037.0	4,761.3
Operating income per employee (**)	204.3	218.5
Operating expenses per employee (**)	123.9	127.8
Credit risk ratios (%)		
Net bad loans / Loans to customers (net)	1.47%	1.53%
Unlikely to pay / Loans to customers (net)	3.70%	4.85%
Net bad loans / Shareholders' equity	13.15%	15.51%
Other ratios		
Financial assets and hedging derivatives / Total assets	22.19%	22.97%
Derivative assets / Total assets	1.24%	1.16%
- trading derivatives / total assets	1.17%	1.08%
- hedging derivatives / total assets	0.06%	0.08%
Net trading derivatives (***)/ Total assets	0.41%	0.62%
Net loans / Direct funding	96.66%	98.85%
Regulatory capitalisation and liquidity ratios		
Common equity tier 1 ratio (CET1 capital ratio)	14.43%	12.06%
Tier 1 capital ratio	15.08%	12.26%
Total capital ratio	17.40%	14.68%
Liquidity Coverage Ratio (LCR)	165.63%	154.13%
Leverage ratio	5.41%	4.57%
Banco BPM stock		
Number of outstanding shares	1,515,182,126	1,515,182,126
Official closing prices of the stock		
- Final	2.028	1.968
- Maximum	2.155	3.146
- Minimum	1.620	1.556
- Average	1.897	2.480
Basic EPS	0.527	(0.037)
Diluted EPS	0.527	(0.037)

(*) The figures relating to the previous year have been restated to provide a like-for-like comparison.
(**) Arithmetic average calculated on a monthly basis in terms of full-time equivalent resources, as shown in the previous table. This does not include the Directors and Statutory Auditors of Group Companies.
(***) The aggregate of net trading derivatives corresponds to the mismatch, in absolute terms, between the derivatives included under the Balance sheet item 20 a) of assets, "Financial assets at fair value through profit and loss - held for trading", and item 20 of liabilities, "Financial liabilities held for trading".

The alternative performance measures (APMs) shown in the table above have been identified by the directors to facilitate the understanding of the economic and financial performance of Banco BPM Group's operations. The APMs are not envisaged in IAS/IFRS and, although they are calculated based on financial statement data, they are not subject to audit.
The above-mentioned indicators are based on the guidelines of the European Securities and Markets Authority (ESMA) of 5 October 2015 (ESMA/2015/1415), applicable as of 3 July 2016, and incorporated in CONSOB communication no. 0092543 of 3 December 2015.
In this regard, it should be specified that for each APM the calculation formula has been provided, and the figures used in the calculations can be identified using the information contained in the table above or in the reclassified financial statements provided in the "Results" section of this Report.

Group report on operations

ECONOMIC SCENARIO

The international scenario

During 2019 the global economy continued its gradual slide downwards and consolidation of a slower pace of expansion, though with temporary signs of recovery. This was impacted by common restraining factors at international level: primarily, increasing trade barriers, as well as specific factors linked to specific countries (Brexit) or production sectors (automotive). The estimates of the annual global growth rate for 2019 by the International Monetary Fund dropped from 3.5% in January to 3.0% in October, the lowest growth since the financial crisis of 2008, while estimates of international trade decreased in volume from +4.0% to +1.1%.
The retaliations between the USA and China on trade tariffs, and the fears of the extension of trade barriers to other countries, then had a negative impact on the climate of confidence and on business of companies at global level, also amplifying cyclical and structural slowdowns already under way (several advanced economies and China). The restructuring of global supply chains – also triggered by the US tariffs - resulted in a significant move of production activities out of China, mainly to other countries in Asia (primarily Vietnam). In the automotive segment, changes in regulations, new emissions standards and, the likely change in governance of large groups weighed on sales in numerous countries, with German manufacturers particularly hard hit. In Europe, pressures on growth also included the uncertainty on the timing and method for Brexit, which was only partially resolved at the end of the year when the UK parliament approved (by a majority) the EU Withdrawal Agreement by the end of January 2020. Additional pressures derived from the specific weakness in large emerging economies such as Brazil, India, Mexico and Russia. The worsening of the macroeconomic repercussions linked to more rigid financial conditions (Argentina), geopolitical tensions (Iran) and social upheavals (Venezuela, Libya and Yemen) complete an economic framework which has become more complex and volatile.
In this context, at global level, companies have become more cautious in their long-term spending and purchases of machinery and equipment have slowed. At the same time, the demand from households for durable goods has weakened, on average. In relation to this decreased demand for durable goods and lower investments, companies have reduced their industrial production. Global trade – where end durable goods and the factors used to manufacture them have a significant weight – has slowed quite a bit, as mentioned above.
However, on the whole, the global economy has showed significant resilience. The slowdown mainly hit manufacturing sectors at global level, whose contributions to the formation of the GDP are relatively less significant in advanced economies as compared to the services sectors, which provides most of the growth. Moreover, tensions on trade, which gradually gained strength at the end of 2018 and in initial months of the period, were gradually allayed with the progress in the negotiations between the United States and China. Lastly, significant support was obtained through the actions of the main central banks: the Fed once again cut official interest rates, in several steps, and expanded budget assets, especially in the last quarter, with significant temporary refinancing operations, while the ECB started repurchasing securities again, after interrupting this practice at the end of 2018.
In detail, during the year, the USA recorded a slowdown in GDP growth, mainly attributable to the manufacturing sector: the annualised increase of 3.1% in the first quarter was followed by +2.0% in the second and +2.1% in the third and fourth, results that are in line with the preliminary estimate of an expansion of 2.3% in 2019 (+2.9% in 2018). From the second quarter onwards, growth was mainly driven by consumer spending (+3.0% and +2.1% in the second and third quarter, respectively), benefiting from the increase in disposable income, of around +3% yoy starting in April, and higher employment - those employed in the non-agricultural sector grew by 1.5% yoy (also in November 2019) while unemployment hit 3.5% in November 2019 (3.7% one year before). On the contrary, investments declined: -1.2% and -0.2%, respectively. Consumer prices remained under control: they increased by 2.1% in November, while the personal consumption expenditures price index, significant for the Fed's decision making, grew by 1.5%.
Nonetheless, the Trump administration's trade policy did obtain some results: in November the trade balance decreased to 43 billion, with a drop of 4.7% in the first 11 months compared to the same period of 2018.
In the first nine months of the year, Japan reported a growth rate that gradually declined (+0.4% in the 3rd quarter). The economy saw a sharp decline in exports, primarily reflected in a decreased demand from China, while internal demand remained strong, due to private investments in non-residential property and expenditures brought forward in the expectation of the VAT increase, which then occurred in October. On the whole, the data is consistent with estimates of growth at 0.9% for 2019 (+0.8% in 2018). In November, consumer prices increased by 0.5% (however, the core component showed an increase of 0.8%) in relation to expectations of an interest rate of 1% for all of 2019, marking weak progress in the fight against deflation.

Economic growth in China slowed in the same manner, reflecting the impacts of the trade dispute with the United States. In the third quarter the GDP growth rate reached 6.0% over the twelve months (+6.6% over the year in 2018), reflecting the curbing of exports, followed by the slowdown in investments, which were also impacted by the measures to reduce leverage and decrease the range of shadow banking. In December, consumer prices reported an increase of 4.5%, compared to an estimate of 3.3% for all of 2019. These were also driven by the sharp increase in pork prices, following the damage produced by the swine fever. Conversely, production prices decreased for the sixth consecutive month: -0.5% yoy.
Commodities prices continued to be impacted by the reduced dynamism of global growth. Prices of energy products, falling yoy, were also moderated by the US' achievement of energy independence. The USA-China trade dispute continued to weigh on metals and, indirectly, also affected the prices of agricultural products. Given the tariff policy, Chinese demand for corn more sharply targeted Brazil, penalising the USA, which has long been the Asian country's supplier. As a result of these trends, international inflation remained at low levels on the whole.

The situation in Europe and Italy

The phase of weakness in the EMU economy that began in 2018 substantially continued also in the year just ended. The factors of uncertainty in the international framework, mentioned above, that generated this weakness remained strong during the year and significantly slowed the investment cycle. Only near the end of the year was there a "break in the clouds", favoured by several signs of stabilisation of the global economy and positive growth in world trade, following three consecutive quarters of decline. There were also several signs of an inversion in the trend during the year, but they failed to show lasting results. The slowdown in exports and the difficulties in the manufacturing sector continued to weigh on economic activity, which spread contagion, to a certain extent, also to the services sector. Therefore, in the second half of the year, the ECB launched a significant package of expansive measures deemed appropriate to the growth and inflation prospects.
More specifically, the economy of the Eurozone showed a low growth rate during the year, with a modest acceleration at the beginning, which then flattened out. In the first quarter of the year, the GDP grew by 0.4% on the end of 2018 and 1.4% compared to the same period of the previous year, exceeding observers' expectation. In the two following quarters, however, the yoy growth rate decreased to 1.2%, and the qoq rate stopped at 0.2%. Economic activity in the Eurozone was mainly driven by internal demand, both for consumer spending and for investments, while in the non-EU sector, with the exception of the first, the change in stocks provided a negative contribution. In the third quarter, the annual yoy change in retail consumer consumption came to 1.5%, exports to +2.4%, but imports to +5.0%.
Among the leading economies, France and Spain were confirmed as the most vibrant. Italy continues to bring up the rear. Germany continues to be harshly impacted by the difficulties in international trade: following an initial leap in the first quarter (+0.5% compared to the previous period), the GDP actually decreased in the second (-0.2%), to then stagnate in the autumn months (+0.1%).
The preliminary estimate for the last quarter does not deviate from these values: +0.1% on the previous quarter and +1.0% yoy. Economic indicators for the area in the autumn months confirmed the continuing weakness of the manufacturing sector and stagnation in the services sectors, even though in November and December there were a few timid signs of an inversion of the trend.
Over the year, thus, based on the recent estimates, EMU growth should amount to around 1.2%, significantly down on 2018 (+1.9%).
The labour market in the Eurozone improved over the year, though slightly. Employment increased by 0.1% in the third quarter of 2019, compared to +0.2% in the second quarter. The unemployment rate fell to 7.5% in November, from 7.8% at the beginning of the year, and remains near pre-crisis levels. The inflation rate rose to 1.3% in December (1.5% at the end of 2018) after falling to a low of 0.7% in October: despite some tensions on the cost of labour, the growth in prices remained significantly below the target level of the ECB, due to the phase of weakness in the economy.

As regards Italy, 2019 started on a positive note: the leap in industrial production, boosted by domestic consumer spending and net exports (exports in the first quarter +0.2% on the previous quarter, imports -1.5%), along with an acceleration in gross fixed capital formation, mainly attributable to the real estate sector, which provided a bit of a boost to expectations of GDP growth (nil growth in the 1st quarter compared to -0.1% in the 4th quarter 2018). In the second quarter the failure to start the investment cycle slowed this drive and growth remained weak (+0.1% yoy). There was a certain improvement in the trend in the third quarter: according to the latest figures available, the GDP grew by +0.3% yoy, driven by domestic end consumer spending (+0.8%) and gross fixed capital formation (+2.5%, of which +2.8% in plant and machinery) while exports decreased by -3.8%. Conversely, the fourth quarter saw a

setback: -0.3% compared to the previous period and unchanged yoy. Therefore, the figures available to date are compatible with estimated growth for all of 2019 at +0.2%, compared to +0.7% reported in 2018.
During the year, foreign trade and companies' investment decisions and household expenditure were mainly negatively impacted by several specific factors. Firstly, the tariff policy adopted by the Trump administration: this had direct and indirect impacts on the tone of Italian exports, additionally weighing on the uncertain outlook for production and, thus, on investment decisions of export-oriented companies and their related industries. The difficulties in the European automotive sector, dealing with structural changes and new emissions regulations, hit the sectors of component manufacturers and, more generally, the mechanical engineering sector included in the supply chain of the large manufacturers, those in Germany above all.
As regards Italian public finance, following the threat of initiation of an infringement procedure for excessive debt, received from EU authorities, at the beginning of the summer the Government launched a package of procedures, contained in the "*salva conti*" [account saving] decree, which entailed a correction of the accounts for 7.6 billion euro, equal to 0.42% of the GDP. Despite the positive outcome, the proceedings contributed to limiting the drive of the other moderately expansive measures adopted. Lastly, the beginning of a crisis in the Government in August and the fear of early elections negatively impacted the prospects of the Budget Law for 2020 and the underlying climate. The resolution of the crisis, achieved through a change in the parties in Government, did not ensure that the Budget Law was approved without problems, following some uncertainties, also on the substance of the measures adopted and their scope, only at the very end of the year, while several unusual situations became more critical, such as the ILVA steelmill and the national carrier Alitalia.
In any event, several factors provided support to the Government, attenuating the potential impact of the above-mentioned issues, especially those of public finance, on the real economy: the strong international demand for Italian government bonds, given the negative sovereign yields in many European countries, made it quite easy to reissue the maturing public debt, which led to a decrease in interest expenses. This left room in the budget that could offset the increase in primary expenditure (public investment in the first six months +6%). Also, as a result of this, the deficit for 2019 is expected to be stable at 2.2% of the GDP.
It is important to note that the labour market maintained quite a positive tone: in November employment grew by +1.2% (+285 thousand units) yoy, thus boosting income (gross disposable income of households increased by 1.5% yoy in the third quarter). Lastly, the consumer price trend remained at low levels: on average, in 2019, consumer prices recorded growth of +0.6%, half of that of 2018 (+1.2%).

Central Banks

During 2019 the hopes that monetary policies would return to normal, which arose in the previous year, quickly gave way, on the contrary, to the adoption of new stimuli to combat the impact of the trade war. The new measures introduced tend to take up all of the effective room for monetary manoeuvres, thus making it necessary to pass the baton to fiscal policies.
The first signs of greater prudence by the central banks arose in the minutes of the Fed meeting of December 2018, after an entire year where the monetary authorities had praised the arrival of a return normal, though in the presence of a sharp economic slowdown in the third and fourth quarter, in relation to a visible reduction in the Fed's assets.
Even the hypothesis of an initial increase in rates by the ECB in 2019 soon became impractical given the drop in inflation in the Eurozone and the USA, which also influenced the Fed in blocking the intentions of normalisation, as a precaution in view of the lack of fiscal stimulus, though with a labour market that remained strong. In Europe as well, the monetary authorities postponed restrictive monetary policy decisions that had been planned for some time: firstly by moving the schedule date for raising interest rates to after the summer, then guaranteeing that interest rates would be unchanged from March through the rest of the year and, lastly, in September, moving the date to an undetermined time horizon.
The inversion of the trend in monetary policy thus marked the first half of the year, starting with the forward guidance, which created the expectation that measures would be implemented in the summer months. This calmed the financial markets, even in the presence of the continuous dramatic developments in the USA-China trade dispute. Thus, in July the Fed announced an initial cut of 0.25%, confirming market expectations. This was followed by an additional two cuts. The Fed's three cuts in policy rates from the end of July to the end of October were presented as a preventative adjustment that would not continue, ass a suitable level of economic expansion under way had been reached.
Despite the fact that the deterioration of economic activity was even clearer in the Eurozone, la ECB took gradual action. In addition to postponing the rise in interest rates, which we mentioned above, in March the Executive Board announced a new series of targeted longer-term refinancing operations (TLTRO-III), starting from September 2019 up to March 2021, each with a maturity of two years. At the end of July the ECB announced it was considering a tiered

system for the remuneration of reserves and possible new net purchases of assets, with size and composition to be decided, postponing such definition to the September meeting. Lastly, at the September meeting, the ECB decreased by ten basis points, to -0.50%, the deposit rate in the Eurosystem. It also decided to restart the Expanded Asset Purchase Programme (APP) from the beginning of November, at a monthly pace of 20 billion euro, which will continue as long as it is necessary.

Financial market performance

As mentioned, the beginning of 2019 was marked by the inversion of the trend in monetary policy by Western Central Banks, whose action soon became almost a function of the developments of the trade war between the USA and China. This duel dominated the markets, leaving other political events of primary importance in the background: from the evolution of Brexit to the EU elections, moving on to the appointment of the new government of the ECB and the difficulties of governments of several European countries to stay in power. The Fed's openness to a less restrictive monetary policy and the resulting rebalancing of portfolios in the initial part of the year were the main causes of the market's rise following the disastrous fourth quarter of 2018; the same effect resulted in the changed approach of the ECB.

Thus, the approach of the central banks supported the bullish trend which continued in the initial months of the year on both the stock markets and the bond markets, owing to the gradual, steady improvement in the expectations regarding the USA-China trade tensions. Additional support came from the quarterly data of US companies, which were positive on the whole, as well as from the particularly surprising US GDP recorded in the first quarter. On the Eurobond segment, the prospect of new easing measures by the ECB contributed to the tightening of the spread on the risk-free rate, with a greater benefit on the short/medium-term segment of the curve, while the rate on the 10-year Bund once again showed negative rates, a phenomenon that had not occurred since June 2016. The changed expectations on the economic trend on the wait for the Fed to take action lead to a flattening of the Treasury bond curve, to the point where it inverted in a few sessions in March.

The first correction of this trend occurred in May, when corporate securities, contrary to government securities, were impacted by the weakness of the global stock markets following the breakdown in USA-China trade negotiations. The tensions led investors to liquidate riskier assets and the usual flight to quality generated significant new rises in US Treasury bonds and German Bund.

The correction in May was quickly overcome, also owing to the support provided by extremely expansive monetary policies. The expectations regarding the ECB's measures, mentioned above, contributed to a further increase in government bonds, specifically in peripheral countries, lead by Italian BTP, which had remained behind Spain and Portugal, and by emerging countries. The possible victory of "sovereignists" at the EU elections, which was then disproven by the results, penalised the market of Italian government bonds up to at least the end of May. Nearing the time of voting, the spread rose to around 290 basis points, and the 5-year BTP briefly reached yields higher than Greek government bonds with the same duration. Following a highly dynamic start in the initial months of the year, in April and May the Italian stock market recorded the worst performance in the Eurozone, losing over 6%.

In August the renewed tensions in trade between the USA and China, resulting from Trump's threat of additional customs duties on Chinese goods, resulted in a short sell-off on the global stock markets and several losses in corporate bond prices, specifically in the high yield segment.

However, near the end of the summer, the expansive monetary policies of the ECB and the Fed were completed and the markets began to rise once again. The credit market saw an additional reduction in the credit spread, especially on bank issues (senior and subordinate) and on high yield issues, and yields on government bonds reached the low for the year, Italian bonds in particular, also due to the new government that is more pro-Europe, driving the BTP-Bund spread downwards.

The positive developments in the trade war, resulting from the growing expectations of an imminent phase 1 deal signing between the USA and China, resulted in a risk-on situation on the markets in the last part of the year, which was accompanied by the steepening of the curve both for core countries and peripheral countries in the Eurozone, particularly penalising corporate investment grade bonds and Government bonds with longer maturities. This situation benefited share prices in general and bonds in the high yield segment and subordinated bonds in the banking sector.

Over the year, the European stock market (Stoxx 600) showed positive performance of 23.2% (Eurostoxx 50 +24.8%), closing near highs following two significant corrections in May and August, linked to the events in the trade war. Over the 12 months, the Dow Jones index reported an increase of +22.3% in local currency, outperformed by the Standard & Poor's 500 (+28.9%) and by Nasdaq (+35.2%). During this bullish movement, after closing the gap created by the sell-off in December 2018, US stock prices repeatedly set new all time records.

The FTSE MIB index of the Italian stock exchange rose by 28.3%, outperforming European exchanges and closing slightly under its record highs.
During the year, banking sector stock indices recorded a small increase compared to the market of 8.2% in Europe and 23.5% in Italy, with performance that reflected the decrease in country risk following the government crisis in the summer. Moving on to the bond markets, in Europe, the total return in 2019 was on average 5.8% for the AAA category (Iboxx all mat), close to 6.7% for European government securities and +9.5% for the liquid high yield segment. The bond yield on the US market was just as positive (VBMFX +5.8%).

During the year, the yield on Italian government bonds over the entire curve recorded a significant drop from the levels at the end of 2018, impacted by the tensions that arose on the balancing of public accounts between the Italian government and the European Commission. This movement translated into a decrease in the BTP-Bund spread, which was particularly sharp following the announcement of new expansive monetary policies by the Fed and the ECB in June and July, with a drop of around 100 basis points, from 287 to 185 basis points. The decrease in the spread then continued, except for the sharp rise to 240 basis points during the brief government crisis, on the back of the formation of the new government, deemed by the press to be more pro-European, and the announcement of the package of measures by the ECB in September, reaching a low of 128 basis points at the beginning of October. The drastic reduction in the risk of redenomination, understood as the estimated component of market yield of the 10-year BTP (decreased from 100 to 30 basis points from June to September) also favoured the recovery in premiums on credit default swaps (CDS) relating to Italian bank securities, which decreased by around 100 basis points during the year, closing 2019 at lows of below 80 basis points. The subsequent rise that brought the BTP-Bund spread to fluctuate around 160 basis points until the end of the year was due to new uncertainties regarding the strength of the government coalition and the approval, after a lot of difficulties, of the budget package.

Domestic banking activity

During 2019, loans to the private sector (adjusted due to the effects of securitisations) did not change significantly. The weakness that characterised the year just ended was mainly due to the reduction in the demand for loans from businesses, as highlighted by the ECB in its Bank Lending Survey, despite the continuation of extremely accommodating conditions on market rates. As a result, the portfolio of loans disbursed by intermediaries shifted in favour of households, which absorb less capital and offer more remunerative unit margins than businesses, in a scenario where the bank interest spread is still in quite compressed.
The banking system is facing numerous challenges. The most urgent is to return to satisfactory profitability levels in a scenario marked by extreme weakness in traditional business, negative market rates and the need to further reduce the stock of non-performing loans. In addition, there is the threat from Fintech and non-banking competitors and the need to effectively invest in technological transformation processes.
Banks can still rely on favourable funding conditions guaranteed by the ECB and on low market rates to attenuate the cost of funding. The new quarterly TLTRO III should provide valuable support to intermediaries, allowing them to refinance the maturities of a wide swatch of bond issues and of the TLTRO II during 2020.
The ECB also introduced a two-tier differentiated system of remuneration of banking reserves at the ECB, in which a portion of excess liquidity will be remunerated at a rate of 0%, thus exempting it from the negative level of interbank market rates, in order to reduce the impact on intermediaries' margins.
Moreover, despite the weakening of the economic framework, the domestic banking sector is now more sound overall compared to its conditions at the start of the sovereign debt crisis, by virtue of the significant sales of bad loans, a higher level of capitalisation and the gradual cutting of costs of the physical network.
In terms of credit quality in particular, 2019 was the third consecutive year of the process of reducing the amounts of non-loans, after 2018 recorded a peak in disposals. In 2019, for the Italian banking system, disposals were estimated at around a total of 40 billion euro, compared to 60 billion euro at the end of 2018 and 80 billion euro in 2017.
Investigating in detail the trends described above, in December 2019, according to data released by the ABI - Italian Banking Association, bank lending to the private sector (measured including loans not recorded in bank balance sheets, since they are securitised, and net of changes in stocks not connected with transactions) was substantially unchanged on the same period of the previous year, while the amount regarding lending to households and businesses alone increased by +0.3%. The latter aggregate was essentially boosted by the strong and steady development of loans to households, which grew by +2.4% in one year, offsetting the decrease in loans to businesses (-1.9% in the same time period, compared to +1.3% yoy recorded at the end of 2018).
The negative evolution of loans to businesses is due to the drop in the demand for loans, reflecting the weakness of the economic cycle and investments. The demand for credit was essentially marked by lower needs for refinancing

stocks or working capital and minimal need to finance fixed capital formation, despite credit access conditions that were still widely favourable and continuing to ease. The average interest rate on new loans in Euro to non-financial companies in December dropped to 1.27%, a level near the record low reached in August and September (1.26%).
The development of loans to households was driven both by the increase in home loans (+2.5% annually) and consumer credit, due to interest rates remaining at historical lows.

Going into detail regarding credit quality, during 2019 the credit institutes continued the process of cleaning their assets. Nonetheless, there is still little appetite for assuming new risks, as shown by the above-mentioned nil growth in the stock of loans.
The ratio of non-performing exposures to loans improved further, though at a rate of decrease that is slowing. In June 2019, based on the most recent estimates published by the Bank of Italy, dropped to 8.1% compared to 8.7% at the end of 2018.
The flow of new non-performing loans on total loans, net of seasonal factors and on a year-by-year basis, recorded an initial sign of inversion of the trend at mid-year, due to the worsening of the component of loans to businesses, specifically those linked to services. Nonetheless, in the subsequent quarter, the ratio began to decline once again, despite the worsening of the economic framework, thereby consolidating at decisively low levels, far from the pre-crisis levels.
These results are reflected in the reduction in the stock of net bad loans, which fell to 29.6 billion euro in November 2019 (latest available figure, according to the most recent ABI estimates), from 38.3 billion euro in November 2018, a decrease of a good -22.7% (-7.2% since the beginning of the year and -66% from the peak of 86.8 billion euro at the end of 2016). This occurred in line with the containment actions planned by intermediaries, along with greater prudence and selectivity in credit disbursement policies.

Total direct funding from customers (deposits and bonds) in December 2019 reached 1,815 billion euro, up by 4.8% on an annual basis and slightly down on the peak of 1,824 billion euro in November. The aggregate grew steadily and regularly over the year, benefiting, on one hand, from the significant increase in the amounts of deposits from resident customers and, on the other, from the stabilisation of the trend in bonds.

As mentioned just above, the amount of deposits from resident customers (current accounts, certificates of deposit, repurchase agreements net of transactions with central counterparties, deposits with agreed maturities connected with transactions for the sale of loans) grew sharply at the end of 2019: +5.6%, equal to an increase of 83.1 billion euro on an annual basis, continuing to be favoured between savings allocation choices due to low interest rates and the flat yield curve. On the other hand, in the same time period, the trend in the stock of bonds stabilised (net of those issued by banks) after a long declining phase, due to new issues recorded during the year.

The trend of bank interest income and expense rates for the period is the combined result of the factors described. The bank interest spread, calculated as the difference between the average interest rate on loans and the average interest rate on total funding from households and non-financial corporate customers, decreased to 1.90% at the end of 2019, 4 basis points lower than that of the end of 2018.
In December 2019, the mark-up (calculated as the difference between the average interest rate on loans and the 3-month Euribor rate) stood at 288 basis points (+2 basis points compared to the previous year), while the mark-down (calculated as the difference between the 3-month Euribor rate and the interest rate on total funding) worsened by 6 basis points down, from -92 to -98 basis points in the same time period.
In November 2019, the assets of Italian and foreign open-ended funds grew on an annual basis by 8.9%, reaching 1,055 billion euro from 969 billion in the previous year. 23.2% of this figure is represented by Italian funds, while the remaining 76.8% is represented by foreign funds.
Also, in November, net inflows from Italian mutual funds increased by 3.7% on an annual basis. This trend reflects the increase in bond funds and, to a lesser extent, in the equity, balanced and flexible sub-funds, to the detriment of liquidity funds and hedge funds.

SIGNIFICANT EVENTS DURING THE YEAR

Operations in 2019 were focused on continuation of derisking activity and performance of capital management operations already announced to the market, as well as the continuation of restructuring projects regarding Group business in line with the business plan.
The main events which occurred during the year that closed on 31 December 2019 are described below.

Derisking activities

In the first quarter the "ACE" sale, launched during the previous financial year, was completed, obtaining the "GACS" guarantee on Senior Notes and placing 95% of both Mezzanine and Junior Notes. In this way the transfer of risks on receivables sold was completed definitively. At the end of 2018 these were recognised among "assets held for sale" for a net amount of 1,330 million euro. It was therefore possible to proceed with their accounting derecognition.
Again in the context of the "ACE project", in December 2018 the company First Servicing S.p.A. was set up, with the aim of segregating the functions of servicer of non-performing loans also through the acquisition of the business segment dedicated to recovering these receivables, contributed by Banco BPM.
On 23 May 2019 the extraordinary shareholders' meeting of First Servicing resolved a paid share capital increase, reserved for the sole shareholder Banco BPM, from 50,000 euro up to a nominal 150,000 euro against the contribution (made in continuity of book values) of the business segment made up of the set of assets, legal relationships and resources organised to perform the activity of recovering credits classified as bad loans.
The value attributed to the business segment by the independent expert appointed is 142.8 million euro.
Subsequently, on 31 May 2019, the extraordinary shareholders' meeting of the company was held. It resolved a number of changes to the articles of association, including the change of name from First Servicing S.p.A. to CF Liberty Servicing S.p.A., and the division of the share capital, consisting of 10,000 shares with no nominal value, into 7,000 category A shares and 3,000 category B shares.
On the same date the deed was signed with which Banco BPM transferred 70% of the share capital of First Servicing (now CF Liberty Servicing S.p.A.), equal to 7,000 category A shares to Credito Fondiario S.p.A., for a price of 100 million euro.
Therefore, with effect from 1 June 2019, the shareholding structure of CF Liberty Servicing is divided into 7,000 category A shares, equal to 70% of the share capital, held by the shareholder Credito Fondiario and 3,000 category B shares, equal to 30% of the share capital, held by the shareholder Banco BPM.
As a result of these operations, the income statement for the year benefited from a total impact of 142.7 million euro, as a capital gain made on the sale and recognition at fair value of the remaining shareholding. After taxes, the impact came to 140.7 million euro.

During 2019, the Group's derisking activities continued also with the agreement for the sale of a portfolio of bad lease receivables ("ACE Leasing" Project). Following completion of the due diligence process, Banco BPM identified Illimity Bank as counterparty for the sale of a portfolio of around 650 million euro in nominal value (measured at the cut-off date of 30 June 2018), made up primarily of receivables deriving from payable and receivable legal relationships attributable to bad lease contracts, together with the immovable or movable assets and the underlying contracts. Completion of the operation will involve various phases and is expected to be concluded by mid-2020. In particular, as at 31 December 2019 the nominal value of the receivables which – following the said agreement – was recognised among "non-current assets and asset disposal groups held for sale" was 313 million euro (94 million euro net of value adjustments). Following the sale agreement, no major impacts on the income statement were recognised.

Process to define the corporate and organisational structure of Banco BPM Group

Restructuring of the consumer credit sector completed

At the end of June 2019 the Group completed, in execution of the agreements signed at the end of 2018 between Banco BPM, Crédit Agricole S.A., Crédit Agricole Consumer Finance S.A. and Agos Ducato and following the issue of the authorisations provided for by the competent Authorities, the reorganisation of the consumer credit sector, through the following operations:

- The proportional partial demerger of ProFamily S.p.A. in favour of a newly-incorporated company fully controlled by Banco BPM, involving the assignment of the business segment related to the consumer credit activity performed through the "Non-captive network" (monomandatory agents and own branches) of ProFamily S.p.A.;
- the incorporation, at the same time as the aforementioned demerger became effective, of the beneficiary company that assumed the same name as the demerged company (ProFamily S.p.A.); the beneficiary company was authorised by the Bank of Italy to perform the activity of granting loans to the public. As a result of the aforesaid demerger operation, the demerged company ProFamily S.p.A. changed its name to ProAgos S.p.A and was incorporated into Agos Ducato;
- subordinately to the effectiveness of the demerger indicated in the previous points, Banco BPM sold to Agos Ducato 100% of the share capital of ProAgos, for a price of 310 million euro. On the same date, Banco BPM, Crédit Agricole, Crédit Agricole Consumer Finance and Agos Ducato also formalised the contractual documentation aimed at confirming, for the subsequent 15 years, the existing partnership in the consumer credit sector.

The ProFamily (ProAgos) transfer resulted in a capital gain of around 186 million euro being recorded in the Income Statement of the Consolidated Financial Statements, net of tax. The capital gain credited to the Consolidated income statement corresponds to 61% of the difference between the price paid by Agos (310 million euro) and the book value of the equity investment. In accordance with the reference accounting standard for these cases, 39% of the aforementioned difference (equalling the portion of the shareholding held by Banco BPM) was recorded as a reduction in the book value of the equity investment in Agos.

Centralisation of Private Banking activity in Banca Aletti

During the year, the Parent Company transferred to the subsidiary Banca Aletti, through two separate contribution transactions, the business segments "Non-Portfolio Private Customers" and "Financial Adviser Agents".

The subject of the transfers was, in addition to the assets, liabilities, rights and obligations regarding the business segments, also the financial assets underlying the contractual relationships of administration and custody, managed savings and insurance products.

The plan for restructuring the segment of Private Banking activities, launched in the previous years, was completed through the transactions described.

Simplification of the Group's corporate structure

The initiatives of rationalisation of the Group structure include, in addition to the corporate transactions mentioned above relating to the derisking and reorganisation of the consumer credit segment, the mergers by incorporation of the subsidiaries Holding di Partecipazioni Finanziarie Banco Popolare S.p.A., BP Property Management S.c.a r.l. and Società Gestione Servizi BP S.c.p.a. into the Parent Company Banco BPM and the subsidiaries Sviluppo Comparto 6 S.r.l., Sviluppo Comparto 8 S.r.l. and Manzoni 65 S.r.l. into Bipielle Real Estate. Those transactions, which took accounting and tax effect on 1 January 2019, were carried out without an exchange ratio or a cash adjustment.

In November, the sale of the equity investment held in Arena Broker S.r.l., equal to 57.30% of the capital, to Assiteca S.p.A., was finalised for a price of 3.7 million euro, earning a capital gain of around 2 million euro.

During the year in addition the subsidiaries in liquidation Liberty S.r.l. and BPM Securitisation 3 S.r.l., Beta S.r.l. and Tiepolo Finance S.r.l. were cancelled from the competent Companies' Register. The completion of the liquidation procedure did not entail significant impacts on the Group's balabce sheet or income statement.
In March, it was also resolved to put the associated company Immobiliare Centro Milano into liquidation. That equity investment was later sold to Algebris NPL Partnership, in the context of a wider and more significant operation for the disposal of loans in favour of a securitisation vehicle managed by Algebris.

Lastly, the SPEs Erice Finance S.r.l. and BPM Securitisation 2 S.r.l. also leave the Group, due to closure of their respective securitisation transactions, as well as Leviticus SPV S.r.l., following completion of the transfer of loans under the scope of the ACE project and the consequent derecognition of such from the accounts.

Other events during the year

Complaints about disputes and investigations relating to the reporting to the company Intermarket Diamond Business S.p.A. of customers interested in the purchase of diamonds made in previous years

In the years from 2003 to 2016 and, thus, prior to the merger that gave rise to Banco BPM, the reporting of customers interested in purchasing diamonds from the specialised company Intermarket Diamond Business S.p.A. (declared bankrupt in January 2019) was carried out, an activity which was suspended in the initial months of 2017 and then definitively stopped.

In April 2017 the Antitrust Authority (AGCM) extended the proceedings initiated against IDB to the reporting banks, including Banco BPM, and on 30 October 2017, by finding an allegedly incorrect commercial practice under the Consumer Code, imposed an administrative fine on IDB and the reporting banks (amounting, in the case of Banco BPM, to 3.35 million euro). The Bank paid the amount of the fine and challenged the AGCM's decision before the Regional Administrative Court. Following the rejection of the appeal by the Regional Administrative Court in November 2018, the Bank appealed its decision, which is currently pending before the Council of State.
In relation to those operations, criminal proceedings are also pending before the Public Prosecutor's Office of Milan. As part of these, on 19 February 2019 the Public Prosecutor's Office of Milan served to the Bank (i) a pre-judgement attachment order for a total of 84.6 million euro and (ii) a notice of investigation to Banco BPM and Banca Aletti under the terms of Italian Legislative Decree 231/2001 for an administrative offence for the predicate crimes of self-laundering and to Banco BPM for the allegation of obstructing the performance of the functions of the public supervisory authorities. In the notice of closing of the preliminary investigations, the Public Prosecutor's Office also charged several former managers of the Group with the crimes of aggravated fraud, self-laundering, obstructing the performance of the functions of the public supervisory authorities and corruption between private parties.

That situation and the resulting media storm resulted in the receipt of a high number of complaints from the Group customers involved and the launch of disputes in civil court. In the run-up to the approval of the 2017 draft financial statements, around 1,250 complaints were received for a total relief sought of less than 50 million euro. During 2018, the number of complaints gradually grew, reaching around 13,300 complaints, for a total relief sought of around 430 million euro as at 31 January 2019. These flows also continued in 2019, until they reached a total number of around 22,800 complaints, for a total relief sought of around 640 million euro as at 31 January 2020. At the same date, around 500 civil proceedings were pending, in which the Group banks involved were defendants, for a total relief sought of around 43 million euro.

In that regard, also with a view to being close to customers, the Bank implemented a large-scale customer care initiative. This entails a case-by-case analysis of the aspects reported by customers in their complaints, for the purpose, if necessary, of finalising settlements. In most cases, the settlements take the form of the disbursement of monetary relief, in addition to maintaining the customer's ownership of the gem.

In that context, on drawing up the financial statements as at 31 December 2019, the Group banks involved decided to supplement the generic provisions covering said complaints and disputes, both pending and potential, with an additional allocation of 65 million euro compared to the amounts already allocated in previous years. The total financial resources made available by the Group in the three years to provide relief to customers amounted to 383.3 million euro. For more details, refer to the Notes to the consolidated financial statements – Liabilities - Section 10. Provisions for risks and charges.

Inspections of the Supervisory Authorities - European Central Bank, Bank of Italy and Consob

In the normal course of its business, the Group is subject to inspections promoted by the Supervisory Authorities. In particular, within the Single Supervisory Mechanism, the Group is subject to the supervision of the European Central

Bank ("ECB"). With reference to specific issues such as compliance with anti-money laundering regulations or transparency, the supervisory activity is the direct responsibility of the Bank of Italy.
The supervisory activity involves the performance of regular and recurrent inspections at the headquarters of the Parent Company (on-site inspection), which are accompanied by activities of "remote" verification, conducted through structured and continuous information exchanges rather than through specific requests for documentation and in-depth analysis of the issues.
In the financial years 2017 and 2018, the Group underwent 10 on-site inspections in the following areas: NPL, Credit Quality Review – Corporate, Asset Based or Project Finance Portfolios, Transparency, Operational Risk and Risk Management Models (in particular, credit risk and market risk). In addition to these, in 2019, 6 inspections were added relating to: (i) Liquidity, Funding Risk, IRRBB; (ii) combating money laundering; (iii) market risk; (iv) product governance and adequacy of transactions ordered by customers; (v) Internal Governance Remuneration; and (vi) internal credit risk model.

Most of the inspection activities have already been concluded with the release of the "Final follow up letters" or "Decisions", through which the ECB communicates the corrective actions required in relation to the areas for improvement identified. Where the inspection activities concerned aspects with a potential impact on capital representation (e.g. credit file review), the observations made were duly taken into account in the context of a new valuation of the company's assets/liabilities. In cases where inspection activities have shown areas for improvement in the context of the processes examined, the Group has put in place specific corrective action plans.

At the date of this report, the following inspections are still under way or are pending receipt of the Final Follow Up Letter or the Final Decision from the ECB and/or the final results of the inspections by the other supervisory bodies (Bank of Italy and Consob):

- verification on the subject of Operational Risk. The on-site phase concluded at the end of January 2019, and Banco BPM received the Final Decision on 21 November 2019, indicating the recommendations and qualitative requirements. In December 2019 Banco BPM sent the corrective action plan, which is currently under way;
- Credit Risk (PD, LGD, CCF) inspection, with regard to the "Corporate - Other" and "SME" portfolios. The on-site phase of the inspection began on 17 September 2018 and concluded on 3 October 2018. Banco BPM is waiting for the Final Decision;
- verification, in the context of credit risk, concerning the review of credit quality, with reference to the corporate, asset-based and project finance portfolios ("Credit Quality Review - Corporate, Asset based or Project Finance Portfolios"). The on-site phase concluded on 28 September 2018. On 21 October 2019, Banco BPM received the Final Decision and on 7 November 2019 it sent the corrective action plan, which is currently under way;
- audit, in the context of liquidity risk and funding risk (Liquidity, Funding Risk and IRRBB). The on-site phase of the inspection concluded on 17 May 2019. On 4 February 2020, Banco BPM received the Final Decision, and the corrective action plan is being drawn up;
- audit aimed at obtaining the validation of the Market Risk Internal Model (VaR, sVaR, IRC) for the risk categories "debt instruments – specific risk; Forex Risk". The on-site phase of the inspection was completed on 19 July 2019, and the Bank is awaiting the decision.
- audit, performed by the Bank of Italy, regarding observance of the legislation on the subject of combating money laundering in performing online operations carried out through the digital channels. The on-site phase of the inspection concluded on 2 August 2019. On 6 November 2019 the results of the Bank of Italy inspection were presented. On 17 December 2019, Banco BPM submitted its corrective action plan, which is currently being implemented;
- audit, performed by Consob, regarding the procedural arrangements defined on the subject of product governance and the procedures for assessing the adequacy of the operations ordered by customers. The audit was launched in April 2019 and was concluded on 3 December 2019. Banco BPM is awaiting the final decision;
- audit by the Bank of Italy on the Transparency of operations and fairness in relations with customers. The on-site phase began on 15 October 2018 and concluded on 18 January 2019. On 11 April 2019 the inspection report of the Bank of Italy was presented, and a penalty procedure was initiated. On 17 July 2019 Banco BPM sent the corrective action plan, which is currently under way. On 7 January 2020, Banco BPM received a communication from the Bank of Italy regarding the phases and amounts proposed for the penalty procedure of the inspection, on which Banco BPM sent its own comments;

- audit by the European Central Bank of the internal models for credit risk (PD and LGD), with regard to the "Corporate" and "SME" portfolios. The on-site phase of the inspection, which began on 19 February 2018, concluded on 20 April 2018. Banco BPM received the Final Decision on 24 April 2019 and sent its corrective action plan on 24 May 2019, a plan that is currently under way;
- audit by the European Central Bank on the credit quality of the Retail & SME portfolio. The on-site phase began on 4 February 2020 and is currently under way;
- audit by the European Central Bank in order to assess the approval of the internal model for credit risk (CCF/EAD, ELBE, LGD; LGD for non-performing loans, PD) for the following exposure classes: Corporate - Other; Corporate - SME; Retail - Other SME; Retail - Retail - Secured by real estate non-SME; Retail - Secured by real estate SME. The on-site phase began on 14 October 2019 and is currently under way;
- audit by the European Central Bank to assess Internal Governance Remuneration. The on-site phase began on 9 October and concluded on 13 December 2019. Banco BPM is waiting for the Final Decision.

Change in the accounting criterion for measuring real estate assets

As part of the project of rationalising and promoting the real estate assets of the Group, the Board of Directors resolved to change the measurement criterion for property and valuable works of art, adopting the fair value for real estate investments and the revaluation value for property used in operations and valuable works of art. The total effect on the income statement for the year of the write-downs and revaluations came to -158.5 million euro. Considering that a part of the valuation is directly attributed to equity, in the amount of 367 million euro, the change in the criterion generated a positive effect on the Group's comprehensive income of 208.5 million euro.

Important funding operations completed

On 11 April Banco BPM completed the first issue of Additional Tier 1 instruments for a value of 300 million euro, destined for institutional investors. This represented an important operation for increasing the efficiency of the Group's capital structure. The securities issued are perpetual and may be recalled by the issuer from 18 June 2024.
The initial six-monthly coupon was set at 8.75%. The loan regulation provides for a number of mechanisms for payment of the said coupon as well as temporary reduction of the nominal value.
The placing was made mainly with investment funds (approximately 88% of the total).

Moreover, at the beginning of October, a new 10-year subordinated Tier 2 issue was completed, also destined for institutional investors, for 350 million euro, with a fixed coupon of 4.25% for the first five years.

Additionally, during the year, the placements of three senior preferred unsecured bond loans reserved for institutional investors were completed successfully. The first occurred at the beginning of March, with 3-year maturity and an amount of 750 million euro with 2% fixed coupon, the second was in June with 5-year maturity for a total of 500 million euro and a 2.50% fixed coupon, and the third in October, with 5-year and 3-month maturity, for 500 million euro, and a 1.75% fixed coupon. With this transaction, the total amount of public issues by Banco BPM in 2019 reached 2.4 billion euro.

At the beginning of January 2020, those issues were joined by an additional issuer of Additional Tier 1 instruments, for an amount of 400 million euro, destined for institutional investors. For this last transaction, refer to the section dedicated to events occurring after the date of the financial statements, contained in Part A of the Notes to the consolidated financial statements.

ECB set capital requirements for the Group

On 11 December 2019, the European Central Bank notified Banco BPM of its SREP decision, containing the up-to-date results of the annual Supervisory Review and Evaluation Process ("SREP").
Based on the analyses and evaluations carried out by the Supervisory Authority in 2019, valid for the Bank for 2020, the total consolidated CET1 ratio requirement came to 9.385% based on the phase-in criteria effective for 2020 and 9.505% based on the fully-loaded criteria.
In terms of the CET1 ratio, these requirements include:
- the Pillar 1 minimum requirement at 4.5%;
- a Pillar 2 (P2R) capital requirement of 2.25%, unchanged compared to the one applied last year;
- a capital conservation buffer of 2.50%;

- the O-SII buffer at 0.13% based on the phase-in criteria effective for 2020 (0.06% for 2019), which will be 0.25% based on the fully-loaded criteria in 2022;
- the countercyclical capital buffer at 0.005%.

The Total SREP Capital requirement, inclusive of the Pillar 1 minimum capital requirement of 8% (of which 4.5% in terms of CET 1, 1.5% in terms of AT1 and 2.0% in terms of Tier 2) and of the Pillar 2 capital requirement (to be satisfied entirely using CET 1 capital) thus comes to 10.25%. The overall capital requirement in terms of own funds, also considering all the buffer requirements indicated above, thus stands at 12.885% for 2020 and 13.005% based on the fully-loaded criteria.

Change in company officers

The Board of Directors of the Parent Company, at its meeting on 28 May, resolved to revise its organisational structure which no longer involves the figure of the General Manager, whose employment relationship had come to an end following the measure of precautionary suspension on 27 February 2019, and introduces the figures of the Chief Lending Officer (CLO) and the Chief Financial Officer (CFO), assigned respectively to Carlo Bianchi and Edoardo Ginevra.
The positions of the Joint General Managers were instead confirmed.

Moreover:

- on 14 May 2019 Ms Marisa Golo resigned from the Board of Directors "in consideration of new and urgent personal commitments".
- on 23 July 2019 Pier Francesco Saviotti resigned for personal reasons from the position of Director and Chairman of the Executive Committee.

Replacement of the Board of Directors of Banco BPM

The information provided with regard to the above from the year-end to the date of approval of the Financial Statements is provided below:

- on 8 January 2020, Carlo Fratta Pasini communicated his decision not to resubmit his candidacy, after carefully considering the length of his term of office and the important results achieved by the Bank.
- at its meeting of 21 January 2020, the Board of Directors, having obtaining the opinion of the Appointments Committee, and with the support of Egon Zehnder, approved the list of 15 candidates for the position of director for the years 2020-2022, which will be submitted to the next Shareholders' Meeting, and which comprises:
  1) Massimo Tononi (Chairman)
  2) Giuseppe Castagna (Chief Executive Officer)
  3) Mauro Paoloni (Deputy Chairman)
  4) Marina Mantelli
  5) Maurizio Comoli
  6) Luigia Tauro
  7) Carlo Frascarolo
  8) Costanza Torricelli
  9) Eugenio Rossetti
  10) Giulio Pedrollo
  11) Manuela Soffientini
  12) Mario Anolli
  13) Paola Galbiati
  14) Chiara Laudanna
  15) Claudio Rangoni Machiavelli.

RESULTS

Introduction

The balance sheet and income statement schedules shown below have been reclassified, according to operating criteria, in order to provide timely indications on the Group's general performance based on the economic-financial data that can be determined quickly and easily.

This report adopts the new accounting standard IFRS 16, as described in the specific section "Disclosure on the first time adoption of the accounting standard IFRS 16 – Leases" contained in Part A - Accounting policies of the Notes to the consolidated financial statements. Considering the changes introduced with the application of IFRS 16, in order to ensure adequate information on the evolution of the Group's equity and financial situation, the reclassified balance sheet has been prepared providing for comparative purposes and also includes the information as at 1 January 2019 with the adoption of the new accounting standard, in addition to the information relating to 31 December 2018.
Moreover, as a result of the change in the measurement approach for real estate, the reclassified income statement includes the new item "Profits (losses) from the fair value designation of property, plant and equipment " which includes the positive or negative balance of the write-downs and revaluations of real estate, both for investment purposes and that used in operations (including valuable works of art), measured at fair value or at revalued value, recognised under item 260 "Profits (losses) from the fair value designation of property, plant and equipment and intangible assets" of the official income statement.

Information is provided below on the aggregations and main reclassifications systematically made with respect to the financial statement formats provided for in Circular no. 262/05, in accordance with what is required by Consob in Communication no. 6064293 of 28 July 2006:

- the portion of the economic results pertaining to investee companies carried at equity (included in item 250) has been stated in a specific item which represents, together with the "Interest margin", the aggregate defined as the "Financial margin";
- dividends on shares classified as financial assets at fair value through profit and loss and through other comprehensive income (included in item 70) were re-attributed to "Net financial result";
- the economic result related to the issue of liabilities held for trading represented by the Group's certificates, which in the income statement format prepared on the basis of Circular no. 262 is presented in item "80. Profits (losses) on trading", was partially re-attributed to the reclassified income statement item "Net fee and commission income". In more detail, net fee and commission income includes, according to an operational viewpoint, the portion of profitability of the product that remunerates the placement activity carried out by the Group. Moreover, fee and commission expense relating to placement services carried out by third party networks are included in the profit (losses) on trading. In order to guarantee a uniform comparison with the aforementioned classification criterion, introduced starting from 30 June 2019, the data of the comparative periods were restated;
- recoveries on taxes and other costs (included in item 230) have been booked directly against administrative expenses, where the relative cost has been recognised, rather than being indicated in the reclassified aggregate "Other net operating income";
- amortisation related to intangible assets connected to "client relationships" recognised in business combinations (accounted for under item 220) is shown under the aggregate "Other net operating income";
- gains and losses on disposal of loans, not represented by debt securities (included in item 100) and profit/loss from contractual changes without derecognition (booked to item 140), were added, together with net losses/recoveries on impairment of receivables, to the item "Net adjustments to loans to customers";
- the portion of rental income of leasing contracts subject to retrocession in the context of the "ACE Leasing" project, shown among other operating expenses/income (item 230), was re-attributed to the item "Net adjustments to loans to customers";
- the allocation made by the subsidiary Banca Aletti for several tax disputes, recorded under item 200 of the income statement "Net provisions for risks and charges", was shown under the item "Taxes on income from continuing operations" of the reclassified income statement;
- ordinary and extraordinary charges introduced for banks due to the single and national resolution funds (SRF and NRF) and the deposit guarantee scheme (DGS) were recognised, net of relative tax effects, in a

separate item "Charges related to the banking system, net of taxes", rather than in "Other administrative expenses" and "Taxes on income from continuing operations".

In the annexes to the financial statements a statement is provided showing the reconciliation between the reclassified income statement and that prepared on the basis of Circular no. 262 with comments explaining the reclassifications made.

Consolidated income statement figures

Reclassified consolidated income statement

Reclassified income statement items *(thousands of euro)*	**2019**	**2018**	**Changes**
Interest margin	1,997,952	2,292,562	(12.9%)
Profits (losses) on investments in associates and companies subject to joint control carried at equity	131,255	159,457	(17.7%)
Financial margin	**2,129,207**	**2,452,019**	**(13.2%)**
Net fee and commission income (*)	1,794,423	1,860,941	(3.6%)
Other net operating income	37,245	389,771	(90.4%)
Net financial result (*)	332,080	70,179	373.2%
Other operating income	**2,163,748**	**2,320,891**	**(6.8%)**
Operating income	**4,292,955**	**4,772,910**	**(10.1%)**
Personnel expenses	(1,696,531)	(1,732,805)	(2.1%)
Other administrative expenses	(638,566)	(816,478)	(21.8%)
Net value adjustments to property, plant and equipment and intangible assets	(268,949)	(243,498)	10.5%
Operating expenses	**(2,604,046)**	**(2,792,781)**	**(6.8%)**
Profit (loss) from operations	**1,688,909**	**1,980,129**	**(14.7%)**
Net adjustments to loans to customers	(778,530)	(1,941,116)	(59.9%)
Profits (losses) from the fair value designation of property, plant and equipment	(158,533)	-	
Net adjustments to securities and other financial assets	5,759	3,291	75.0%
Net provisions for risks and charges	(71,025)	(345,341)	(79.4%)
Profits (Losses) on disposal of investments in associates and companies subject to joint control and other investments	333,151	173,358	92.2%
Profit (loss) before tax from continuing operations	**1,019,731**	**(129,679)**	
Taxes on income from continuing operations	(145,417)	162,835	
Charges related to the banking system, net of taxes	(92,877)	(100,218)	(7.3%)
Profit (loss) from discontinued operations	-	936	
Income (loss) attributable to minority interests	15,564	9,623	61.7%
Income (loss) before impairment of client relationships	**797,001**	**(56,503)**	
Impairment of client relationships after taxes	-	(2,929)	
Parent Company's net income (loss)	**797,001**	**(59,432)**	

(*) The figures relating to the previous year have been restated to provide a like-for-like comparison.

Reclassified consolidated income statement – Quarterly changes

Reclassified income statement items ***(thousands of euro)***	**FY 2019**				**FY 2018 (*)**			
	Q4	**Q3 (*)**	**Q2 (*)**	**Q1 (*)**	**Q4**	**Q3**	**Q2**	**Q1**
Interest margin	477,930	500,024	514,846	505,152	554,694	557,759	584,998	595,111
Profits (losses) on investments in associates and companies subject to joint control carried at equity	33,917	27,952	32,628	36,758	50,668	32,791	33,413	42,585
Financial margin	**511,847**	**527,976**	**547,474**	**541,910**	**605,362**	**590,550**	**618,411**	**637,696**
Net fee and commission income	462,167	444,065	453,673	434,518	474,374	451,372	457,274	477,921
Other net operating income	6,339	7,994	8,292	14,620	21,061	214,531	130,029	24,150
Net financial result	207,370	41,668	10,697	72,345	(78,397)	46,768	73,901	27,907
Other operating income	**675,876**	**493,727**	**472,662**	**521,483**	**417,038**	**712,671**	**661,204**	**529,978**
Operating income	**1,187,723**	**1,021,703**	**1,020,136**	**1,063,393**	**1,022,400**	**1,303,221**	**1,279,615**	**1,167,674**
Personnel expenses	(437,052)	(415,622)	(417,984)	(425,873)	(422,177)	(431,479)	(437,060)	(442,089)
Other administrative expenses	(149,780)	(158,632)	(163,135)	(167,019)	(205,705)	(196,184)	(203,102)	(211,487)
Net value adjustments to property, plant and equipment and intangible assets	(69,289)	(68,586)	(67,745)	(63,329)	(97,096)	(49,456)	(49,020)	(47,926)
Operating expenses	**(656,121)**	**(642,840)**	**(648,864)**	**(656,221)**	**(724,978)**	**(677,119)**	**(689,182)**	**(701,502)**
Profit (loss) from operations	**531,602**	**378,863**	**371,272**	**407,172**	**297,422**	**626,102**	**590,433**	**466,172**
Net adjustments to loans to customers	(220,499)	(208,387)	(197,692)	(151,952)	(987,260)	(267,405)	(360,212)	(326,239)
Profits (losses) from the fair value designation of property, plant and equipment	(131,012)	(739)	(19,306)	(7,476)	-	-	-	-
Net adjustments to securities and other financial assets	1,596	4,138	3,996	(3,971)	3,968	(1,312)	(1,593)	2,228
Net provisions for risks and charges	(62,633)	(2,712)	(10,102)	4,422	(227,805)	(71,865)	(20,707)	(24,964)
Profits (Losses) on disposal of investments in associates and companies subject to joint control and other investments	(3,638)	(24)	336,646	167	5,109	(10,301)	(1,104)	179,654
Profit (loss) before tax from continuing operations	**115,416**	**171,139**	**484,814**	**248,362**	**(908,566)**	**275,219**	**206,817**	**296,851**
Taxes on income from continuing operations	(24,396)	(43,219)	(25,229)	(52,573)	322,430	(72,338)	(61,320)	(25,937)
Charges related to the banking system, net of taxes	(4,495)	(31,521)	(15,240)	(41,621)	(668)	(32,122)	(18,391)	(49,037)
Profit (loss) from discontinued operations	-	-	-	-	-	932	18	(14)
Income (loss) attributable to minority interests	9,247	1,846	3,225	1,246	5,777	256	2,160	1,430
Income (loss) for the period before impairment of client relationships	**95,772**	**98,245**	**447,570**	**155,414**	**(581,027)**	**171,947**	**129,284**	**223,293**
Impairment of client relationships after taxes	-	-	-	-	(2,929)	-	-	-
Parent Company's net income (loss)	**95,772**	**98,245**	**447,570**	**155,414**	**(583,956)**	**171,947**	**129,284**	**223,293**

(*) The figures relating to previous periods have been restated to provide a like-for-like comparison.

With Communication no. DEM/6064293 of 28 July 2006, Consob asked companies issuing financial instruments listed on Italian regulated markets to provide information on the impact of non-recurring events or operations.

Note that, based on the general criteria adopted by the Group, the following are classified as non-recurring:

- the results of the sale transactions of all the fixed assets (equity investments, property, plant and equipment excluding the financial assets in the Hold to Collect ("HtC") portfolio, which can be sold in compliance with the materiality and frequency thresholds set out in IFRS 9);
- profits and losses on non-current assets held for sale;
- the income statement items for a significant amount associated with improvements, reorganisations, etc. (e.g. expenses for use of the redundancy fund, leaving incentives, merger/integration expenses);
- income statement items for a significant amount which are not destined to reoccur frequently (e.g. fines, impairments of property, plant and equipment, goodwill and other intangible assets, effects associated with legislative changes, exceptional results);
- income statement impacts deriving from the fair value measurement of real estate and other property, plant and equipment (works of art);
- tax effects connected with the economic impacts in the above points.

Conversely, the following are usually considered recurring:

- the economic impacts deriving from the sale or measurement of all financial assets (other than loans), including those in the HtC and financial liabilities;
- save for exceptional cases, the economic impacts deriving from valuation aspects (value adjustments to loans and other financial assets or provisions for risks and charges);

- the economic impacts deriving from changes in the reference valuation parameters considered by the valuation models applied on a continuous basis;
- the economic impacts of amounts that individually are insignificant or cannot be determined, which constitute out-of-period income and/or expenses (e.g. costs and revenues and/or adjustments to costs and revenues pertaining to other years);
- tax effects connected with the economic impacts in the above points.

In light of the criteria set out above, the income statement for 2019 includes the following non-recurring components:

- the "Interest margin" includes the amount of 4.7 million euro, which the Voluntary Scheme of the Interbank Deposit Guarantee Fund paid to member banks in relation to the interest collected on the Carige subordinated loan subscribed by the Scheme as part of the "rescue" operation of Banca Carige;
- "Net value adjustments to property, plant and equipment and intangible assets" include write-downs of intangible assets for 4.4 million euro;
- the new item "Profits (losses) from the fair value designation of property, plant and equipment", equal to 158.5 million euro, contains the net balance of write-downs and revaluations posted to the income statement for the year relating to real estate, both for investment purposes and for use in operations (including valuable works of art), respectively measured at fair value or redetermined value, deriving from the adoption of the new measurement criterion described above;
- "Net provisions for risks and charges" include the following extraordinary allocations: 12.5 million euro for the estimate of the charges relating to contractual commitments assumed on disposal of assets or equity investments, and 65.0 million euro for allocations for charges relating to present and future disputes and complaints, connected with past reports of customers interested in purchasing diamonds which give rise to requests for compensation from customers worth fulfilling with a view to customer care;
- "Profits (losses) on disposal of investments in associates and companies subject to joint control and other investments" totalling 333.2 million euro, include capital gains achieved through reorganisation of the consumer loan segment, for 189.5 million euro, and the sale to Credito Fondiario of 70% of CF Liberty Servicing S.p.A., for 142.7 million euro;
- "Taxes on income from continuing operations" includes positive tax impacts for 59.2 million euro relating to components illustrated above, in addition to other negative extraordinary components for a total of 2.1 million euro;
- "Charges related to the banking system, net of taxes" include 15.2 million euro represented by the additional contributions relating to paid National Resolution Fund (amounting to 22.6 million euro) net of the related tax of 7.4 million euro.

The effects on minority interests came to +9.3 million euro.

When deemed significant, information about non-recurring events or operations or those which do not occur frequently in the normal execution of the business and the impacts they have on the Group's equity and financial situation, as well as its cash flows is provided in the context of specific sections in the notes which illustrate trends in equity items.

With regard to 2018, the non-recurring components determined using equivalent criteria to those indicated above were the following:

- "Other net operating income" included the 113.6 million gain generated by the sale to Anima SGR of the sub-advisory mandates on insurance assets carried out on behalf of the insurance joint ventures linked to the bancassurance network of the former Banco Popolare, as well as a 200.0 million capital gain generated by the sale of the depositary bank and fund administration business line to BNP Paribas Securities Services;
- The "Net financial result" included the write-down of 27.9 million euro to the investment made in the Voluntary Scheme of the Interbank Deposit Guarantee Fund in order to support the measures in favour of Banca Carige;
- "Other administrative expenses" included non-recurring components totalling 22.6 million euro, mainly relating to integration expenses for 15.5 million euro and branch closing expenses of 5.1 million euro;
- "Net value adjustments to property, plant and equipment and intangible assets" included write-downs due to impairment of fixed assets for a total of 52.7 million euro;
- "Net provisions for risks and charges" included 351.6 million euro relating to: (i) prudent allocations to guarantee full coverage of present and future disputes and complaints connected with past reports from

customers interested in purchasing diamonds to the specialised company Intermarket Diamond Business S.p.A., which received requests for compensation worth fulfilling with a view to customer care; (ii) extraordinary provisions deriving from the recalculation of conditions applied to customers in previous years and re-estimated according to metrics defined recently by more severe laws and interpretative notes of supervisory authorities;
- "Profits on disposal of investments in associates and companies subject to joint control and other investments", equal to 173.4 million euro. The main component (170.7 million euro) was represented by the gains deriving from the reorganisation of the Bancassurance sector which saw the disposal to Cattolica of the two shareholdings in the insurance companies Popolare Vita (now Vera Vita) and Avipop Assicurazioni (now Vera Assicurazioni);
- "Taxes on income from continuing operations" included the tax effects deriving from the components indicated above, totalling 37.3 million euro, as well as the benefit of the recognition of IRAP deferred tax assets of 64.0 million euro, relating to losses on loans recorded on first-time adoption of IFRS 9;
- "Charges related to the banking system, net of taxes" included 18.4 million euro connected to the additional contributions relating to the National Resolution Fund (amounting to 25.5 million euro) net of the related tax of 7.1 million euro;
- "Profit from discontinued operations" included 0.9 million euro relating to the residual assets held for sale which were sold during the year.

Moreover, as regards the results of 2018, in order to make it possible to also measures the economic results obtained from the Group's business as usual, adjusted income (loss) was also determined, which also took account of the impacts of derisking operations, which reasonably cannot be repeated, connected with the achievement of that set out in the Business Plan.

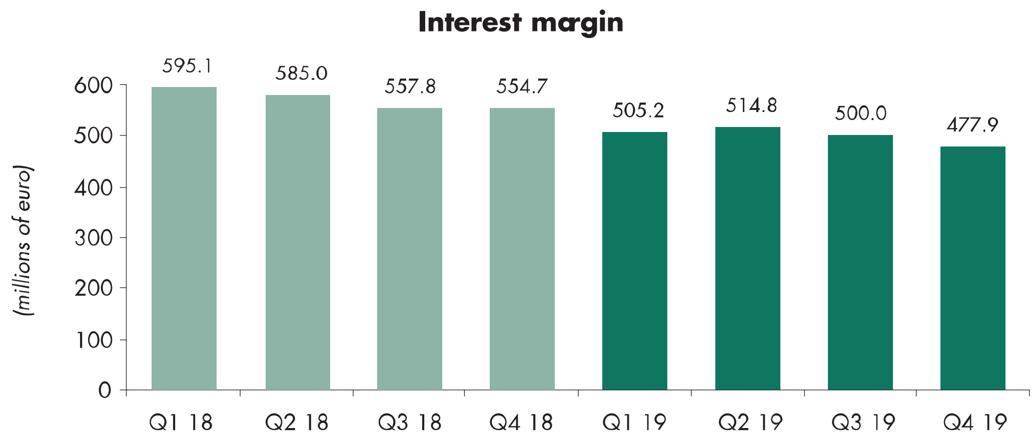
Therefore, in order to determine the adjusted income (loss) for 2018, the components included under "Net adjustments to loans to customers" were also considered, totalling 713.9 million euro, relating to the effects of the ACE (for 659.9 million euro) and Exodus (for 54.0 million euro) transactions. Taxes connected with those adjustments amount to 196.3 million euro.

Operating income

Interest margin

(thousands of euro)	2019	2018 (*)	Abs. change	% Change
Financial assets (securities)	591,682	574,166	17,516	3.1%
Net interest due to customers	1,845,206	2,162,893	(317,687)	(14.7%)
Net interest due to banks	(118,388)	(52,957)	(65,431)	123.6%
Securities issued and financial liabilities at fair value	(308,085)	(381,226)	73,141	(19.2%)
Hedging derivatives (net balance)	(112,321)	(70,746)	(41,575)	58.8%
Net interest on other assets/liabilities	99,858	60,432	39,426	65.2%
Total	**1,997,952**	**2,292,562**	**(294,610)**	**(12.9%)**

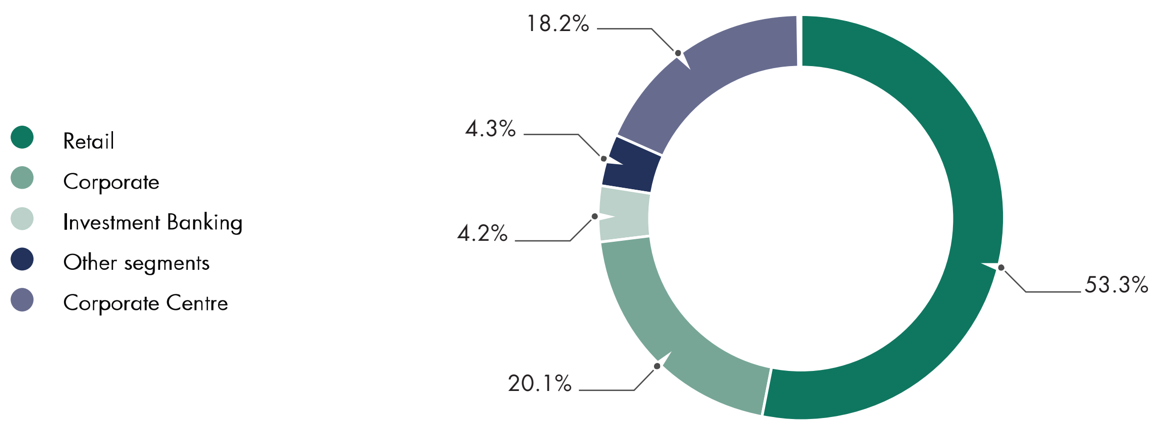
(*) Keeping the total of the item unchanged, the figures relating to the previous year were restated to guarantee a like-for-like comparison with the breakdown used for 2019.



The **interest margin** amounted to 1,998.0 million euro and compares with the figure of 2,292.6 million euro from the previous year. The performance of the margin was negatively impacted by fewer reversals in the accounts (equal to -193.8 million euro yoy), including that connected with the PPA[1], primarily deriving from the sale of bad loans in the previous year which, on the other hand, positively contributed to the decrease in the cost of risk.
Moreover, as at 31 December 2019, following the first-time adoption of the rules of recognition set out in IFRS 16, interest expenses on lease liabilities were recorded for 9.7 million euro.
Net of these effects, interest margin would be 1,986.8 million euro, compared to a figure calculated on a like-for-like basis of 2,078.0 million euro in 2018 (-4.4%).

(thousands of euro)	2019	2018 (*)	Abs. change	% Change
Retail	1,064,337	1,191,518	(127,181)	(10.7%)
Corporate	401,404	448,467	(47,063)	(10.5%)
Institutional	55,713	59,476	(3,763)	(6.3%)
Private	3,483	(543)	4,026	
Investment Banking	83,409	92,653	(9,244)	(10.0%)
Strategic partnerships	(8,915)	(10,557)	1,642	(15.6%)
Leases	35,506	50,359	(14,853)	(29.5%)
Corporate Centre	363,015	461,189	(98,174)	(21.3%)
Total	**1,997,952**	**2,292,562**	**(294,610)**	**(12.9%)**

(*) Keeping the total of the item unchanged, the figures relating to the previous year were restated to guarantee a like-for-like comparison with the segmentation criteria used for 2019.



[1] This refers to the impacts of the Purchase Price Allocation recognised following the business combination between Banco Popolare and Banca Popolare di Milano.

In particular, the trend in the Commercial Network segments was marked by the downturns recorded in the Retail segment (-127.2 million euro) and in the Corporate segment (-47.1 million euro), which was impacted by the decrease in profitability of loans, only partially offset by the decrease in the cost of funding, due to the reduction in the stock of bond issues. Moreover, the dynamic described above was also influenced, as noted above, by fewer reversals deriving from the derisking operations in the previous year.
The profitability of Investment Banking was also down (-9.2 million euro), mainly due to the decrease in the contribution from the securities portfolio, both due to a drop in yields and a reduction in the intragroup component, mainly relating to bonds underlying certificates, issued by the Parent Company and subscribed by Banca Akros (up to 30 September 2018 these were subscribed by Banca Aletti).
The contribution provided by Leases also decreased, due to the closure of certain contracts.
The Corporate Centre also decreased (-98.2 million euro), despite an improvement in the cost of institutional funding due to the drop in volumes issued. In particular, note the smaller contribution from the securities portfolio, due to the drop in yields and the higher cost of funding of the component in foreign currency, only partially mitigated by growth in assets.

Profits (losses) on investments in associates and companies subject to joint control carried at equity

The **result of the investee companies carried at equity** was positive for 131.3 million euro, down on the figure of 159.5 million euro recorded in 2018. Within this aggregate, the main contribution was provided by consumer credit, driven by the investment held in Agos Ducato, for 103.1 million.

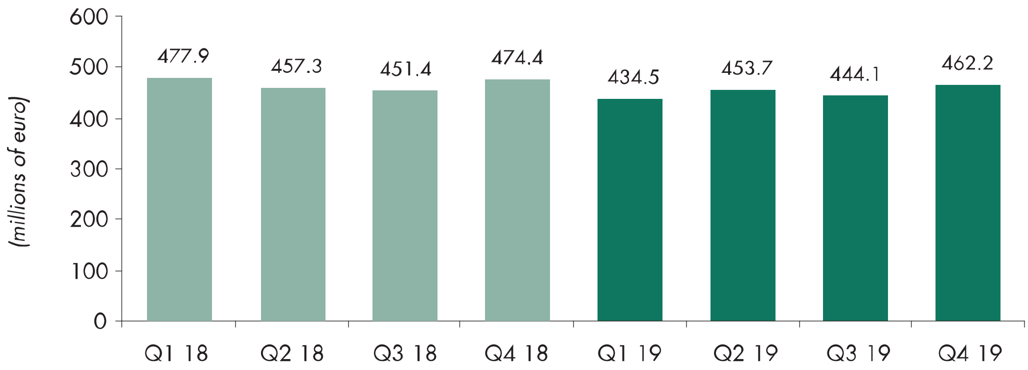
In terms of economic sector, Strategic Partnerships contributed 131.4 million euro, mainly including Agos Ducato, equal to 103.1 million euro, and that of the insurance companies for a total of 22.4 million euro. The contribution of Corporate Centre amounted to -0.2 million, and includes the contributions from minor associated companies.

Net fee and commission income

(thousands of euro)	2019	2018 (*)	Abs. change	% Change
Management, brokerage and advisory services	866,367	896,368	(30,001)	(3.3%)
Distribution of savings products	724,715	732,378	(7,663)	(1.0%)
- Placement of financial instruments	46,549	19,773	26,776	135.4%
- Portfolio management	540,784	606,800	(66,016)	(10.9%)
- Bancassurance	137,382	105,805	31,577	29.8%
Consumer credit	35,476	28,366	7,110	25.1%
Credit cards	38,569	50,933	(12,364)	(24.3%)
Custodian bank	1,428	14,367	(12,939)	(90.1%)
Trading securities, currencies and acceptance of orders	66,510	65,899	611	0.9%
Other	(331)	4,425	(4,756)	
Current account management and loans	609,880	635,947	(26,067)	(4.1%)
Collection and payment services	164,653	170,181	(5,528)	(3.2%)
Guarantees given and received	70,158	73,379	(3,221)	(4.4%)
Other services	83,365	85,066	(1,701)	(2.0%)
Total	**1,794,423**	**1,860,941**	**(66,518)**	**(3.6%)**

(*) The figures relating to the previous year have been restated to provide a like-for-like comparison.

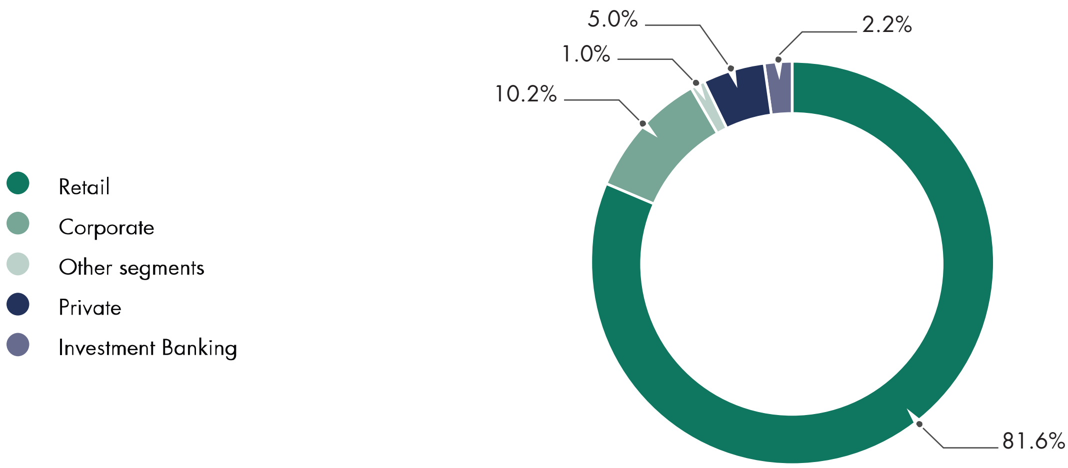
Net fee and commission income



Net fee and commission income[1] amounted to 1,794.4 million euro, down by 3.6% on the 1,860.9 million euro of the previous year, essentially due to the lower contribution of fees and commissions on current account management and the lack of fees and commissions for custodian bank activities, which were sold in the second half of 2018 (-12.9 million euro). During the year, net fee and commission income gradually improved from 434.5 million euro in the first quarter to 462.2 million euro in the fourth, an increase of 6.4%, due to the contribution from advisory activities and the placement of investment, insurance and consumer credit products.

(thousands of euro)	2019	2018 (*)	Abs. change	% Change
Retail	1,464,256	1,491,668	(27,412)	(1.8%)
Corporate	182,828	202,780	(19,952)	(9.8%)
Institutional	37,695	35,708	1,987	5.6%
Private	89,857	90,434	(577)	(0.6%)
Investment Banking	38,821	41,795	(2,974)	(7.1%)
Leases	4	7	(3)	(42.9%)
Corporate Centre	(19,038)	(1,451)	(17,587)	not significant
Total	**1,794,423**	**1,860,941**	**(66,518)**	**(3.6%)**

(*) Keeping the total of the item unchanged, the figures relating to the previous year were restated to guarantee a like-for-like comparison with the segmentation criteria used for 2019.



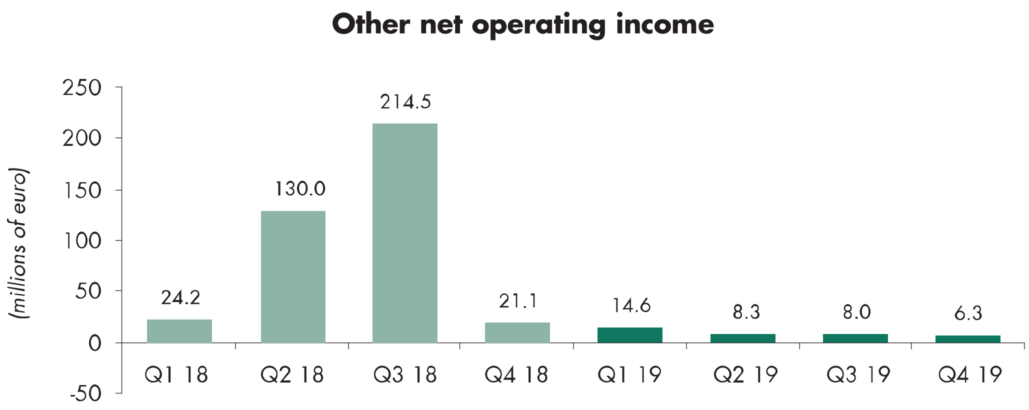
The decline seen in net fee and commission income compared to the previous year was mainly due to the decrease in fees and commissions on credit access and the placement of investment products. In particular, the latter was significantly impacted by decreased placement of mutual funds, especially in the Retail sector (-63.6 million euro), offset only partially by the growth recorded in Life products (Retail segment +24.6 million euro) and the placement of

[1] As of 30 June 2019, upfront commissions relative to certificates placement were also reclassified into this aggregate (previously classified in the net financial result). The figures relating to the previous periods were restated in a consistent manner.

certificates issued by Banca Akros (Retail segment +25.8 million euro). Finally, we note the lower contribution from Corporate Centre, due to the sale of custodian bank business in 2018.

Other net operating income

(thousands of euro)	2019	2018	Abs. change	% Change
Income on current accounts and loans	16,156	36,096	(19,940)	(55.2%)
Rents receivable	45,314	51,381	(6,067)	(11.8%)
Expenses on leased assets	(15,968)	(15,662)	(306)	2.0%
Other income and charges	30,522	360,068	(329,546)	(91.5%)
Subtotal	**76,024**	**431,883**	**(355,859)**	**(82.4%)**
Client relationship (PPA)	(38,779)	(42,112)	3,333	(7.9%)
Total	**37,245**	**389,771**	**(352,526)**	**(90.4%)**



Other net operating income totalled 37.2 million euro compared to the figure of 389.8 million euro in 2018, which included capital gains amounting to 313.6 million euro earned following the sale of custodian bank and fund administration activities and delegated insurance asset management mandate. Excluding those components from the previous year's figure, the aggregate decreased, mainly due to the gradual decline in income on current accounts and loans, which dropped by 55.2% compared to 31 December 2018, primarily attributable to "*commissioni di istruttoria veloce*" (fast-track fees), also following the refunds carried out during the year.

(thousands of euro)	2019	2018 (*)	Abs. change	% Change
Retail	(14,353)	(2,776)	(11,577)	417.0%
Corporate	295	692	(397)	(57.4%)
Institutional	4,053	3,982	71	1.8%
Private	(4,554)	(4,886)	332	(6.8%)
Investment Banking	787	879	(92)	(10.5%)
Leases	(1,837)	15,418	(17,255)	
Corporate Centre	52,854	376,462	(323,608)	(86.0%)
Total	**37,245**	**389,771**	**(352,526)**	**(90.4%)**

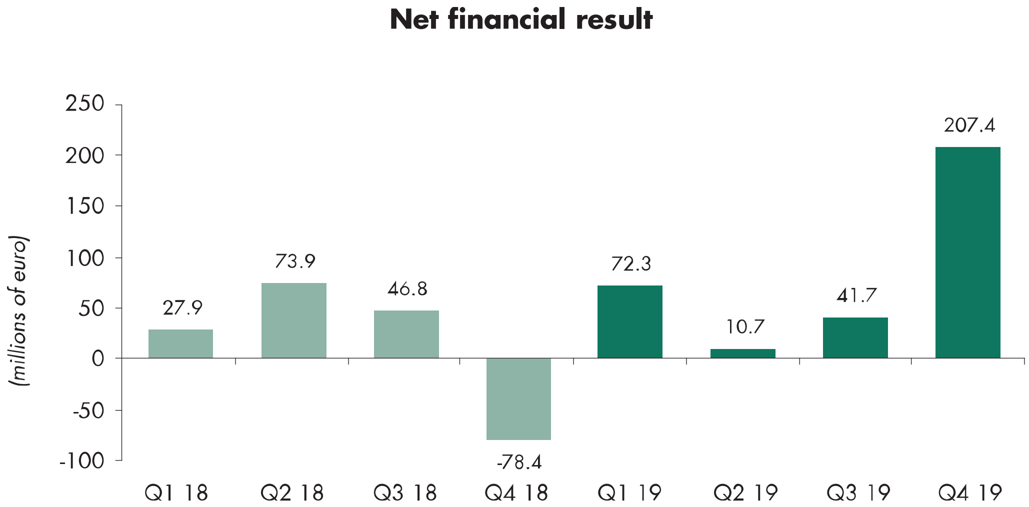
(*) Keeping the total of the item unchanged, the figures relating to the previous year were restated to guarantee a like-for-like comparison with the segmentation criteria used for 2019.

The decrease recorded in the income statement item in question was mainly concentrated in the Corporate Centre, where capital gains were recognised in 2018 deriving from the sale of custodian bank activities (200 million euro) and delegated insurance asset management mandate (113.6 million euro). Net of those components, the aggregate for 2019 decreased by -38.9 million euro, mainly due to lower income deriving from "*commissione di istruttoria veloce*" (fast-track fees) (-14.5 million euro relating to the Retail business line) and the Lease business line (-17.3 million euro), following the reduction in rents receivables deriving from the real estate assets of Release.

Net financial result

(thousands of euro)	2019	2018 (*)	Abs. change	% Change
Profits (losses) on trading	(194,049)	(82,104)	(111,945)	136.3%
Gains/losses on disposal of financial assets	384,517	150,331	234,186	155.8%
Dividends and similar income on financial assets	28,838	26,269	2,569	9.8%
Gains/losses from repurchase of financial liabilities	(4,391)	(4,508)	117	(2.6%)
Fair value adjustments in hedge accounting	7,497	(2,657)	10,154	
Other income/expense	109,668	(17,152)	126,820	
Total	**332,080**	**70,179**	**261,901**	**373.2%**

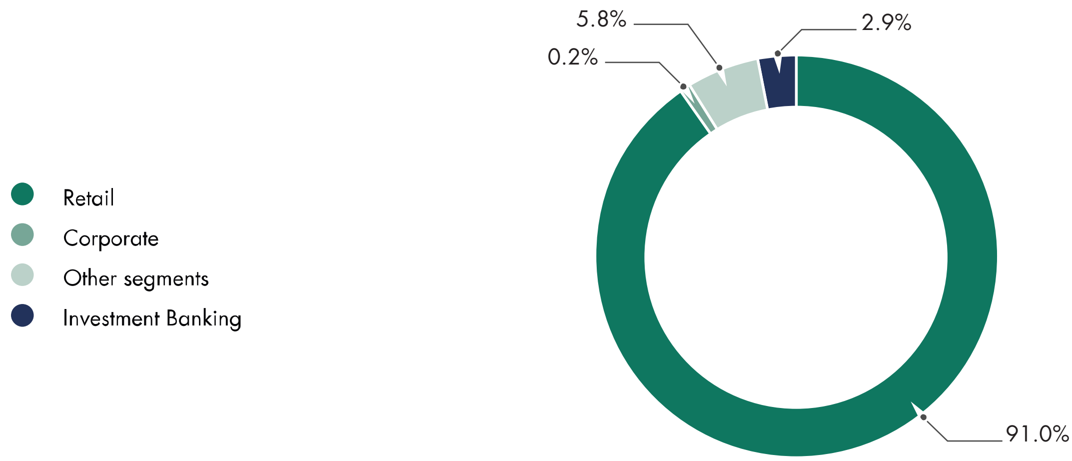
(*) The figures relating to the previous year have been restated to provide a like-for-like comparison with the reclassification of the fees and commissions on Certificates described in the Introduction.



The **net financial result** was 332.1 million, compared to 70.2 million in the previous year. The capital gains from both valuation and the transfer of the shareholding in Nexi, the recovery on Sorgenia bonds and the sales of (mainly government) securities in the HTC (Hold to Collect) portfolio contributed to that result. The economic results should be considered jointly with the change recorded in the valuation reserves on exposures classified under assets at fair value through other comprehensive income (FVOCI), not managed in accordance with hedge accounting rules. As at 31 December 2019 the balance of reserves on debt securities at FVOCI, before taxes, was a positive 71 million euro compared to -197 million euro as at 31 December 2018.

(thousands of euro)	2019	2018 (*)	Abs. change	% Change
Retail	9,792	20,852	(11,060)	(53.0%)
Corporate	(8,181)	28,982	(37,163)	
Institutional	(42)	1,453	(1,495)	
Private	18	20	(2)	(10.0%)
Investment Banking	19,340	(20,369)	39,709	
Strategic partnerships	8,948	8,354	594	7.1%
Leases	-	(16)	16	
Corporate Centre	302,205	30,903	271,302	877.9%
Total	**332,080**	**70,179**	**261,901**	**373.2%**

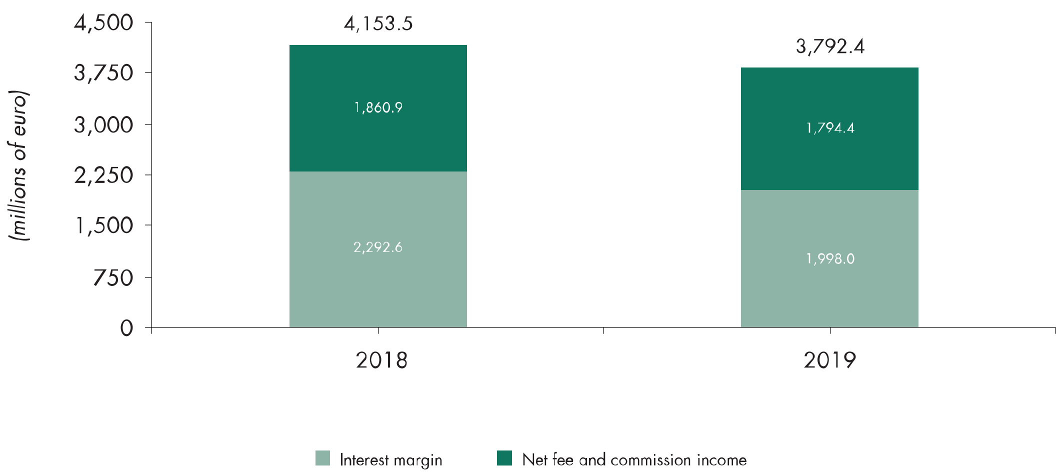
(*) Keeping the total of the item unchanged, the figures relating to the previous year were restated to guarantee a like-for-like comparison with the segmentation criteria used for 2019.



The sharp increase in the net financial result of the Corporate Centre is due to the income deriving from the sale of securities (+117.4 million euro), as well as the capital gains from both the sale of the shareholding in Nexi (70.3 million euro) and the recoveries on Sorgenia bonds (44.6 million euro). The contribution from Investment Banking (Banca Akros) was also positive, due to the growth recorded in the structuring of products, which partially offset the negative performance of the Network, down by 49.7 million euro, especially due to the effect of the measurement of loans that did not pass the SPPI test, equal to -19.0 million euro for 2019 compared to +24.9 million euro in the previous year.

By virtue of the dynamics described, total **operating income** thus amounted to 4,293.0 million euro, down by 10.1% compared to 2018. Excluding the non-recurring components recorded as at 31 December 2018 from the comparison, the reduction would be 4.4%, mainly due to the effects of the previously illustrated performance of the interest margin - to also be read in light of the previously mentioned reduction of risk as a result of the derisking carried out in 2018 - and fee and commission income.

Core Banking Business

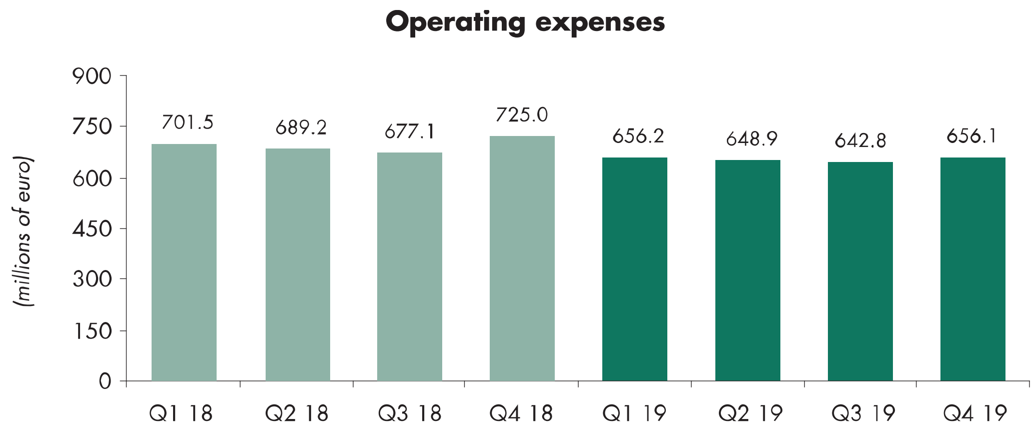


Taking only revenues from "core banking business" into account, represented by the sum of the aggregates relating to interest margin and net fee and commission income, the 2019 figure reached 3,792.4 million, down 8.7% compared to the figure for the previous year.

Operating expenses

(thousands of euro)	2019	2018	Abs. change	% Change
Personnel expenses	**(1,696,531)**	**(1,732,805)**	**36,274**	**(2.1%)**
Other administrative expenses	**(638,566)**	**(816,478)**	**177,912**	**(21.8%)**
- Taxes and duties	(311,841)	(330,799)	18,958	(5.7%)
- Services and consulting	(299,584)	(337,777)	38,193	(11.3%)
- Real estate	(65,534)	(207,874)	142,340	(68.5%)
- Postal, telephone and stationery	(26,787)	(32,998)	6,211	(18.8%)
- Maintenance and fees for furniture, machines and systems	(67,272)	(59,467)	(7,805)	13.1%
- Advertising and entertainment	(16,700)	(16,313)	(387)	2.4%
- Other administrative expenses	(112,548)	(112,594)	46	(0.0%)
- Recoveries on expenses	261,700	281,344	(19,644)	(7.0%)
Value adjustments to property, plant and equipment and intangible assets	**(268,949)**	**(243,498)**	**(25,451)**	**10.5%**
- Value adjustments to property, plant and equipment	(197,653)	(110,958)	(86,695)	78.1%
- Value adjustments to intangible assets	(66,811)	(66,857)	46	(0.1%)
- Value adjustments to leasehold improvements (*)	-	(17,775)	17,775	
- Net write-downs for impairment	(4,485)	(47,908)	43,423	(90.6%)
Total	**(2,604,046)**	**(2,792,781)**	**188,735**	**(6.8%)**

(*) As at 31 December 2019, with the application of IFRS 16, the amount of value adjustments to leasehold improvements is included among value adjustments to property, plant and equipment.



Personnel expenses of 1,696.5 million euro showed a decrease of 2.1% compared to the 1,732.8 million euro in the previous year. The total number of employees was 21,941 as at 31 December 2019, compared to 22,247 at the end of 2018.

Other administrative expenses[1] amounted to 638.6 million euro translating into a 21.8% drop compared to 2018. This reduction is in part attributable to the application of the IFRS 16 standard which, for contracts under this standard, provides for the inclusion of the depreciation of the right of use under "net value adjustments to property, plant and equipment and intangible assets" in place of registration of rents and rentals payable under "other administrative expenses". Even when taking this effect into account, other administrative expenses still saw a significant reduction (around -9.0% compared to 2018). The drop was particularly seen in the item regarding charges on real estate, which was impacted by the aforementioned effect of IFRS 16, as well as the lower rents payable due to the closing of branches implemented in the previous year.

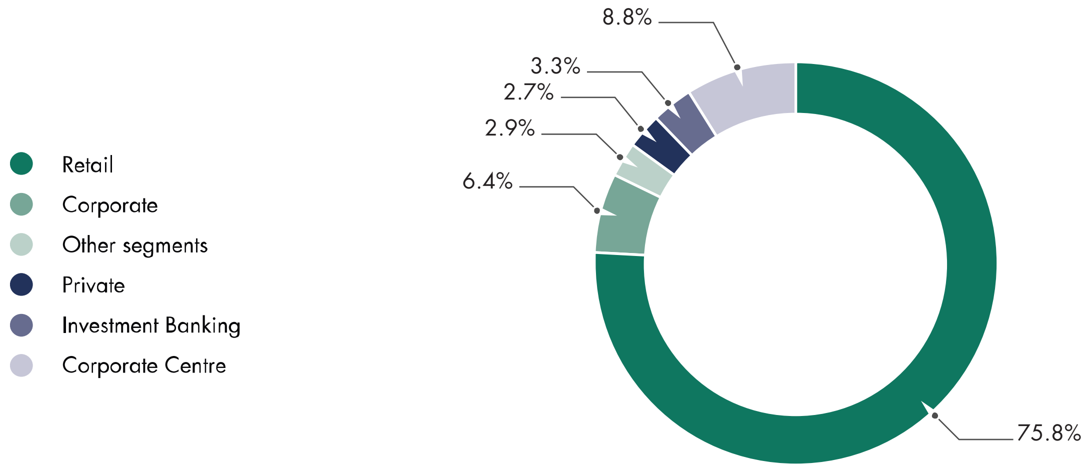
Net value adjustments to property, plant and equipment and intangible assets amounted to 268.9 million euro, compared to 243.5 million euro as at 31 December 2018, and include amortisation of intangible assets for 4.4 million euro. The figure for 31 December 2019 is not fully comparable with that of the previous year

[1] 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.

as, due to the change in the accounting criterion for measurement of real estate and art assets of the Group, property held for investment purposes is no longer subject to depreciation. The item in question was also influenced by the introduction of IFRS 16, mentioned above. Taking account of the effects mentioned above (introduction of IFRS 16 and change in the accounting criterion) and net of write-downs, the aggregate decreased, in any event, by 4.3% compared to 31 December 2018.

Total **operating expenses** therefore amounted to 2,604.0 million euro, falling by 6.8% compared to 2018. Also net of the aforementioned non-recurring components, the aggregate decreased (-4.3%), demonstrating the ongoing cost cutting activities implemented since Banco BPM was created.

(thousands of euro)	2019	2018	Abs. change	% Change
Retail	(1,974,965)	(2,167,785)	192,820	(8.9%)
Corporate	(165,841)	(159,803)	(6,038)	3.8%
Institutional	(36,194)	(39,344)	3,150	(8.0%)
Private	(70,918)	(69,747)	(1,171)	1.7%
Investment Banking	(86,665)	(93,162)	6,497	(7.0%)
Strategic partnerships	(2,771)	(2,558)	(213)	8.3%
Leases	(36,358)	(74,811)	38,453	(51.4%)
Corporate Centre	(230,334)	(185,571)	(44,763)	24.1%
Total	**(2,604,046)**	**(2,792,781)**	**188,735**	**(6.8%)**



Operating expenses showed a significant decrease in personnel expenses (-36.3 million), above all in the Retail segment (53.6 million) due to previous reductions in staff. Other administrative expenses recorded the positive impact of the application of IFRS 16, with the reclassification to net value adjustments to property, plant and equipment and intangible assets of an amount of 104.4 million euro. That change in reporting was implemented by the individual business lines. Nonetheless, even net of that effect, the decrease at consolidated level and, specifically, in the Retail segment, remained significant due to careful cost management. Conversely, adjustments to property, plant and equipment and intangible assets increased, as they were negatively impacted by the application of IFRS 16, only partially mitigated by the improvement due to the change in the accounting criterion for measurement of real estate. In particular, this latter factor initially had a negative impact relating to real estate for investment purposes, part of which was recorded in the Lease segment (impact due to Release for 78.2 million euro) and the remainder in the Corporate Centre (80.3 million euro).

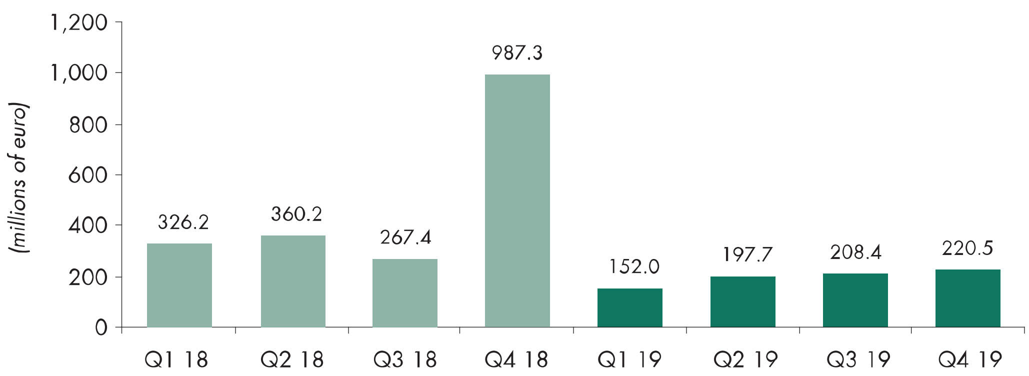
Profit (loss) from operations

Profit (loss) from operations therefore amounted to 1,688.9 million euro compared to the 1,980.1 million euro recorded in 2018, a drop of 14.7%. Net of non-recurring components, the aggregate amounted to 1,688.7 million euro, showing a decrease of 4.6% with respect to the previous year's figure.

Adjustments and provisions

(thousands of euro)	2019	2018	Abs. change	% Change
Net value adjustments to loans to customers	**(735,955)**	**(1,683,663)**	**947,708**	**(56.3%)**
Specific value adjustments: derecognitions	(54,418)	(140,010)	85,592	(61.1%)
Specific value adjustments: other	(1,428,460)	(2,747,946)	1,319,486	(48.0%)
Specific recoveries	708,968	1,222,016	(513,048)	(42.0%)
Net portfolio adjustments/recoveries	37,955	(17,723)	55,678	
Profits/(losses) on disposal of loans	**(42,575)**	**(257,453)**	**214,878**	**(83.5%)**
Total	**(778,530)**	**(1,941,116)**	**1,162,586**	**(59.9%)**

Net adjustments to loans to customers



Net adjustments to loans to customers amounted to 778.5 million euro, a marked decline compared with the figure of 1,941.1 million euro in 2018 (-59.9%), due to the substantial contraction of the bad loans brought on by the derisking actions completed in the previous year. The cost of credit, measured by the ratio of net adjustments to loans to net loans (including loans classified as held for disposal), was 73 b.p., sharply down from 184 b.p. last year. Also net of the extraordinary adjustments made in 2018[1] (713.9 million euro), adjusted cost of risk for 2019 confirmed a sharp decrease of 43 b.p. yoy.

The overall effect on the income statement for the year of the write-downs and revaluations of real estate and valuable works of art, included in the new item of the reclassified income statement **Profits (losses) from the fair value designation of property, plant and equipment** came to -158.5 million euro.

The income statement for the year recorded **net recoveries on securities and other financial assets** of 5.8 million euro (net recoveries for 3.3 million euro as at 31 December 2018).

Net provisions for risks and charges amounted to 71.0 million euro compared to 345.3 million euro in 2018, which included the allocations made to take account of the stricter regulations regarding the conditions applied to customers as well as to increase coverage of charges from disputes and complaints.

As at 31 December 2019, **profits on disposal of investments in associates and companies subject to joint control and other investments** totalling 333.2 million euro were recorded, including gross capital gains achieved through reorganisation of the consumer loan segment (189.5 million euro) and establishment of the partnership with Credito Fondiario to manage recovery activities for non-performing loans (142.7 million euro). In 2018 the contribution came to 173.4 million euro, almost completely deriving from sales of equity interest as part of the reorganisation of the bancassurance segment.

[1] As a result of the Exodus and ACE transactions.

As a result of trends described above, the **profit (loss) before tax from continuing operations and banking industry charges** amounted to a profit of 1,019.7 million euro, compared to the 129.7 million euro loss recorded the previous year.

Other revenue and cost items

Taxes on income from continuing operations as at 31 December 2019 amounted to -145.4 million euro (+162.8 million euro as at 31 December 2018), benefiting from the lower tax burden on the capital gains realised through the sale of equity investments.

92.9 million of **charges related to the banking system, net of taxes** were recognised in the income statement for the year (100.2 million euro in 2018), which include contributions to the Single Resolution Fund (SRF) amounting to 61.7 million euro gross (68.1 million euro gross as at 31 December 2018), and to the Interbank Deposit Guarantee Fund for 53.4 million euro (45.2 million euro as at 31 December 2018), as well as the additional extraordinary contributions to the Single Resolution Fund amounting to 22.6 million euro (25.5 million euro as at 31 December 2018).

Considering the share of income attributable to minority interests (+15.6 million euro), 2019 closed with a **Parent Company's net income (loss)** amounting to 797.0 million euro, compared to a loss of 59.4 million euro in the previous year.
Adjusted income for the year amounted to 648.6 million euro, compared to 342.8 million euro in 2018 (+89.2%).

Consolidated balance sheet figures

Reclassified consolidated balance sheet

The following table compares the balance sheet as at 31 December 2019 with the balances resulting from the financial statements as at 31 December 2018. Also presented is a comparison with the balances as at 1 January 2019 restated to take into account the first-time adoption of the accounting standard IFRS 16.
Annexed to the financial statements is a statement of reconciliation between the balances as at 31 December 2018 and those determined as at 1 January 2019, as well as a statement of reconciliation between the items of the consolidated balance sheet and the format of the reclassified consolidated balance sheet.

(thousands of euro)	31/12/2019	01/01/2019	31/12/2018	Changes on 31/12/2018	
Cash and cash equivalents	912,742	922,017	922,017	(9,275)	(1.0)%
Loans measured at Amortised Cost	115,889,891	108,207,732	108,207,732	7,682,159	7.1%
- Loans to banks	10,044,427	4,193,119	4,193,119	5,851,308	139.5%
- Loans to customers (*)	105,845,464	104,014,613	104,014,613	1,830,851	1.8%
Other financial assets and hedging derivatives	37,069,089	36,852,942	36,852,942	216,147	0.6%
- At FV through Profit or Loss	7,285,091	5,869,106	5,869,106	1,415,985	24.1%
- At FV through OCI	12,526,772	15,351,561	15,351,561	(2,824,789)	(18.4)%
- At AC	17,257,226	15,632,275	15,632,275	1,624,951	10.4%
Equity investments	1,386,079	1,434,163	1,434,163	(48,084)	(3.4)%
Property, plant and equipment	3,624,312	3,649,776	2,775,885	848,427	30.6%
Intangible assets	1,269,360	1,277,941	1,277,941	(8,581)	(0.7)%
Tax assets	4,619,636	5,012,477	5,012,477	(392,841)	(7.8)%
Non-current assets and asset disposal groups held for sale	131,082	1,592,782	1,592,782	(1,461,700)	(91.8)%
Other assets	2,136,010	2,316,144	2,388,852	(252,842)	(10.6)%
Total assets	**167,038,201**	**161,265,974**	**160,464,791**	**6,573,410**	**4.1%**
Direct funding	109,506,299	105,219,691	105,219,691	4,286,608	4.1%
- Due to customers	93,375,026	90,197,859	90,197,859	3,177,167	3.5%
- Securities and financial liabilities at FV	16,131,273	15,021,832	15,021,832	1,109,441	7.4%
Due to banks	28,515,685	31,633,541	31,633,541	(3,117,856)	(9.9)%
Lease payables	732,536	835,594		732,536	
Other financial liabilities at fair value	10,919,429	7,228,829	7,228,829	3,690,600	51.1%
Liability provisions	1,486,683	1,670,455	1,704,866	(218,183)	(12.8)%
Tax liabilities	619,269	505,402	505,402	113,867	22.5%
Liabilities associated with asset disposal groups held for sale	5,096	3,043	3,043	2,053	67.5%
Other liabilities	3,366,122	3,864,345	3,864,345	(498,223)	(12.9)%
Total liabilities	**155,151,119**	**150,960,900**	**150,159,717**	**4,991,402**	**3.3%**
Minority interests	26,076	45,599	45,599	(19,523)	(42.8)%
Group shareholders' equity	11,861,006	10,259,475	10,259,475	1,601,531	15.6%
Consolidated shareholders' equity	**11,887,082**	**10,305,074**	**10,305,074**	**1,582,008**	**15.4%**
Total liabilities and shareholders' equity	**167,038,201**	**161,265,974**	**160,464,791**	**6,573,410**	**4.1%**

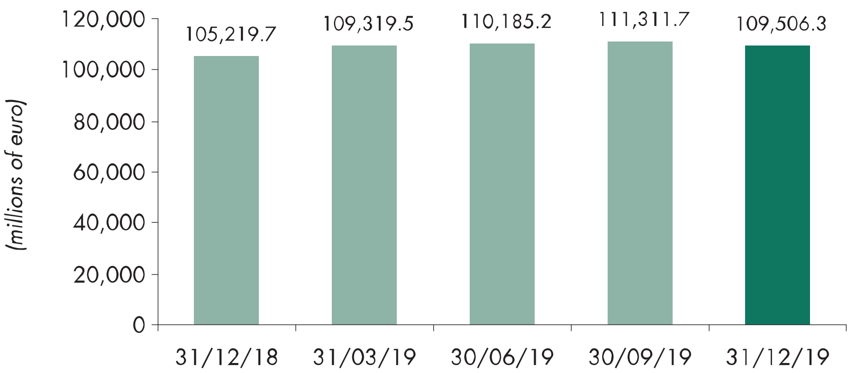
(*) Includes senior securities for which the procedure for the issue by the Italian government of the guarantee on the securitisation of bad loans pursuant to Decree Law 18/2016 ("GACS").

The changes in the main balance sheet items as at 31 December 2019 are described below.

Loan brokering activities

Direct funding

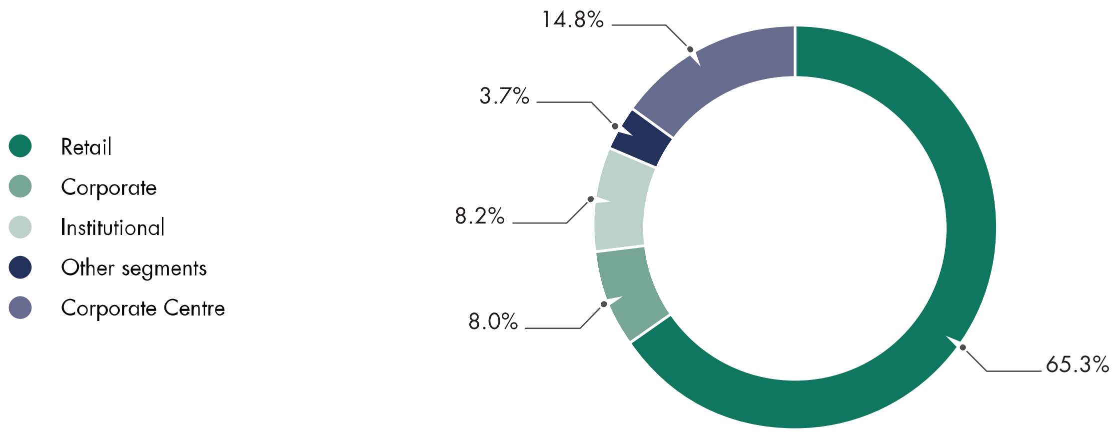
(thousands of euro)	31/12/2019	% impact	31/12/2018	% impact	Abs. change	% Change
Current accounts and deposits	**87,782,024**	**80.2%**	**81,124,139**	**77.1%**	**6,657,885**	**8.2%**
- current accounts and demand deposits	86,155,794	78.7%	78,713,896	74.8%	7,441,898	9.5%
- fixed-term deposits and other restricted current accounts	1,626,230	1.5%	2,410,243	2.3%	(784,013)	(32.5%)
Securities	**16,131,273**	**14.7%**	**15,021,832**	**14.3%**	**1,109,441**	**7.4%**
- bonds and liabilities at fair value	16,055,719	14.7%	14,853,170	14.1%	1,202,549	8.1%
- certificates of deposit and other securities	75,554	0.1%	168,662	0.2%	(93,108)	(55.2%)
Repurchase agreements	**3,866,166**	**3.5%**	**7,110,267**	**6.8%**	**(3,244,101)**	**(45.6%)**
Loans and other payables	**1,726,836**	**1.6%**	**1,963,453**	**1.9%**	**(236,617)**	**(12.1%)**
Total direct funding	**109,506,299**	**100.0%**	**105,219,691**	**100.0%**	**4,286,608**	**4.1%**



As at 31 December 2019, **direct funding** totalled 109.5 billion euro, showing an increase of 4.1% compared to the 105.2 billion euro as at 31 December 2018.
In comparison with the figures at the end of 2018 there has been an increase of 7.4 billion euro in the segment represented by the current accounts and demand deposits of the commercial network (+9.5%). The trend in bonds issued also grew (+1.2 billion euro) following senior preferred unsecured and subordinated bond issues reserved to institutional investors.

(thousands of euro)	31/12/2019	% impact	31/12/2018 (*)	% impact	Abs. change	% Change
Retail	71,458,273	65.3%	67,528,064	64.2%	3,930,209	5.8%
Corporate	8,796,052	8.0%	9,163,782	8.7%	(367,730)	(4.0%)
Institutional	8,971,719	8.2%	7,400,402	7.0%	1,571,317	21.2%
Private	2,751,218	2.5%	2,592,783	2.5%	158,435	6.1%
Investment Banking	1,337,763	1.2%	826,764	0.8%	510,999	61.8%
Leases	5,570	0.0%	5,369	0.0%	201	3.7%
Corporate Centre	16,185,704	14.8%	17,702,527	16.8%	(1,516,823)	(8.6%)
Total direct funding	**109,506,299**	**100.0%**	**105,219,691**	**100.0%**	**4,286,608**	**4.1%**

(*) Keeping the total of the item unchanged, the figures relating to the previous year were restated to guarantee a like-for-like comparison with the segmentation criteria used for 2019.



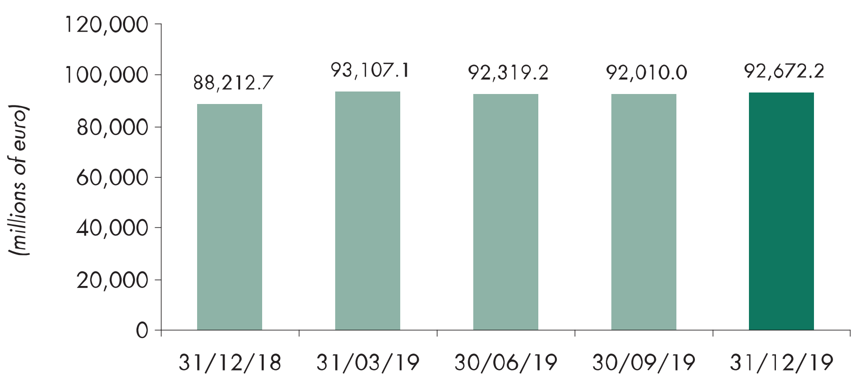
Total direct funding relative to the commercial network (Retail, Corporate, Institutional and Private) grew significantly, reaching 92.0 billion euro (+6.1%). In relation to a decrease in the stock of bonds placed with the Network, there was a sharp increase, especially in the Retail sector, of the non-restricted component of deposits (+6.8 billion euro). A significant contribution was also provided by the Institutional sector, rising from 7.4 billion euro to 9.0 billion euro.

In Corporate Centre there was an increase in balances, as a result of issues during the year. In particular, due to the favourable market conditions, Banco BPM Group issued 2.6 billion euro, of which: 1,750 million euro as part of the EMTN programme, 500 million euro relating to covered bond transactions and 350 million euro in Tier 2 subordinate securities.

Indirect funding

(thousands of euro)	31/12/2019	% impact	31/12/2018	% impact	Abs. change	% Change
Managed assets	**58,324,893**	**62.9%**	**55,689,606**	**63.1%**	**2,635,287**	**4.7%**
mutual funds and SICAVs	39,049,762	42.1%	35,992,009	40.8%	3,057,753	8.5%
securities and fund management	3,904,398	4.2%	4,804,669	5.4%	(900,271)	(18.7%)
insurance policies	15,370,733	16.6%	14,892,928	16.9%	477,805	3.2%
Administered assets	**34,347,351**	**37.1%**	**32,523,095**	**36.9%**	**1,824,256**	**5.6%**
Total indirect funding	**92,672,244**	**100.0%**	**88,212,701**	**100.0%**	**4,459,543**	**5.1%**

Indirect funding



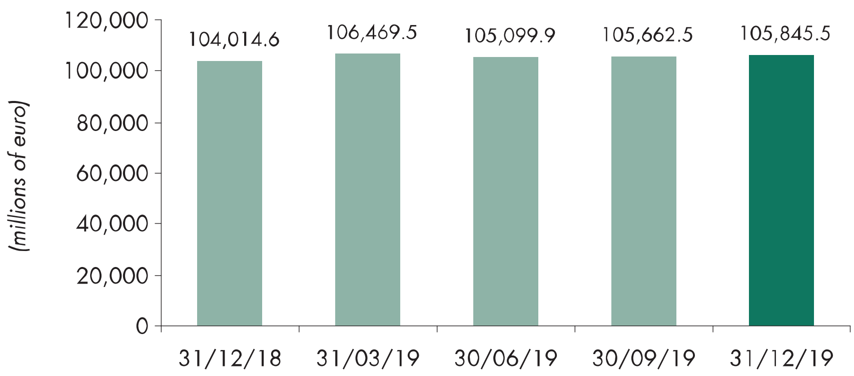
As at 31 December 2019, **indirect funding**, including certificates, totalled 92.7 billion euro, up compared to the 88.2 billion euro as at 31 December 2018.

In greater detail, the component of managed assets amounted instead to 58.3 billion euro, an increase of 4.7% compared with the figure of 55.7 billion euro as at 31 December 2018, seen mainly in the sector of funds and SICAVs which shows growth of over 3 billion in the year.
The segment of administered assets, which reached 34.3 billion euro, also grew compared to the end of 2018 (+5.6%).

Loans to customers

(thousands of euro)	31/12/2019	% impact	31/12/2018	% impact	Abs. change	% Change
Mortgage loans	65,341,934	61.7%	61,677,406	59.3%	3,664,528	5.9%
Current accounts	11,345,996	10.7%	12,198,635	11.7%	(852,639)	(7.0%)
Repurchase agreements	5,724,258	5.4%	6,233,274	6.0%	(509,016)	(8.2%)
Finance leases	1,715,408	1.6%	2,085,657	2.0%	(370,249)	(17.8%)
Credit cards, personal loans and salary-backed loans	2,019,994	1.9%	1,943,781	1.9%	76,213	3.9%
Other transactions	17,195,762	16.2%	18,447,246	17.7%	(1,251,484)	(6.8%)
Senior securities relative to Exodus and ACE transactions (GACS)	2,502,112	2.4%	1,428,614	1.4%	1,073,498	75.1%
Total net loans to customers	**105,845,464**	**100.0%**	**104,014,613**	**100.0%**	**1,830,851**	**1.8%**

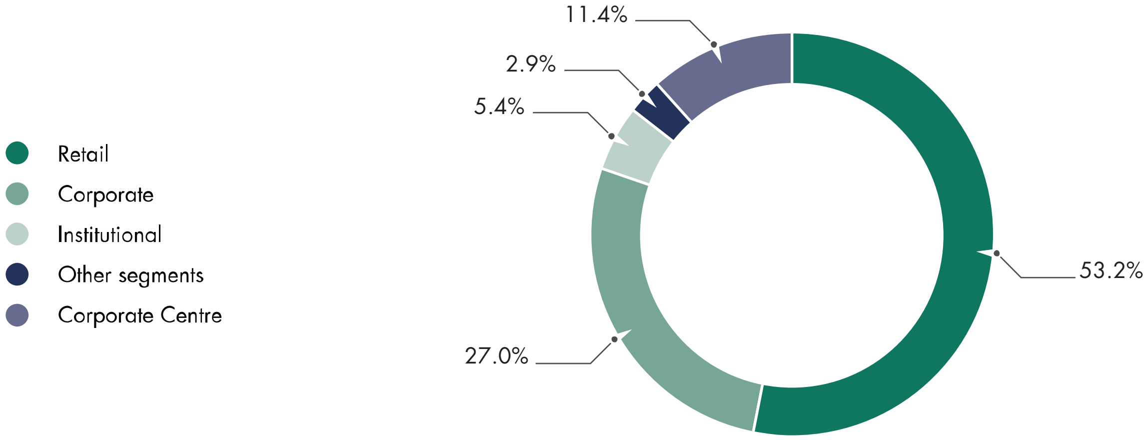
Net loans to customers



Net loans to customers[1] totalled 105.8 billion euro as at 31 December 2019, up by 1.8 billion euro compared to the figure of 31 December 2018. In particular, the aggregate of performing loans was up by 3.0 billion euro (+3.1%) compared to 31 December 2018, while non-performing loans were down by 1.2 billion euro (-17.6%).

Moreover, the item "non-current assets and asset disposal groups held for sale" includes a portfolio of bad loans, mainly represented by lease contracts, in relation to which a framework sale agreement (L-ACE) was signed on 28 June 2019, which, considering the first three tranches already realised, is expected to be completed by 30 June 2020. As at 31 December 2019 the net book value amounted to 94 million euro (gross book value of 313 million euro), in line with the expected sale price.

[1] The aggregate does not include loans to customers which, following the adoption of IFRS 9, are mandatorily at fair value. These loans, amounting to 0.4 billion euro, are included in financial assets measured at fair value.



(thousands of euro)	31/12/2019	% impact	31/12/2018 (*)	% impact	Abs. change	% Change
Retail	56,335,048	53.2%	55,017,100	52.9%	1,317,948	2.4%
Corporate	28,601,715	27.0%	28,150,052	27.1%	451,663	1.6%
Institutional	5,720,739	5.4%	5,099,081	4.9%	621,658	12.2%
Private	245,141	0.2%	220,935	0.2%	24,206	11.0%
Investment Banking	819,074	0.8%	1,385,016	1.3%	(565,942)	(40.9%)
Leases	2,005,510	1.9%	2,577,597	2.5%	(572,087)	(22.2%)
Corporate Centre	12,118,237	11.4%	11,564,832	11.1%	553,405	4.8%
Total net loans	**105,845,464**	**100.0%**	**104,014,613**	**100.0%**	**1,830,851**	**1.8%**

(*) Keeping the total of the item unchanged, the figures relating to the previous year were restated to guarantee a like-for-like comparison with the segmentation criteria used for 2019.

The trend of the network's performing loans (gross loans excluding bad loans) with customers of the Commercial Network, which rose from a total of 90.5 billion euro to 92.9 billion euro, had a positive impact on the growth of Group loans. This trend, which showed a shift towards medium/long-term loans and, in particular, pool loans, was present both in the Corporate segment (+833 million euro), and in the Retail (+551 million euro) and Institutional (+961 million euro) segments.

Credit quality

Introduction

The methods used to recognise loans acquired as part of business combinations are described in detail in Part E, section 1 "Risks of the consolidated book", to which the reader is referred.

In the tables shown below, which show individually gross exposure and provisions for impairment, the loans acquired as part of the business combinations are represented with "open balances", that is indicating as the gross exposure the nominal value of the loans acquired and including the difference between the book value and the value attributed to the loans within the Purchase Price Allocation process relative to provisions for impairment, given that this method of representation makes the effective level of coverage for non-performing loans immediately understandable.

Loans to customers at amortised cost

(thousands of euro)	31/12/2019		31/12/2018		Abs. change	% Change
	Net exposure	% impact	Net exposure	% impact		
Bad loans	1,559,597	1.5%	1,591,446	1.5%	(31,849)	(2.0%)
Unlikely to pay	3,911,791	3.7%	5,047,921	4.9%	(1,136,130)	(22.5%)
Non-performing past-due exposures	72,996	0.1%	87,535	0.1%	(14,539)	(16.6%)
Non-performing loans	**5,544,384**	**5.2%**	**6,726,902**	**6.5%**	**(1,182,518)**	**(17.6%)**
Performing loans	97,798,968	92.4%	95,859,097	92.2%	1,939,871	2.0%
Senior securities relative to Exodus and ACE transactions (GACS)	2,502,112	2.4%	1,428,614	1.4%	1,073,498	75.1%
Performing loans	**100,301,080**	**94.8%**	**97,287,711**	**93.5%**	**3,013,369**	**3.1%**
Total loans to customers	**105,845,464**	**100.0%**	**104,014,613**	**100.0%**	**1,830,851**	**1.8%**

(thousands of euro)	31/12/2019				31/12/2018			
	Gross exposure	Total value adjustments	Net exposure	Coverage	Gross exposure	Total value adjustments	Net exposure	Coverage
Bad loans	3,564,561	(2,004,964)	1,559,597	56.2%	3,939,378	(2,347,932)	1,591,446	59.6%
Unlikely to pay	6,423,516	(2,511,725)	3,911,791	39.1%	7,768,401	(2,720,480)	5,047,921	35.0%
Non-performing past-due exposures	98,492	(25,496)	72,996	25.9%	106,101	(18,566)	87,535	17.5%
Non-performing loans	**10,086,569**	**(4,542,185)**	**5,544,384**	**45.0%**	**11,813,880**	**(5,086,978)**	**6,726,902**	**43.1%**
of which: forborne	*4,701,537*	*(1,809,432)*	*2,892,105*		*4,905,846*	*(1,709,364)*	*3,196,482*	
Performing loans (*)	**100,631,192**	**(330,112)**	**100,301,080**	**0.3%**	**97,658,906**	**(371,195)**	**97,287,711**	**0.4%**
of which: first stage	*94,717,188*	*(123,560)*	*94,593,628*	*0.1%*	*90,439,344*	*(120,408)*	*90,318,936*	*0.1%*
of which: second stage	*5,914,004*	*(206,552)*	*5,707,452*	*3.5%*	*7,219,562*	*(250,787)*	*6,968,775*	*3.5%*
of which: forborne	*1,982,039*	*(73,477)*	*1,908,562*		*2,059,326*	*(68,621)*	*1,990,705*	
Total loans to customers	**110,717,761**	**(4,872,297)**	**105,845,464**	**4.4%**	**109,472,786**	**(5,458,173)**	**104,014,613**	**5.0%**

(*) Includes senior securities related to the Exodus Project and the ACE Project for 2,502.1 million euro (2,503.8 million euro of gross exposure and 1.7 million euro of value adjustments).

The figures in the table above correspond to the reclassified balance sheet item "Loans to customers" and, as indicated above, also include the senior securities subscribed by Banco BPM as part of the Exodus and ACE projects.
Without considering this reclassification, the net amount indicated corresponds to the item "Loans" reported in table 4.2 of the Notes to the consolidated financial statements, Part B - Information on the Consolidated Balance sheet, "Financial assets at amortised cost: breakdown by product for loans to customers".

Net non-performing loans (bad loans, unlikely to pay and past due and/or non-performing overdue) amounted to 5.5 billion euro as at 31 December 2019, a decrease of 1.2 billion euro (-17.6%) compared to 31 December 2018.
The examination of individual categories of non-performing loans shows the following trends:

- net bad loans of 1,560 million euro, down by 2.0% compared to the figure of 1,591 million euro as at 31 December 2018;
- net unlikely to pay of 3,912 million euro, down by 22.5% compared to 5,048 million euro as at 31 December 2018;
- net past due loans of 73 million euro, down by 16.6% compared to 88 million euro as at 31 December 2018.

The coverage ratio of the entire aggregate of non-performing loans came to 45.0% (48.1% including write-offs), up compared to the 43.1% of 31 December 2018 and compared to the 42.8% of 30 September 2019.
More specifically, at 31 December 2019, the coverage ratio was as follows:

- bad loans 56.2% (55.8% as at 30 September 2019; 59.6% as at 31 December 2018). Including write-offs, coverage reaches 62.5%;
- unlikely to pay 39.1% (37.0% as at 30 September 2019 and 35.0% as at 31 December 2018);
- past due 25.9% (17.3% as at 30 September 2019 and 17.5% as at 31 December 2018).

The coverage ratio of performing loans came out at 0.33%, down slightly compared to 0.38% as at 31 December 2018.

Financial assets

(thousands of euro)	31/12/2019	% impact	31/12/2018	% impact	Abs. change	% Change
Debt securities (*)	31,238,603	84.3%	32,877,292	89.2%	(1,638,689)	(5.0%)
Equity instruments	1,942,243	5.2%	1,320,031	3.6%	622,212	47.1%
UCIT units	604,969	1.6%	492,425	1.3%	112,544	22.9%
Total securities portfolio	**33,785,815**	**91.1%**	**34,689,748**	**94.1%**	**(903,933)**	**(2.6%)**
Derivative trading and hedging instruments	2,063,323	5.6%	1,868,793	5.1%	194,530	10.4%
Loans	1,219,951	3.3%	294,401	0.8%	925,550	314.4%
Total financial assets	**37,069,089**	**100.0%**	**36,852,942**	**100.0%**	**216,147**	**0.6%**

(*) Excludes senior securities for which the Italian government, pursuant to Decree Law 18/2016 ("GACS"), issued a guarantee for the securitisation of the NPLs.

Financial assets amounted to 37.1 billion euro, up slightly compared to 36.9 billion euro of 31 December 2018 (+0.6%). The breakdown as at 31 December 2019 is represented by debt securities for 31.2 billion euro (as at 31 December 2019, these showed positive reserves of 70.7 million euro, on the portion classified at FVOCI, and unrealised gains of around 520 million euro, on the portion classified at amortised cost) and by equity instruments and UCIT units for 2.5 billion euro. Exposures in debt securities issued by sovereign states came to 26.4 billion euro, of which 15.5 billion euro referring to Italian government bonds. The impact of the latter on the segment of debt securities came to 49.7% as at 31 December 2019 compared to 56.5% of 30 September 2019. Following the introduction of IFRS 9, financial assets also include (for an amount of 0.4 billion euro) loans to customers mandatorily at fair value. Moreover, as of 31 December 2019, financial assets now also include repurchase agreements classified in the trading book for 0.8 billion euro.

The tables below provide a breakdown of financial assets by type and portfolio:

Financial assets at fair value through profit and loss and hedging derivatives

(thousands of euro)	31/12/2019	% impact	31/12/2018	% impact	Abs. change	% Change
Debt securities	2,086,204	28.6%	2,390,289	40.7%	(304,085)	(12.7%)
Equity instruments	1,310,644	18.0%	823,198	14.0%	487,446	59.2%
UCIT units	604,969	8.3%	492,425	8.4%	112,544	22.9%
Total securities portfolio	**4,001,817**	**54.9%**	**3,705,912**	**63.1%**	**295,905**	**8.0%**
Financial and credit derivatives	2,063,323	28.3%	1,868,793	31.8%	194,530	10.4%
Loans	1,219,951	16.7%	294,401	5.0%	925,550	314.4%
Overall total	**7,285,091**	**100.0%**	**5,869,106**	**100.0%**	**1,415,985**	**24.1%**

Financial assets at fair value through other comprehensive income

(thousands of euro)	31/12/2019	% impact	31/12/2018	% impact	Abs. change	% Change
Debt securities	11,895,173	95.0%	14,854,728	96.8%	(2,959,555)	(19.9%)
Equity instruments	631,599	5.0%	496,833	3.2%	134,766	27.1%
Total	**12,526,772**	**100.0%**	**15,351,561**	**100.0%**	**(2,824,789)**	**(18.4%)**

Financial assets at amortised cost

(thousands of euro)	31/12/2019	% impact	31/12/2018	% impact	Abs. change	% Change
Debt securities (*)	17,257,226	100.0%	15,632,275	100.0%	1,624,951	10.4%
Total	**17,257,226**	**100.0%**	**15,632,275**	**100.0%**	**1,624,951**	**10.4%**

(*) Excludes senior securities for which the Italian government, pursuant to Decree Law 18/2016 ("GACS"), issued a guarantee for the securitisation of the NPLs.

Exposure to sovereign risk

The Group's total exposure in sovereign debt securities as at 31 December 2019 was 26,437.2 million euro, and is provided below, broken down by country (in thousands of euro):

Countries	Fin. assets at fair value through profit and loss	Fin. assets at fair value through other comprehensive income	Fin. assets at amortised cost	Total debt securities	of which Parent Company
Italy	883,872	4,635,070	10,006,021	15,524,963	14,740,101
Spain	732,977	1,915,599	1,253,510	3,902,087	3,899,899
Ireland	2	-	19,929	19,931	19,929
Germany	6,593	330,743	389,592	726,928	726,926
France	-	1,508,072	1,366,073	2,874,145	2,874,145
Austria	-	-	144,218	144,218	144,218
Other EU countries	65	53,539	131,485	185,089	185,024
Total EU countries	**1,623,509**	**8,443,023**	**13,310,829**	**23,377,362**	**22,590,242**
USA	3	580,636	2,384,906	2,965,545	2,965,543
Argentina	59	-	-	59	59
China	-	54,572	39,647	94,219	94,219
Total other countries	**62**	**635,208**	**2,424,553**	**3,059,823**	**3,059,821**
Total	**1,623,571**	**9,078,231**	**15,735,382**	**26,437,185**	**25,650,063**

Exposure is mainly concentrated within the Parent Company Banco BPM, which as at 31 December held a total of 25,650.1 million euro, mostly relative to Italian government bonds.

Investments in sovereign debt securities are classified in the portfolio of financial assets at fair value through profit and loss for approximately 6%, in the portfolio of financial assets at fair value through other comprehensive income for 34%, and the remaining 60% is classified in the segment of financial assets at amortised cost.
The tables below provide more detailed information about the breakdown of debt securities with EU countries by accounting portfolio, residual life brackets and fair value hierarchy.

Financial assets at fair value through profit and loss:

Country	Maturing by 2020	Maturing between 2020 and 2024	Maturing between 2024 and 2029	Maturing beyond 2029	Total fair value as at 31/12/2019	Total fair value by hierarchy		
						LEVEL 1	LEVEL 2	LEVEL 3
Italy	500,558	109,841	214,511	58,962	883,872	883,872	-	-
Spain	-	391,126	341,851	-	732,977	732,977	-	-
Ireland	-	-	2	-	2	2	-	-
Greece	-	-	-	2	2	2	-	-
Germany	-	6,591	-	2	6,593	6,593	-	-
Other EU countries	-	-	63	-	63	63	-	-
Total	**500,558**	**507,558**	**556,428**	**58,965**	**1,623,509**	**1,623,509**	**-**	**-**
of which Parent Company	-	485,997	551,585	-	1,037,581	1,037,581	-	-

Financial assets at fair value through other comprehensive income

Country	Maturing by 2020	Maturing between 2020 and 2024	Maturing between 2024 and 2029	Maturing beyond 2029	Total fair value as at 31/12/2019	Net Reserve FVTOCI	Value adjustments	Total fair value by hierarchy		
								LEVEL 1	LEVEL 2	LEVEL 3
Italy	-	3,719,727	810,557	104,785	4,635,070	35,103	-	4,635,070	-	-
Spain	-	51,069	1,864,530	-	1,915,599	(3,835)	-	1,915,599	-	-
France	-	-	1,508,072	-	1,508,072	(4,179)	-	1,508,072	-	-
Germany	-	-	330,743	-	330,743	(3,261)	-	330,743	-	-
Other EU countries	-	-	53,539	-	53,539	189	-	53,539	-	-
Total	**-**	**3,770,797**	**4,567,441**	**104,785**	**8,443,023**	**24,017**	**-**	**8,443,023**	**-**	**-**
of which Parent Company	-	3,569,608	4,567,441	104,785	8,241,835	24,381	-	8,241,835	-	-

Financial assets at amortised cost

Country	Maturing by 2020	Maturing between 2020 and 2024	Maturing between 2024 and 2029	Maturing beyond 2029	Total book value as at 31/12/2019	Total fair value	Total fair value by hierarchy		
							LEVEL 1	LEVEL 2	LEVEL 3
Italy	501,933	5,903,952	3,322,564	277,573	10,006,021	10,348,401	10,348,401	-	-
Spain	-	150,562	1,102,948	-	1,253,510	1,299,699	1,299,699	-	-
France	-	-	1,366,073	-	1,366,073	1,400,201	1,400,201	-	-
Ireland	-	-	19,929	-	19,929	21,546	21,546	-	-
Germany	-	-	389,592	-	389,592	399,982	399,982	-	-
Other EU countries	-	-	275,703	-	275,703	281,322	281,322	-	-
Total	**501,933**	**6,054,514**	**6,476,809**	**277,573**	**13,310,829**	**13,751,150**	**13,751,150**	**-**	**-**
of which Parent Company	501,933	6,054,513	6,476,807	277,573	13,310,826	13,751,147	13,751,147	-	-

Net Interbank Position

Due from banks

(thousands of euro)	31/12/2019	% impact	31/12/2018	% impact	Abs. change	% Change
Due from central banks	**6,556,632**	**65.3%**	**575,536**	**13.7%**	**5,981,096**	**not significant**
Due from other banks	**3,487,795**	**34.7%**	**3,617,583**	**86.3%**	**(129,788)**	**(3.6%)**
Current accounts and demand deposits	908,865	9.0%	1,094,490	26.1%	(185,625)	(17.0%)
Fixed-term deposits	134,493	1.3%	129,295	3.1%	5,198	4.0%
Repurchase agreements	971,491	9.7%	758,169	18.1%	213,322	28.1%
Other loans	1,472,946	14.7%	1,635,629	39.0%	(162,683)	(9.9%)
Total loans (A)	**10,044,427**	**100.0%**	**4,193,119**	**100.0%**	**5,851,308**	**139.5%**

Due to banks

(thousands of euro)	31/12/2019	% impact	31/12/2018	% impact	Abs. change	% Change
Due to central banks	**20,783,964**	**72.9%**	**21,289,947**	**67.3%**	**(505,983)**	**(2.4%)**
Refinancing operations	20,735,884	72.7%	21,237,501	67.1%	(501,617)	(2.4%)
Other payables	48,080	0.2%	52,446	0.2%	(4,366)	(8.3%)
Due to other banks	**7,731,721**	**27.1%**	**10,343,594**	**32.7%**	**(2,611,873)**	**(25.3%)**
Current accounts and demand deposits	636,642	2.2%	877,462	2.8%	(240,820)	(27.4%)
Fixed-term deposits	113,156	0.4%	158,955	0.5%	(45,799)	(28.8%)
Repurchase agreements	5,870,652	20.6%	8,194,818	25.9%	(2,324,166)	(28.4%)
Other payables	1,111,271	3.9%	1,112,359	3.5%	(1,088)	(0.1%)
Total payables (B)	**28,515,685**	**100.0%**	**31,633,541**	**100.0%**	**(3,117,856)**	**(9.9%)**
Mismatch loans/payables (A) - (B)	**(18,471,258)**		**(27,440,422)**		**8,969,164**	**(32.7%)**
Due to central banks: refinancing operations	(20,735,884)		(21,237,501)		501,617	(2.4%)
Interbank balance (excl. refinancing operations)	2,264,626		(6,202,921)		8,467,547	
Mismatch towards central banks (excl. refinancing operations)	6,508,552		523,090		5,985,462	not significant
Interbank balance towards other banks	(4,243,926)		(6,726,011)		2,482,085	(36.9%)

Net interbank exposure as at 31 December 2019 amounted to -18,471.3 million euro, compared to the balance of -27,440.4 million euro at the end of last year.
Due to central banks amounted to 20.8 billion euro and referred to long-term refinancing (TLTRO II and III) and short-term refinancing (MRO) with the European Central Bank.

If net exposures towards central banks are not considered (in reality linked to the mandatory reserve), the net interbank balance towards other banks is negative, and amounts to -4,243.9 million euro (-6,726.0 million euro as at 31 December of last year).

Investments in associates and companies subject to joint control

Investments in associates and companies subject to joint control as at 31 December 2019 amounted to 1,386.1 million euro, compared with 1,434.1 million euro as at 31 December 2018.

The changes recorded during the year also include the impact resulting from the valuation of investments in associated companies using the equity method, relating to the share of the results recorded by the same during the year (+131.2 million euro); the effects of the reductions of capital of Agos Ducato (-106.5 million euro), Vera Assicurazioni (-9.1 million euro), Bipiemme Vita (-3.8 million euro), and Etica SGR (-0.6 million) euro following the distribution of dividends, as well as changes attributable to the Group in the valuation reserves and other reserves (+11.5 million euro).

Moreover, following the sale of the majority of the share capital of CF Liberty Servicing S.p.A. (formerly First Servicing S.p.A.), the fair value measurement of the residual shareholding resulted in the recognition of an amount of 42.9 million euro under equity investments.

Property, plant and equipment

(thousands of euro)	31/12/2019	31/12/2018	Abs. change	% Change
Property, plant and equipment used in operations	**2,308,541**	**1,382,900**	**925,641**	**66.9%**
- at cost	875,205	1,382,900	(507,695)	(36.7%)
- at fair value	1,433,336	-	1,433,336	
Property, plant and equipment held for investment purposes	**1,315,771**	**1,392,985**	**(77,214)**	**(5.5%)**
- at cost	-	1,392,985	(1,392,985)	(100.0%)
- at fair value	1,315,771	-	1,315,771	
Total property, plant and equipment (item 90)	**3,624,312**	**2,775,885**	**848,427**	**30.6%**
Property, plant and equipment held for sale (item 120)	**33,594**	**9,396**	**24,198**	**257.5%**
Total property, plant and equipment	**3,657,906**	**2,785,281**	**872,625**	**31.3%**

The breakdown of property, plant and equipment used in operations is shown in the table below:

Property, plant and equipment used in operations *(thousands of euro)*	At cost	At fair value	31/12/2019	31/12/2018
1. Owned assets	**113,662**	**1,433,336**	**1,546,998**	**1,382,646**
- land	-	1,043,095	1,043,095	451,847
- buildings	-	336,504	336,504	789,029
- other	113,662	53,737	167,399	141,770
2. Rights of use acquired through leases	**761,543**	**-**	**761,543**	**254**
- land	-	-	-	-
- buildings	760,865	-	760,865	254
- other	678	-	678	-
Total	**875,205**	**1,433,336**	**2,308,541**	**1,382,900**

The breakdown of property, plant and equipment held for investment purposes is shown in the table below:

Property, plant and equipment held for investment purposes *(thousands of euro)*	At cost	At fair value	31/12/2019	31/12/2018
1. Owned assets	**-**	**1,315,771**	**1,315,771**	**1,392,985**
- land	-	952,657	952,657	614,287
- buildings	-	363,114	363,114	778,698
2. Rights of use acquired through leases	**-**	**-**	**-**	**-**
- land	-	-	-	-
- buildings	-	-	-	-
Total	**-**	**1,315,771**	**1,315,771**	**1,392,985**

As at 31 December 2019, the total property, plant and equipment held by the Group amounted to 3,657.9 million euro. The figure is not fully comparable to that of the previous year due to the first-time adoption of IFRS 16, which resulted in the recognition of more property, plant and equipment as a result of the recognition of the rights of use acquired through leases, equal to 835.6 million euro, almost fully represented by real estate lease agreements.

Moreover, starting from the financial statements as at 31 December 2019, the Group changed the criterion for measurement of real estate assets and valuable works of art. The adoption of the new criterion entailed:

- for property and plant used in operations: positive net fair value changes of 367.0 million euro, resulting from the alignment of the book value to the higher fair values as at 31 December 2019, recognised as balancing entries of a valuation reserve, and negative fair value changes of 49.0 million euro, resulting

from the alignment of the book values to the lower fair values as at 31 December 2019, charged to the income statement under the item "Profits (losses) from the fair value designation of property, plant and equipment";
- for property, plant and equipment held for investment purposes: negative fair value changes of 12.4 million euro, recognised as balancing entries to a change in the opening balances of shareholders' equity reserves, based on the fair values measured on 1 January 2019, and negative fair value changes of 109.5 million euro, recognised under the income statement item "Profits (losses) from the fair value designation of property, plant and equipment", mainly due to the revision of the methodology for determining the fair value as at 31 December 2019 compared to 31 December 2018. For that real estate category, the depreciation recognised up to 31 December 2019 (for 27.2 million euro) was also reversed, as the real estate is no longer subject to depreciation.

The segment of discontinued operations as at 31 December 2019 includes 33.6 million euro of property, plant and equipment (9.4 million euro as at 31 December 2018), referring to real estate for which sales agreements were defined.

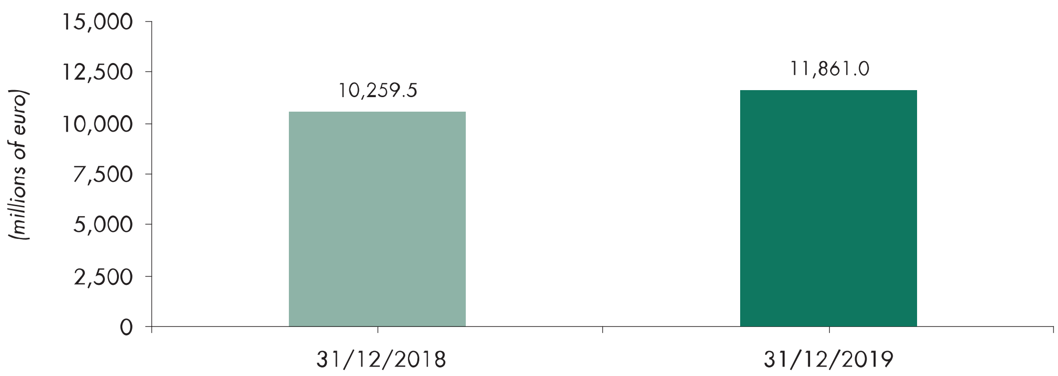
Liability provisions

As at 31 December, liability provisions amounted to 1,486.7 million euro (1,704.9 million euro last 31 December) and included the provisions for employee termination indemnities of 384.9 million euro (377.5 million euro at the end of last year), pension funds of 150.9 million euro (150.7 million euro as at 31 December 2018), allocations against commitments and guarantees given of 116.0 million euro (123.8 million euro at the end of the previous year) and other provisions for risks and charges of 834.9 million euro (1,052.9 million euro at the end of 2018).
These latter included provisions for personnel expenses for 368.8 million euro (481.3 million euro as at 31 December 2018), mainly associated with the Solidarity Funds relative to agreements for voluntary redundancy activated in previous years, and provisions for legal and tax disputes of 156.9 million euro (157.4 million euro at the end of last year).

In the Notes to the consolidated financial statements, Part B - Liabilities, section 10 - Provisions for risks and charges, details are given with regards to the main pending legal proceedings, as well as the main disputes with the tax authorities and the main disputes and complaints involving customers.

Shareholders' equity and solvency ratios

Consolidated shareholders' equity



The Group's consolidated shareholders' equity as at 31 December 2019, including valuation reserves and net income for the period, amounted to 11,861.0 million euro, compared to the figure at the end of 2018 of 10,259.5 million euro.

Comprehensive income recorded as at 31 December 2019, in terms of the share pertaining to the Group, was positive at 1,323.8 million euro, due to the net income of 797.0 million euro and the positive change of 526.8 million euro in valuation reserves.

The following table shows the breakdown of valuation reserves:

(thousands of euro)	31/12/2019	31/12/2018
Financial assets at fair value through other comprehensive income	(2,715)	(297,943)
Property, plant and equipment	249,658	217
Foreign investment hedges	206	1,051
Cash flow hedges	(6,905)	(7,034)
Exchange rate differences	11,604	20,999
Financial liabilities at fair value through profit and loss (changes in own creditworthiness)	3,292	9,875
Actuarial gains/(losses) on defined benefit pension plans	(102,344)	(74,028)
Share of valuation reserves related to investments in associates carried at equity	9,726	(1,889)
Special revaluation laws	2,314	2,314
Total	**164,836**	**(346,438)**

Valuation reserves as at 31 December 2019 were positive and amounted to 164.8 million euro, compared with the negative figure as at 31 December 2018 of 346.4 million euro, mainly due to the effects of the aforementioned change in the criterion for measurement of the Group's real estate assets.

The following table provides a reconciliation between the Parent Company's shareholders' equity and net income (loss) with the corresponding consolidated balances.

(thousands of euro)	Shareholders' equity	Net income (loss) for the year
Balance as at 31/12/2019 as per the Parent Company's financial statements	**10,937,623**	**942,476**
Impact of the consolidation of subsidiaries	877,109	(39,216)
Impact of the valuation at equity of associated companies	44,779	131,255
Cancellation of the dividends received during the year from subsidiaries and associates	-	(218,554)
Other consolidation adjustments	1,495	(18,960)
Balance as at 31/12/2019 as per the consolidated financial statements	**11,861,006**	**797,001**

Solvency ratios - reference legislation and standards to follow

From 1 January 2014, the new harmonised regulations for banks and investment companies contained in (EU) Regulation no. 575/2013 ("CRR") and in Directive no. 2013/36/EU ("CRD IV") dated 26 June 2013 came into force. These transpose the standards defined by the Basel Committee for banking supervision (so-called Basel 3 framework) to the European Union. The Regulation and the relative technical standards are directly applicable to national legislation and constitute the "Single Rulebook".

The minimum capital requirements for 2019 are as follows:

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

In its communications on 21 December 2018, 22 March 2019, 21 June 2019 and 20 September 2019, the Bank of Italy confirmed, in relation to exposures to Italian counterparties, the Countercyclical Capital Buffer ratio at zero percent for the first, second, third and fourth quarters of 2019, respectively.

Through its communication on 30 November 2017, the Bank of Italy identified Banco BPM Banking Group as an Other Systemically Important Institution (O-SII). The O-SII reserve for 2019 is equal to 0.06%, and must be gradually increased each year on a straight-line basis to reach 0.25% on 1 January 2022.

On 11 December 2019, the European Central Bank (ECB) notified Banco BPM of its final decision on the minimum capital ratios to be complied with by Banco BPM on an ongoing basis, starting from 2020.

The decision is based on the supervisory review and evaluation process (SREP) conducted in compliance with Art. 4(1)(f) of Regulation (EU) no. 1024/2013.

In compliance with Art.16 (2) (a) of the Regulation no. 1024/2013, which confers on the ECB the power to require supervised banks to hold own funds in excess of the minimum capital requirements laid down by current regulations, the requirement to be added to the requirements highlighted above was reduced to 2.25% (it was 2.50% in 2018).

Taking account of the aforementioned SREP requirements, the aforementioned requirement set out for systemically important institutions (equal to 0.13% for 2020) and the countercyclical capital buffer established by the competent national authorities for exposures to countries in which the Group operates (equal to 0.005%), Banco BPM Group is required to comply with the following capital ratios at consolidated level for 2020, in accordance with the transitional criteria in force:

- CET1 ratio: 9.385%;
- Tier 1 ratio: 10.885%;
- Total Capital ratio: 12.885%.

Banco BPM exercised the option for full application of the transitional regulations set out in the new art. 473-bis of Regulation EU no. 575/2013, which spreads over time the impact deriving from the application of the new impairment model introduced by IFRS 9. Those transitional regulations provide the option to include in Common Equity Tier 1 capital a positive transitional component in a percentage of the increase recorded in provisions for expected credit losses as a result the of application of IFRS 9. This percentage will decrease over five years, as shown below:

- period from 1 January to 31 December 2018: 95% of the increase in provisions for expected credit losses due to the adoption of IFRS 9.
- period from 1 January 2019 to 31 December 2019: 85% of the increase in provisions for expected credit losses;
- period from 1 January 2020 to 31 December 2020: 70% of the increase in provisions for expected credit losses;
- period from 1 January 2021 to 31 December 2021: 50% of the increase in provisions for expected credit losses;
- period from 1 January 2022 to 31 December 2022: 25% of the increase in provisions for expected credit losses.

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

Applying the transitional regime in effect at 31 December 2019, the equity ratios are as follows:

- Common Equity Tier1 (CET1) Ratio of 14.43%, compared to 12.06% at the end of the December 2018;
- Tier 1 Capital Ratio of 15.08%, with respect to the 12.26% at the end of December 2018;
- Total Capital Ratio of 17.40%, compared to 14.68% at the end of December 2018.

Own fund levels as at 31 December 2019 allow Banco BPM to fully comply with the Regulators' requirements, both with respect to the calculation rules currently applicable in the transition period, as well as when the new capital requirements shall apply in full.

Considering the profit recorded in the second half of 2019, resulting from the draft consolidated financial statements of the Group as at 31 December 2019, net of the share for which the Board of Directors decided to propose that the Shareholders' Meeting distribute as dividends and donations[1], the capital ratios would be as follows:

- Phased-in Common Equity Tier 1 ratio (CET1 ratio): 14.56%
- Phased-in Tier 1 ratio: 15.21%
- Phased-in Total Capital ratio: 17.53%

The fully phased CET 1 ratio would thus amount to 12.84%.

Liquidity position and leverage ratio

The Delegated Regulation (EU) no. 61/2015 came into force on 1 October 2015 and requires banks to maintain a certain level of liquidity measured with reference to a short-term horizon (Liquidity Coverage Ratio, LCR). The regulation establishes a gradual phase-in ([2]). At 31 December 2019, Banco BPM had a consolidated LCR higher than 165%.

In the near future, the introduction of a further liquidity requirement is envisaged, measured on a longer time horizon called the Net Stable Funding Ratio (NSFR). The above ratio, calculated in accordance with the most recent rules set by the Quantitative Impact Study and including protected capital certificates, is higher than 100%.

Lastly, as regards the leverage ratio, the figure was 5.407% as at 31 December 2019.

[1] Note that, based on that set out in art. 26, paragraph 2 of Regulation EU no. 575/2013 of 26 June 2013 (CRR), at the end of the year, that share of income will formally become part of the Common Equity Tier 1 capital from the moment that the Shareholders' Meeting approves the financial statements.

([2]) 60% from 1 October 2015; 70% from 1 January 2016; 80% from 1 January 2017; 100% from 1 January 2018.

RESULTS BY BUSINESS SEGMENT

Introduction

According to IFRS 8, companies must provide information enabling users of financial statements to assess the nature and the effects on the financial statements of their business activities and the economic contexts in which they operate.
Therefore, it is necessary to highlight the contribution of the various operating segments to the formation of the Group's income.
The identification of the "operating segments" of this Section is consistent with the procedures adopted by the Company Management to make operating decisions and is based on internal reporting, used for allocating resources to the various segments and the analysis of their performance.

For this reason, and in order to improve the representation of the Group's profitability, operating segments that are below the quantitative thresholds put forward in paragraph 13 of IFRS 8 are also highlighted.

For 2019, the operating segments taken as a reference to provide the disclosure in question are as follows:

- Retail;
- Corporate;
- Institutional;
- Private;
- Investment Banking;
- Strategic Partnerships;
- Leases;
- Corporate Centre.

Also note that the justification for identifying Leases as an operating segment lies in the need to provide separate evidence of a run-off activity, whose economic contribution indicated is, therefore, represented solely by the result deriving from the management of the progressive reduction in assets and liabilities of the former Banca Italease (today incorporated into Banco BPM) and the subsidiary Release.

A brief illustration of the breakdown of the various segments is provided below:

- the "Retail" segment includes the management and marketing of banking and financing services/products and loan brokering, which are mainly aimed at private customers and small businesses. These activities are for the most part carried out by the Parent Company's commercial network;
- the "Corporate" segment includes the management and marketing of banking and financing services/products and loan brokering, which are mainly aimed at medium and large-sized companies. These activities are for the most part carried out by the Parent Company's Commercial Network;
- the "Institutional" segment includes the management and marketing of banking and financing services/products and loan brokering, which are mainly aimed at bodies and institutions (UCIT units, SICAVs, insurance companies, pension funds and banking foundations). Those activities are conducted in an equal amount by the Commercial Network of the Parent Company, for "local institutional" counterparties, and by specialised branches, for "systemically-important institutional" counterparties;
- the "Private" segment includes the management and marketing of banking and financing services/products and loan brokering, which are mainly aimed at private customers with assets that, individually and/or within their business, amount to at least 1 million euro. These activities are carried out by the subsidiary Banca Aletti;
- the "Investment Banking" segment includes activities to structure financial products, access to regulated markets, support and development of specialised financial services. These activities are carried out by the subsidiary Banca Akros.
- the "Strategic Partnerships" segment includes the contribution of shares held in Agos Ducato, Vera Vita, Vera Assicurazioni, Bipiemme Vita, Factorit, Alba Leasing, SelmaBipiemme Leasing, CF Liberty Servicing and Anima Holding;
- the "Leases" segment includes data relating to activities connected to the Group's leasing business, the scope of which encompasses:

  - activities relating to the contracts of the former Banca Italease;
  - Release;
- the "Corporate Centre" segment, in addition to governance and support functions, includes the portfolio of owned securities, the treasury and the Group's Asset and Liability Management, the stock of bond issues placed on institutional markets, equity investments not allocated between Strategic Partnerships and companies operating in the real estate sector. Lastly, all the consolidation entries are included in this residual segment.

Lastly, note that from 1 January 2019, the Group applied the new accounting standard IFRS 16, which modified the methods of accounting recognition of all contracts that contain the right of use of an asset (ROU, Right Of Use) for a certain period of time in exchange for a certain price. The impacts of this accounting standard were implemented in the individual business lines.

The table below provides the key income statement and balance sheet figures, broken down by segment, referring to 2019 compared with those as at 31 December 2018.
It must be specified that the figures of the previous year used in the comparison were restated as compared to those published in the 2018 Annual Report, as a result of both the reallocation of customers among the various business lines and the reclassification of income deriving from the placement of Certificates from the item "Net financial result" to the item "Net fee and commission income" made starting from 2019.

	Group	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leases	Corporate Centre
Operating income									
2019	**4,292,955**	2,524,032	576,346	97,419	88,804	142,357	131,472	33,673	698,852
2018 (*)	**4,772,910**	2,701,262	680,921	100,619	85,025	114,958	155,637	65,768	868,720
Operating expenses									
2019	**(2,604,046)**	(1,974,965)	(165,841)	(36,194)	(70,918)	(86,665)	(2,771)	(36,358)	(230,334)
2018	**(2,792,781)**	(2,167,785)	(159,803)	(39,344)	(69,747)	(93,162)	(2,558)	(74,811)	(185,571)
Profit (loss) from operations									
2019	**1,688,909**	549,067	410,505	61,225	17,886	55,692	128,701	(2,685)	468,518
2018 (*)	**1,980,129**	533,477	521,118	61,275	15,278	21,796	153,079	(9,043)	683,149
Net income (loss) for the year									
2019	**797,001**	71,296	18,647	31,105	8,002	38,049	131,403	(125,319)	623,818
2018 (*)	**(59,432)**	(636,737)	(120,847)	21,155	(5,445)	14,838	335,735	(72,256)	404,125
Net loans									
2019	**105,845,464**	56,335,048	28,601,715	5,720,739	245,141	819,074	-	2,005,510	12,118,237
2018 (*)	**104,014,613**	55,017,100	28,150,052	5,099,081	220,935	1,385,016	-	2,577,597	11,564,832
Direct funding									
2019	**109,506,299**	71,458,273	8,796,052	8,971,719	2,751,218	1,337,763	-	5,570	16,185,704
2018 (*)	**105,219,691**	67,528,064	9,163,782	7,400,402	2,592,783	826,764	-	5,369	17,702,527

(*) Keeping the total of the item unchanged, the figures relating to the previous year were restated to guarantee a like-for-like comparison with the segmentation criteria used for 2019.

A description of the individual segments is given below, focusing first on the performance of the income statement and then providing a more detailed analysis of the main activities conducted, both commercial and otherwise, divided in a manner that is in line with the internal organisation of the segment in question.

Retail

	2019	2018 (*)	absolute change	% change
Interest margin	1,064,337	1,191,518	(127,181)	(10.7%)
Financial margin	**1,064,337**	**1,191,518**	**(127,181)**	**(10.7%)**
Net fee and commission income	1,464,256	1,491,668	(27,412)	(1.8%)
Other net operating income	(14,353)	(2,776)	(11,577)	417.0%
Net financial result	9,792	20,852	(11,060)	(53.0%)
Other operating income	**1,459,695**	**1,509,744**	**(50,049)**	**(3.3%)**
Operating income	**2,524,032**	**2,701,262**	**(177,230)**	**(6.6%)**
Personnel expenses	(1,069,663)	(1,123,217)	53,554	(4.8%)
Other administrative expenses	(778,051)	(1,044,568)	266,517	(25.5%)
Net value adjustments to property, plant and equipment and intangible assets	(127,251)		(127,251)	
Operating expenses	**(1,974,965)**	**(2,167,785)**	**192,820**	**(8.9%)**
Profit (loss) from operations	**549,067**	**533,477**	**15,590**	**2.9%**
Net adjustments to loans to customers	(306,009)	(1,104,710)	798,701	(72.3%)
Net provisions for risks and charges	(61,355)	(280,707)	219,352	(78.1%)
Profit (loss) before tax from continuing operations	**181,703**	**(851,940)**	**1,033,643**	
Taxes on income from continuing operations	(49,968)	273,300	(323,268)	
Charges related to the banking system, net of taxes	(60,439)	(58,097)	(2,342)	4.0%
Parent Company's net income (loss)	**71,296**	**(636,737)**	**708,033**	

(*) Keeping the total of the item unchanged, the figures relating to the previous year were restated to guarantee a like-for-like comparison with the segmentation criteria used for 2019.

Economic performance of the segment

Total operating income of the Retail segment amounted to 2,524.0 million euro, down on the previous year (-6.6%). This result derives partly from the drop in the interest margin (-10.7%), and partly from the reduction in net fee and commission income (-27.4 million euro). In particular, the interest margin was affected by both the negative impact of lower accounting effects ("reversals"), including those connected with PPA, deriving mainly from the sale of bad loans in the previous year, and the reduction in market rates, especially in the second half of the year.

Other operating income highlights a decrease of 3.3% compared to the previous year, which was primarily due to the lower contribution of investment products placed with customers. The amount of "*commissioni di istruttoria veloce*" (fast track fees) paid by customers decreased sharply, also due to an additional revision of list prices. The amount of commissions on investment products also fell, which led to lower revenue streams compared to 2018 (276.8 million euro compared to the 288.1 million euro in the previous year).
Commission income linked to the loans segment increased slightly (+3.4%), while the profitability on current accounts and deposits fell (-4.3%), in line with the trends on the market.
The specialist segment of corporate finance increased by 58.8%, reaching 5.0 million euro. Foreign commission income was in line with 2018, amounting to 35.0 million euro. Transaction fees fell slightly (-1.3%), amounting to 278.0 million euro. Insurance protection brought 2019 margins to 44.2 million euro with growth of 17.2%.

Total operating expenses amounted to 1,975.0 million euro, decreasing significantly compared to the 2,167.8 million euro in 2018, due to careful management of administrative expenses and the decrease in personnel expenses deriving from the continuing policy of reducing the workforce.

As a result of the trend described above, the profit (loss) from operations grew by 15.6 million euro, reaching 549.1 million euro.

Net adjustments to loans to customers, which amounted to 306.0 million euro, decreased by 72.3% on the previous year (1,104.7 million euro), as a result of the significant decline in bad loans, deriving from the derisking actions completed during 2018. The cost of credit, measured by the ratio of net adjustments to loans to net loans (including loans classified as held for sale), was 54 b.p., sharply down from 198 b.p. last year. Also net of the extraordinary adjustments made in 2018 (553.4 million euro), the adjusted cost of credit for 2019 confirmed a sharp decrease of 44 b.p. yoy.

Net provisions for risks and charges amounted to 61.4 million euro, compared to the 280.7 million euro in 2018. The sharply declining trend still includes supplementary extraordinary provisions recognised for charges that could result from the settlement of present and future disputes and complaints.

Charges related to the banking system, net of taxes, of 60.4 million euro (58.1 million euro in the previous year) were charged to the income statement for the year, with a total increase of 4.0%. These charges include ordinary contributions to the Single Resolution Fund (SRF) and the Interbank Deposit Guarantee Scheme (DGS).

Considering the above, the Retail operating segment closed with income for the year of 71.3 million euro compared to -636.7 million euro in the previous year.

As illustrated in the introduction, the "Retail" segment includes the management and marketing of banking and financing services/products and loan brokering, which are mainly aimed at private customers and small businesses.

More information on the activities managed by the business segment in question are provided below.

Private Customers

"Private" customers of Banco BPM include all private parties, with the exception of Private Banking customers, natural persons that are divided into "Personal" and "Universal" customers.

In December 2019, Private customers were distributed as follows:

Segment	no. of customers with current account	% of customers with current account
Universal	2,766,825	81.54%
Personal	575,875	16.97%
Other Retail segments	50,347	1.48%
Total Retail customers with a current account (including card accounts)	**3,393,047**	**100.00%**

Products, services and loans for private Retail customers

Current accounts

In 2019 Banco BPM reached carried out an update to its commercial range of products and services, through a restyling of the current accounts offered. The catalogue is distinguished by the competitiveness of its terms and meets the needs of different target customer segments. Specifically, the new offer You Welcome New, which features competitive economic terms, allowed us to acquire a significant share of new customers by consolidating our customer base.
The commercial update led to a rationalisation of the offer through a reduction in the number of offers in the catalogue, streamlining the sales process of network advisors and customers' choices, as well as the after-sales management of products. The rationalisation was also implemented with regard to current accounts that can be purchased online, targeted to customers with a greater propensity for self-banking, through the closing of sales of the YouBanking Account and the related site dedicated solely to onboarding.
The WeBank Account, an online only account, which reaches consumers resident also in geographical areas that are not covered by the network, remained in the catalogue.
Significant training and support were provided to the network, with the aim of raising awareness and disseminating the commercial culture of the product directly. Monitoring of competition was constant and ongoing.

New Public Websites

In December, the new websites of Banco BPM Group were launched. The commercial website www.bancobpm.it and the institutional website http://gruppo.bancobpm.it. Both of these have been designed to facilitate the user experience. The commercial website has a product catalogue that it easy to consult and highly intuitive, while the institutional website mainly targets institutional investors and journalists. A Magazine, periodically updated, proposes banking and financial content with an informative approach, to promote the activities that the Bank carried out in the areas where it is located. The commercial website, suitably connected with CRM and designed using the most cutting edge digital marketing technologies, will be able to personal the browsing experience of single users and design purchasing processes that best match the characteristics and needs of customers.

Loyalty

The ThankYou Premium programme, now in its seventh edition, also supported loyalty activities for customers who are at risk of leaving the bank and restoring relationships in 2019.
In the last part of the year, projects were begun to identify new methods for increasing customer loyalty with the ambition of creating a new Loyalty programme. These projects will continue throughout 2020.

Multi-channel services

During 2019, activities continued regarding the development of the digital offer from a multichannel viewpoint, with steady, gradual improvement of the customer experience, both in terms of services dedicated to customers of the Commercial Network, named YouWeb, and for those via Webank, the brand that comprises an offer of services for purely digital customers. In 2019, through the digital channel Webank, around 34,000 new current account holders opened an account with the bank, increasing the acquisition of new customers by 20% on the previous year.
During the year, there was an ever-increasing focus on mobile development, to the point where this is now the real hub for the strategy of the bank's digital development and transformation.
Lastly, alignment with the rules introduced by the PSD2 in terms of access to and security of transactions via digital channels was completed in September.

The table below outlines the trend for customers with multi-channel services:

Product/Service	End of 2018 figures	End of 2019 figures	% Change
No. of Customers with the Home Banking service	1,891,830	1,943,694	+ 2.7%
No. of Customers with Telephone Banking	1,806,422	1,859,514	+ 2.9%
No. of Purely digital Customers (Webank)	190,498	217,014	+ 13.9%

Contact Centre

During 2019, the Contact Centre structure increased its focus on commercial support and assistance, changing its name to Customer Support and Development.

In the area of support, customers were actively managed both through traditional telephone channels (Interactive Voice Response - IVR) and written channels (email messages and text chats) as well as through a virtual assistant and social media channels. The main areas of operations were as follows:

- assistance and functional support to customers using home banking services, both for private customers and Webank digital customers and companies using remote banking services (YouBusiness Web);
- the management of telephone banking services (direct banking and trading operations) both for private customers and Webank digital customers;
- customer support during the before- and after-sales steps of the Webank online service, for all the products and services offered, in partnership with the virtual branch (representing the single communication channel between the bank and the customer);
- before- and after- sales support to customers provided through the www.youBanking.it portal;

In the area of development, customers were the target of actions to support cross-selling, both for Webank customers and customers of the Commercial Network, also using a Reactive Inbound approach:

Payment cards

Banco BPM customers that hold Nexi credit cards were offered the option to use the innovative payment method Apple Pay, in addition to the previously activated Samsung Pay and Google Pay.
The Bank also actively participates in the launch of the new services envisaged by Bancomat, having set up for some time a partnership to activate c-less, Bancomat Digit and Bancomat Pay services.
A new 'prepaid' payment product for Webank customers joined the previously existing range.
The significant POS fleet continued to be upgraded for the purpose of acceptance and management of the best international networks. Specific attention was paid to improving processes, monitoring services and cooperating in commercial initiatives.
Alongside the most advanced payment and collection systems, investments were made to ensure the most modern security systems, also in compliance with regulatory provisions.

Collection and payment services

The new "Instant Bank Transfer" service, launched during the year on the business and private web platforms and related Apps was greatly appreciated by customers. This innovative payment function guarantees that the funds will be immediately available to the recipient (within 10 seconds) and offers 24-7 operations, every day of the year (including Saturdays and Sundays) for transactions of up 15 thousand euro.
During the year, development of 'YouInvoice', the electronic invoicing platform of BancoBpm, continued, for the purpose of accurately implementing the regulatory instructions from the Tax Authority, while offering integrated value added services (e.g. digital invoices advances, synergy with collections and payments).
This area also includes the partnership with leading national companies in the sale of business software, for the purpose of providing an integrated solution capable of optimising and facilitating the management of the financial value chain.

Private mortgage loans

In 2019, the trend of disbursements of mortgage loans to households grew significantly, marking a percentage increase of +34% on an annual basis.
Mortgage lending to Banco BPM group's private customers amounted to 3.9 billion euro. Banco BPM's operations continued with the rationalisation of the products available to the Network and commercial partners and the accurate alignment of the offer to the conditions of the economic scenario, which enabled the Bank to keep its positions as a leading player among the main national competitors.
In the last year, customers confirmed their preference for fixed rate operations and, in particular, for the "Last Minute Mortgage" promotional offer, which features diversified, competitive spreads for the duration of the loan and for the Loan to value percentage.
As in previous years, efforts continued to provide support to customers that have suffered from the current economic crisis or that have been affected by natural disasters, by renegotiating loans or suspending instalments.

Consumer credit

In 2019, the extraordinary transaction between Agos and ProFamily, the two consumer credit companies, whose products were exclusively distributed by BancoBpm, was carried out. The disbursements of personal loans to consumer households during the year increased compared to the previous year: Banco BPM group granted over 70 thousand personal loans to the total amount of approximately 1 billion euro.

Advances on severance pay for employees of the Public Administration

During 2019, the loan for advances on severance pay for employees of the Public Administration was extended to the entire Banco BPM Commercial Network.

Subscriptions of new agreements for advances on severance pay continued, moving forward with the fruitful cooperation of Banco BPM with the leading Italian institutions and professional associations, confirming the significant attention that the bank focuses on professionals and the bodies and military corps of the Italian state.

Investment products

The funding volumes for asset management products recorded during the year confirm our customers' preference for flexible forms of investment and the will to delegate their investment choices and the diversification of the financial assets in their portfolios to experienced professionals.
The Anima ENG 2025 Fund highlighted the significant importance of a very urgent issue linked to environmental sustainability and the wellbeing of future generations, demonstrating the Bank's attention in selecting financial instruments that invest in companies that focus on developing production cycles that respect the environment, capable of generating value over the long term, routing capital to businesses that, in addition to generating economic value, are also useful to society and are environmentally sustainable.
In order to ensure the most extensive range of asset management products, Banco BPM Group continued its partnership with the most important and prestigious international investment firms, as well as the range of funds in Anima SGR's catalogue.

In 2019 certificates also were highly appreciated by retail customers.
During the year, numerous issues of Equity Protection products were placed, whose main features is the full guarantee of capital on maturity.

In 2019 the Group continued distributing it insurance offer, through the joint-ventures established with the Cattolica Assicurazioni group as well as with Bipiemme Vita in certain specific geographical areas.
In 2019, the placement of traditional Field I policies was preferred by customers. These products provided an answer to the customer's need for security, as well as the opportunity to increase the capital invested in the medium term.

Bancassurance Protection

During 2019, Banco BPM Group consolidated insurance agreements with its two leading insurance partners (the Bipiemme Vita Group and the insurance companies Vera Assicurazioni and Vera Protezione, created as part of the joint venture with Cattolica), on the one hand, and made a significant investment in the sector, on the other, hiring 135 Product Specialists to additionally improve the customer approach.

The significant development of the product catalogue started specifically with enrichment and with precise identification of customer needs, to achieve a modular offer of guarantees to customers, a solution in which customers can see themselves.

Listening to customers

In 2019, listening to customers and surveying their satisfaction were of primary importance, for the purpose of improving the service provided.
In 2019, the Customer Satisfaction survey was conducted by involving around 218 retail, Private and SME customers, through telephone interviews (67%) and through email (33%).

Satisfaction is measured using TRI*M, a numeric score ranging from 0 to 100 provided by the assessments that customer provide regarding overall satisfaction, level of recommendation, likelihood of repurchase and economic convenience of Banco BPM.
The Customer Satisfaction surveys also investigate satisfaction with the products, reputation, branch services, web channels and any problems encountered.
This year's results demonstrate an increase in satisfaction compared to 2018.
2019 was a year of consolidation for monitoring the Customer Experience, which made it possible to investigate numerous company processes, testing the satisfaction and perception of the simplicity of specific experiences just performed by customers.
In addition to the previously mentioned Customer Satisfaction and Customer Experience surveys, in 2019 various customised research projects were conducted for the Group, aimed at verifying customers' approaches and collecting feedback on existing products and services.

The engine for listening to customers gained power due to the use of new methodologies. Specifically, Banco BPM activated a Community Panel composed of 2,500 private customers (in the initial months of 2020 the panel will be expanded due to the addition of 1,000 SME customers and around 400 employees who are Brand Ambassadors), operating online for research with a view to co-creating new products and services. This initiative was named "INSQUADRA" (On a Team) to highlight the intention to reach common goals with our customers. INSQUADRA joins and supplements the existing research activities.

Business Customers

There were approximately 480 thousand Business customers with a current account as at 31 December 2019, of which:

Segment	no. unique customers with current account	% compared to total businesses
Small Business Operators	176,671	36.96%
Businesses	139,253	29.13%
Condominium Associations	76,179	15.94%
Other companies	46,158	9.66%
Total	**478,043**	**100.00%**

The distribution of customers (unique customers with current accounts) by turnover level confirms the significant concentration in the class of up to 25 million euro (approximately 99%) already recorded in previous years, attesting to the vocation of Banco BPM Group in its relations with small and medium-sized companies.

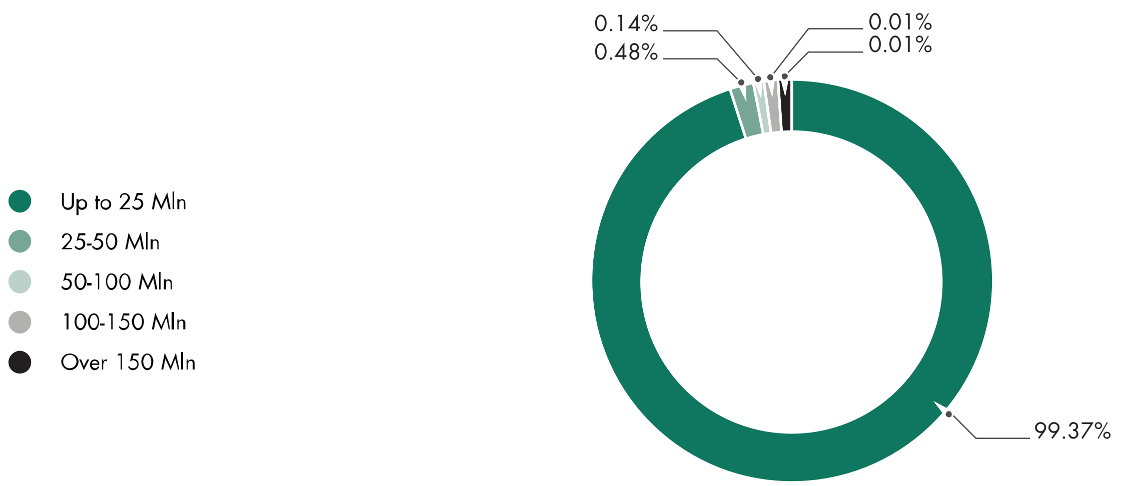


Figure 1 - Breakdown of Business customers in 2019 by turnover bracket

Regarding the breakdown of customers by production sector, commercial activities, ore extraction and manufacturing activities continued to represent the most significant area, followed by those related to construction and property, catering and the agricultural sphere.

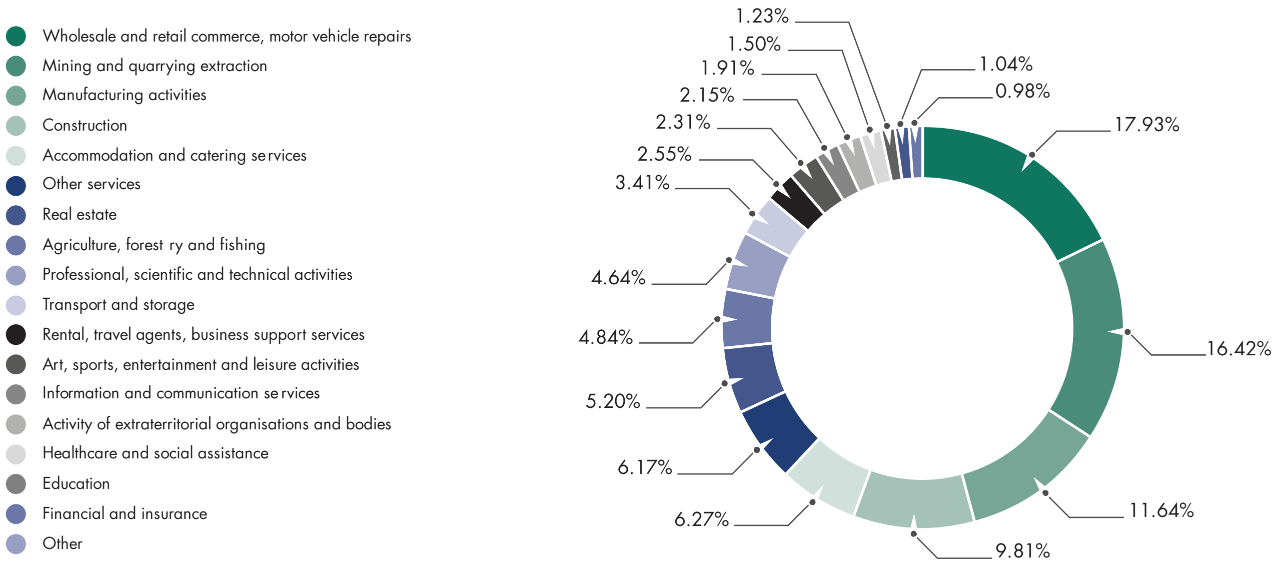


Figure 2 - Breakdown of Business Customers in 2019 by business sector

As mentioned above, the distribution of Business customers includes a significant proportion of small and medium enterprises, for which the Group further strengthened its activities in 2019, thereby confirming its role as the bank of reference and support for the entrepreneurial fabric in the main areas served.
More specifically, this entailed the offer of dedicated products and services, illustrated below.

Current accounts

During 2019 Banco BPM revamped its range of current accounts offered, with the goal of updating the content of the offer to adjust it to the changed needs of target customers Small Business Operators and Businesses. The new offer allows customers to personalise their current accounts with the services they deem most useful for conducting their business, due to the reduction in the services included.
The updating of the range was accompanied by a rationalisation of the offer through a reduction in the number of products, replacing the current ones with new ones, moving from 5 to 3 current accounts, streamlining the sales process of network advisors and customers' choices, as well as the after-sales management of products. The products in the catalogue have allowed a significant share of new customers to be acquired.
Support to the network also continued. Monitoring of competition was constant and ongoing.

Upgrading of Web Platforms

In 2019 YouBusiness Web, the remote banking platform of Banco BPM, benefited from significant development. In addition to a completely redesigned layout, in line with the corporate identity, the main changes made are those relating to a significant overhaul of navigation, to make the platform more user friendly for customers and easier and quicker access to content.
The new interface of YouBusiness Web was released to all customers, managing planning in lots, occurring in the 4th quarter 2019. The release plan was accompanied by a communications plan to customers which announced all the changes made in advance.
The impact on the Contact Centre was carefully monitored and the releases on customers were carried out without encountering specific problems.
With a view of continuous improvement, optimisation of the graphics and functions will also continue in the 1st quarter 2020.

Activities relating to PSD2 (mobile certification)

The entry into force of the European Payment Services Directive (PSD2) required the strengthening of customer authentication methods in the phase of ordering a payment online. Banco BPM has defined a PSD2-compliant standard that combines, where necessary, the joint use of an OTP via a token and the sending of an OTP via text message.

Loans and lending

The lending products that comprise the various Catalogues, unique to Banco BPM Group, seek to meet their main and most frequent requirements: investment, working capital, liquidity, expansion, advances, cash flexibility.
In 2019, work continued to refine all types of financing, with the aim of achieving an offer that increasingly meets customer needs. These activities include the expansion to Business and SBO of the "Unsecured Loan with commercial covenant" product, which promotes the commercial relationship between the bank and customers in terms of workflows channelled.
The landed mortgage product "Companies' Green Building Mortgage" obtained official recognition in 2019 as an "innovative product". Note that Companies' Green Building Mortgage is intended to finance - with specific innovative methods - the purchase, renovation, expansion and construction of buildings that are instrumental to business activities, built to "turnkey" green building standards by construction companies certified by the Certified Quality Protocols, issued through FederlegnoArredo, known as S.A.L.E. (Sistema Affidabilità Legno Edilizia - Timber Construction Reliability System) or S.A.L.E.
During 2019, the option to access "creditor subrogation for micro-enterprises" continued: the financing solutions dedicated to this purpose, both unsecured loans and landed mortgages, are distinguished by their flexibility of use, a feature that is already present in the products of the "Flexible Financing" range. This innovative - and, currently, unique to the Italian banking scene - product offers a medium/long-term solution that is extremely customised, so as to foster the maximum likelihood of repayment by the customer due to factors such as: the type of activity carried out, any seasonality, the frequency of invoicing, etc.
Additionally, the customer can also make further adjustments during the period so as to maintain the best possible financial balance at all times.
Support for loans was completed via the confirmation of the two specific structured solutions that support women's entrepreneurship and the tourism/hotel sector:

- the commitment to the sphere of women entrepreneurs and accessibility to credit through the "Orizzonte Donna" catalogue was confirmed. This catalogue aims to financially support women's businesses and self-employed women, regardless of which sector they are in. "Orizzonte Donna" was established as part of the Memorandum of Understanding promoted by ABI, called "Memorandum of Intent for the growth of businesses with a majority shareholding by women and self-employed women", in agreement with the Ministry for Economic Development, the Department of Equal Opportunities of the Council of Ministers and the main associations in the business world, and reached its natural expiry on 31 December 2019.
- the catalogue of "Tourism" loans dedicated to the hotel sector was updated and was also launched due to Bank's presence in areas with a high level of tourism, as well as to encourage redevelopment and investment measures.

As part of the numerous measures and actions implemented by the Bank in pursuit of 'ESG -
Environment, Social & Governance' targets, it was decided to develop the offer for Condominium Association customers, expanding the range by adding the new product "Condominium Efficiency Credit - Italy", dedicated exclusively to renovation works for energy efficiency on condominium buildings throughout Italy.
The issue of this new loan joins but does not replace the existing product for only Condominiums located in the municipality of Milan which are eligible for municipal support under the "Call for the concession of grants for works to improve the energy efficiency of buildings" ("Call BE2 2018") approved in 2018 by the Municipality of Milan.
The "Condominium Energy Efficiency Credit" provides a complete response to financial requirements for those types of works, due to the distinctive characteristics of the products, specifically, the duration of up to 120 months, in line with the incentive measures in force and pricing lower than standard, and allow the bank to promote measures for sustainable growth in the geographical areas where it is located;

During 2019 projects were launched to pursue simple, accessible financial solutions to support SMEs in their energy transitions. The works relating to those projects are part of the larger context of the guidelines and strategies on lending policies adopted by the bank.

Smart Lending

During 2019, Banco BPM created a new functionality in order to disburse loans to customers that are small and very small businesses (sole proprietors, small businesses) in the retail segment, with the goal of digitising the process of applying for credit, significantly shortening the time to cash and simplifying the correlated processes. Based on this functionality, developed on the YouBusiness Web platform, customers receive a loan offer targeted to their characteristics, meaning adjusted in terms of amount, pricing, type and duration of the loan.
The projects covered by the first campaign were short-term unsecured loans of small to medium amounts.
The upcoming developments will aim for the full digitisation of the process, using digital signatures, to further improve the user experience of the functionality and complete efficiency.

Support following disastrous events

Banco BPM has activated specific measures to support natural persons or businesses damaged by disastrous events. In that area, the following measures are noted:

- in favour of people struck by natural disasters and earthquakes that have hit various areas of Italy. The measures consist of allowing residents of the affected areas to suspend the instalments of mortgages and loans. The measures regarded both residential and commercial and industrial properties that suffered even partial damages;
- in Liguria, in favour of the SMEs that suffered direct or indirect damages following the disastrous event on 14 August 2018 regarding the collapse of the "Morandi Bridge". The measure consists of the granting of mortgages at subsidised rates, supporting the financial needs of damaged SMEs, guarantee by the guarantee fund named "Morandi Bridge Emergency Guarantee Fund", specifically established by the Liguria Region and managed by "Finanziaria Ligure per lo Sviluppo Economico - FI.L.S.E. Spa" (in-house financial company of the Liguria Region);
- in favour of the communities hit in 2016 by the earthquake in central Italy, specifically in the Abruzzo, Lazio, Marche and Umbria Regions. The measure consists of the disbursement of loans to damaged parties using funds specifically allocated the Government through Cassa Depositi e Prestiti, destined for the rebuilding/restoration of the damaged properties/assets ("Central Italy Earthquake Credit Line") or for the payment of taxes ("Central Italy Earthquake Moratorium Credit Line").

Other activities to support and increase business loans

It is also noted that in 2019, the new Credit Agreement was implemented, promoted in November 2018 by the Italian Banking Association and the trade associations and which reflects the 2015 agreement, in order to continue to support companies that still have not fully "locked on" to the recovery of the economic cycle and, as a result, offer customers the possibility of requesting payment suspensions and the extension of maturities on both short and medium/long-term transactions.

Agriculture

The agricultural industry continues to hold an important position in the commercial strategies of Banco BPM Group.
As regards Rural Development Programmes (RDP), in 2019, our Bank continued to pursue the important business opportunities resulting from the implementation of Rural Development Programmes (RDP) envisaged for 2014-2020, confirming the important commercial scheme called "RDP - We are with you 100%" with a view to providing financial support for the investments that businesses intend to make using the RDP contributions.
The RDP and related state contributions envisaged for agricultural and agrifood companies represent an exclusive and powerful engine for investments in the agriculture sector and, consequently, an important opportunity for Banco BPM, which has decided to provide financial support through both short-term products (dedicated to different options of anticipating the state contribution) and medium-long term products (dedicated to supporting investment).
For this reason, Banco BPM Group also promptly adhered to the proposed agreement promoted by the Italian Banking Association, MIPAAF (Ministry for Agricultural and Forestry Policies) and AGEA (Agenzia per le Erogazioni in Agricoltura - Agency for Agricultural Disbursements) and approved by the Regions of Valle d'Aosta, Campania, Sicily, Piedmont and Puglia. The agreement aims to facilitate access to credit by the company intending to make investment, as it provides for the irrevocable channelling of the RDP subsidy to the lending bank and the traceability of the credit/debit transactions relating to the investment on a current account that has been especially opened and is dedicated for this purpose, known as "RDP Restricted Green Account – ABI-Regions Agreement".

In 2019, the credit assessment procedure for agricultural enterprises continued to be adopted and maintained; this is an innovative assessment system that takes the specific nature of businesses in this industry into account. This procedure, together with the presence of specialised professionals in the Network and the range of "Semina" lending products, makes Banco BPM one of the Italian banks with the most focus on the development of the Agricultural sector.

Subsidised Financing and Guarantee Bodies

In 2019, Banco BPM continued its collaboration with "suppliers" of subsidised funds/financing.

Within Italy, Banco BPM has granted loans using funds obtained from the Cassa Depositi e Prestiti (CDP - state controlled fund and deposit institution) under the Fifth ABI/CDP Agreement (known as the "Enterprise Platform") for investment programmes of SMEs, Mid Cap companies and companies belonging to Networks and/or Production Chains.
Also, within Italy, Banco BPM has granted subsidised financing, backed by the "Nuova Sabatini" plant and equipment grant, to SMEs investing in brand-new machinery, systems, capital goods and equipment for production use, as well as in hardware, software and digital technologies.
At regional level, Banco BPM works with the financial companies of the Regions, specifically Veneto Sviluppo (Veneto), Finlombarda (Lombardy) and Finpiemonte (Piedmont), to grant facilitated co-financing to local SMEs by using funds made available by the Regions themselves through the aforementioned financial companies, as part of the main subsidising measures.
In 2019 Banco BPM granted loans using funds obtained from the European Investment Bank (EIB) to extend loans to SMEs and Mid Cap companies.
In that regard, during 2019 the most significant initiatives were as follows:

- a "synthetic securitisation" with the EIB Group, whose benefits translated into the possibility for the Bank to support new projects of Italian small and medium-sized enterprises with up to 330 million euro in new loans;
- new EIB funding for a total of 500 million euro, to be used to grant medium/long-term loans to support investment programmes of Italian SMEs and Mid Cap companies and, for a share of 100 million euro, to companies in the agricultural sector with specific focus on young farmers and on actions to combat climate change.

Guarantee instruments for enterprises

Considering the importance of guarantees in facilitating access to credit, especially by SMEs, Banco BPM has given the utmost impetus to guarantee operations, which are ancillary to the disbursement of credit, by subscribing/adhering to specific agreements and contracts with the managers and providers of guarantees.
In that view, Banco BPM renewed the EIF Innovin guarantee facility with the European Investment Fund, which allows the Bank to benefit from a new guarantee line to cover loans granted to Italian SMEs and Small Caps strongly focused on research and development and/or technological innovation.

Banco BPM is also active in the main national subsidised guarantee instruments, including:

- Guarantee Fund for Small and Medium Enterprises, specialised in protecting bank loans granted to support business financial needs;
- ISMEA (the Italian Institute for Services for the Agricultural Food Market), formerly the SGFA (the Italian Agricultural and Food Management Fund), dedicated to issuing direct or subsidiary guarantees, co-guarantees and counter-guarantees to agricultural companies.

The above-mentioned Funds benefit from the ultimate guarantee of the State, which allows the Bank to lower the production costs of lending and to apply special terms to loans guaranteed by the same.

Much work has also been concentrated on operations with Private Guarantee Institutions specialising in granting guarantees (Confidi and financial intermediaries), mutualistic entities created to facilitate access to credit for SMEs, especially in light of the aforementioned Operational Provisions (02/2019) of the Guarantee Fund for Small and Medium Enterprises.

Specific agreements entered into with foundations also govern operations in the area of measures to combat the phenomenon of usury, in relation to the funds allocated by Law 108/96, the "Anti-Usury Law", which grant a guarantee to Banco BPM to support the liquidity needs of natural persons with clear financial difficulties.

Other State subsidies for businesses

As part of the measures aimed at SMEs, Banco BPM also directs tax relief initiatives to SMEs (interest rate subsidies or non-repayable grants/plant and equipment grants) provided for by national and regional regulations, such as, for example, the interest rate subsidies allocated by the Lombardy Region for agricultural, industrial, commercial and tourism businesses within the "Operating Credit", "Credit Now" and "Get Started" initiatives, and the plant and equipment grants provided by the Puglia Region to SMEs in the various sectors of economic activity which engage in productive investments.

Corporate

	2019	2018 (*)	absolute change	% change
Interest margin	401,404	448,467	(47,063)	(10.5%)
Financial margin	**401,404**	**448,467**	**(47,063)**	**(10.5%)**
Net fee and commission income	182,828	202,780	(19,952)	(9.8%)
Other net operating income	295	692	(397)	(57.4%)
Net financial result	(8,181)	28,982	(37,163)	
Other operating income	**174,942**	**232,454**	**(57,512)**	**(24.7%)**
Operating income	**576,346**	**680,921**	**(104,575)**	**(15.4%)**
Personnel expenses	(77,924)	(60,105)	(17,819)	29.6%
Other administrative expenses	(84,991)	(99,698)	14,707	(14.8%)
Net value adjustments to property, plant and equipment and intangible assets	(2,926)	-	(2,926)	
Operating expenses	**(165,841)**	**(159,803)**	**(6,038)**	**3.8%**
Profit (loss) from operations	**410,505**	**521,118**	**(110,613)**	**(21.2%)**
Net adjustments to loans to customers	(382,067)	(698,517)	316,450	(45.3%)
Net provisions for risks and charges	6,205	(1,260)	7,465	
Profit (loss) before tax from continuing operations	**34,643**	**(178,659)**	**213,302**	
Taxes on income from continuing operations	(9,527)	64,006	(73,533)	
Charges related to the banking system, net of taxes	(6,469)	(6,194)	(275)	4.4%
Parent Company's net income (loss)	**18,647**	**(120,847)**	**139,494**	

(*) Keeping the total of the item unchanged, the figures relating to the previous year were restated to guarantee a like-for-like comparison with the segmentation criteria used for 2019.

Economic performance of the segment

The Corporate segment recorded total operating income of 576.3 million euro, down by 15.4% (680.9 million euro as at 31 December 2018). Interest margin and other operating income both partly contributed to this result, which ideally represent net income from services.

For the interest margin (-10.5%), the decrease is substantially due to the lower positive contribution of the reversal of Purchase Price Allocation (PPA) on loans to customers. Net fee and commission income showed a generalised decrease, while the downturn in the net financial result was primarily due to the effect of the fair value measurement of loans that did not pass the SPPI test (-15.7 million euro in the current year, +17.5 million euro as at 31 December 2018).

The decrease in net fee and commission income came to 9.8% (182.8 million euro during the current year, 202.8 million euro as at 31 December 2018).
In that context, net income from services linked to the commissions on credit access decreased by 17.8%, amounting to 44.0 million euro. In particular, interest rate and exchange rate hedging products recorded a decrease of 34.5%, while net income from services for the specialist corporate finance segment showed a decrease of 11.3%.

Profitability on fee and commission income from loans was also up (+10.6%) as well as foreign commission income (+9.0%).

Total operating expenses amounted to 165.8 million euro, compared to the 159.8 million euro recorded in 2018, up by 3.8%. Personnel expenses, which amounted to 77.9 million euro (+29.6%) contributed to that increase, partially offset by the decrease in other administrative expenses.

By virtue of the trends described, profit from operations came to 410.5 million euro, down by 110.6 million euro compared to 2018, corresponding recording a reduction of 21.2%.

Net adjustments to loans to customers, which amounted to 382.1 million euro, decreased by 45.3% on the previous year (698.5 million euro), as a result of the significant decline in bad loans, deriving from the derisking actions completed during 2018.

Charges related to the banking system, net of taxes, of 6.5 million euro (6.2 million euro in the previous year) were charged to the income statement, with a total increase of 4.4%, due to ordinary contributions to the Single Resolution Fund (SRF) and to the Deposit Guarantee Scheme (DGS).

The Corporate operating segment closed the year with income of 18.6 million euro (-120.8 million euro as at 31 December 2018).

As illustrated in the introduction, the "Corporate" segment includes the management and marketing of banking and financing services/products and loan brokering, which are mainly aimed at medium and large-sized companies.

More information on the activities managed by the business segment in question are provided below.

Introduction

During 2019 Banco BPM Corporate division consolidated its positioning as a leading financial partner for Italian Mid Caps.
The specific needs of the segment (represented by companies with turnover exceeding 75 million euro) have been suitably met due to a full service commercial approach, in which the wide range of products and services is combined with top level advisory services, for the purpose of maximising the quality of the relationship and promoting the company's potential over time.
The commercial objectives pursued can be summarised as follows: support companies using advanced instruments (Structured Finance, Hedging Risks); provide specialised consulting to take on the challenges of international markets (Foreign Operations and Trade Finance); and maximise the value of relationships with customer companies, by offering and providing high added value services (Consulting by Industry – Origination).
The approach continues to be customer-centred: starting with the identification of the complex needs of the customers, the most suitable financial and commercial offer is configured on a case-by-case basis.
The structure of the Corporate network is significantly consolidated and recorded an increase in the workforce.
The current structure guarantees strong commercial and geographical coverage, through a central structure designed to "directly handle governance of the business, 5 Corporate Markets of regional reference (Milan, North - West, North - East, Centre North, Centre South), in addition to a Large Corporate structure with several local offices (Milan, Turin, Verona, Bologna and Roma) dedicated to serving companies with turnover exceeding 1 billion euro, in addition to 18 Corporate Centres, with over 150 managers and analysts that assist the companies in their operations, with a sharp impetus on business development.

Corporate customers

Corporates represent approximately 3% of total companies (the segment includes Mid and Large Corporate and the former Efibanca).

SEGMENT	no. of customers with current account (*) as at 31/12/2019
Mid Corporate	9,484
Large Corporate and former Efibanca	1,146
Other companies	17
Total target companies	**10,647**

(*) commercial current accounts, excluding technical accounts.

The breakdown of Corporates, considering customers and groups, is as follows:

CORPORATE CUSTOMERS	Total	of which, those with loans (*)
Number of customers	13,300	7,433
Number of Groups	3,081	2,789

(*) CR figure in October 2019

Offer supporting corporate enterprises – specific products and services

Also, in 2019 Banco BPM Group confirmed its leading position, at national level, for the specific needs of companies in the Corporate segment. Its consolidated vocation to supporting the world of business and its deep roots in local areas contribute to the constant strengthening of the bank-business partnership, with continuously significant market shares the specific business segment.

Loans and lending

In 2019, work continued on refining and developing the range of financing products available to companies in the Corporate segments, with the aim of generating an offer that increasingly meets the needs of the specific segment of customers. Specifically, the development of interventions aimed increasing the flexibility of loan products continued, in order to meet customer needs in the most personalised way possible. The aim is to make the most comprehensive and structured financing solutions - which are already utilised by larger companies - widely available to all Corporate customers, in a more standardised manner. The increased standardisation of this type of product will ensure additional optimisation of timing and costs in favour of customers.

Main commercial initiatives

With a view to additionally strengthening the role of reference bank for Italian Mid-Caps, the Corporate structure focused its activities on further increasing its market share/share of business and further strengthening its positioning. These growth objectives do not ignore the constant monitoring of aspects of creditworthiness, along with activities targeted to monitoring the risk-return ratio.
The strengthening of synergies between the Commercial Network and the Specialised Structures continued, by involving the following professionals:

- specialists per specific business segments (primary, secondary, services);
- specialists per structured finance activity (in the Project Financing, Corporate Lending, Real Estate, Acquisition and Leveraged Finance segments);
- foreign specialists (to support exporter/importer customers).

A significant contribution was also provided by Banca Akros, the Group's Corporate and Investment Bank specialising in Capital Markets (hedging), Corporate Finance (in the Equity Capital Markets, Debt Capital Markets, M&A, Securitisation and Advisory segments).

Purchase of trade receivables in the form of discounts without recourse

In 2019, Banco BPM confirmed and consolidated the development of services in the sector of corporate lending assisted by the assignment of trade and tax receivables without recourse. The activity carried out here aims to simplifying the process for our best customers, both when transferring their trade and tax receivables, and drawing up personalised agreements with leading companies that intend to make the most of existing opportunities in supply debt management and, at the same time, offer financial services to their suppliers.

With the aim of greater penetration of the specific market sector, an initial phase of innovation of internal procedures was concluded, and, as a result of the release of a digital platform planned for March 2020, these procedures will be capable of facilitating our customers' operational aspects.

Corporate agreements and sponsorships

The partnership with Confimprese continued in 2019**.** The three-year partnership links Banco BPM with the Italian Modern Retail Association (e.g.: franchising companies), which brings together the leading operators in the Retail field, up to 2020.
The initiative envisages:

- offering loans for internationalisation;
- incentives for developing sales networks in Italy and abroad, by opening new points of sale (increasing the number of franchisees);
- support to the franchisor's commercial development;
- promotion of networking between member customers with a view to expanding business;
- disseminating greater knowledge of the trade dynamics of the domestic and foreign markets.

The following initiatives are also noted:
ANCE LOMBARDIA: as part of dialogue with local stakeholders, in the second half of 2019 the foundation was laid for a partnership with ANCE Lombardia (Lombardy Association of Construction Companies). The objective is to support, in the role of financial partner, urban redevelopment projects in the Lombardy region.

ELITE: the two-year training and commercial project in partnership with Borsa Italiana and Banca Akros continued in 2019.
Focusing on relationships, the initiative aims at strengthening the loyalty of customer companies, which are supported through a high value process of grow. The more commercial objective is to identify a potential base of companies that can be involved in structured finance and M&A operations, issues of bond loans, IPOs, etc.
The parties involved are 47 companies that are customers of the Group (Corporate and Retail), with significant prospects and development projects.
The partnership will have a follow up also in 2020, with the launch of a new "Elite Class", dedicated to companies operating in the sector, attributable to European taxonomy.
In 2019 a project was launched for partnership with an important, prestigious Italian university, with the objective of supporting companies that invest in projects to increase the sustainability of their business models. That project will see the light by the end of the first quarter 2020.

Hedging financial risk

In 2019, Banco BPM Group reaffirmed its activity of providing specialised support to corporate customers in managing interest rate, exchange rate and commodity risks, through the Investment Banking structure of Banca Akros. This activity is directed towards companies that feature the aforementioned risk hedging needs in relation to their operational management or the structure of their financial statements.
Customers are assisted by a group of sales advisors and specialists equipped with superior technical and commercial skills, located in different geographical areas.

Structured finance

In the Corporate area, in 2019 structured finance confirmed its fundamental role in developing relations with both institutional and industrial counterparties with more complicated financial needs, which require a specialised approach.
During the year, it is important to note the excellent performance of the activities carried out with Corporate customers in extraordinary operations, relating to both the requalification of balance sheet assets, and the financing of acquisitions (or, more generally, of investments). Excellent performance was also achieved in Real Estate Financing, which showed significant growth during the year, favoured by the strong interest of many qualified institutional investors in areas where Banco BPM has long been located, in addition to a renewed interest in this type of activity.
The excellent performance of 2018 was also confirmed for Financial Sponsor and Project Financing activities, the latter for both the energy and infrastructure sectors.

In 2019, Structured Finance maintained the high levels of fees and commissions already achieved in 2018, confirming its role as an important driver in the development of more dynamic and complex customer relations, with the service model adopted allowing for systematic specialised support to be given to the commercial networks during their development, negotiation and consolidation of operating relationships with customers. In this sense, note that from 2020, the Structured Finance team for Business customers will also be operational, established to capture the potential for development previously seen in the area of Retail customers.

Origination

Through Senior Bankers, specialised by Industry, and the support from Business Analysts, the quality of relationships with business owners and the top management of companies was improved, achieved with the benefits of increased satisfaction perceived, cross-selling and overall profitability of the relationship.
At the end of 2019, the Origination Unit implemented an additional expansion of its team. The purpose is to further improve strategic coverage on the most important customers, to dedicate a team of specialists to the segment of small and medium-sized enterprises and implement capital structure analysis & advisory activities also targeted to business customers.

Foreign operations and trade finance

Dedicated network and foreign goods unit

Banco BPM Group assists its customers via a dedicated commercial network, made up of more than 60 reference specialists across Italy who have superior technical and commercial skills and are, therefore, able to best support companies in their internationalisation activities.
In addition, the Group uses the following foreign - goods units located throughout Italy for its operations, specifically in Milan, Legnano, Rome, Verona, Modena, Bergamo, Lucca and Lodi.
Overall, the Operations structure currently has about 130 members of staff and manages foreign documentary transactions, with the exclusion of electronic receipts and direct remittances (i.e. the open account area).
In particular, it handles documentary credit, documented remittances and international guarantees, in accordance with the relative process rules in force, seeking to provide customers with a high value-added service that guarantees consistent returns in terms of commission income.

Financial Institutions

During 2019 the Financial Institutions Group (F.I.G.) oversaw the main foreign markets with the primary purpose of guaranteeing adequate credit lines to support customers' imports and exports.
As regards exports, the Group implemented and renewed adequate trade credit lines, both ongoing and temporary, for foreign banks. As regards imports, through targeted international missions in the main countries of interest for customers, it obtained adequate credit lines from the local foreign correspondent banks.
The international missions also aimed at stimulating cross-border business with the foreign correspondent banks and acquiring commercial information on opportunities and problems in the various markets.
For the purpose of providing suitable coverage for trade finance operations with countries/banks considered risky or problematic, the Financial Institutions Group renewed its participation in the respective trade facilitation programmes of the main supranational banks: EBRD, IFC and ADB.
By managing the foreign Representative Offices in Mumbai and Hong Kong, it has helped customers who operate, or intend to operate, in the areas of responsibility of these offices.
To support the new activity of asset acquisition, the F.I.G. has joined B.A.F.T. (Bankers' Association for Foreign Trade) and the I.T.F.A. (International Trade and Forfaiting Association). It also promoted the event "Doing Business with India", held in Verona in partnership with the Indo-Italian Chamber of Commerce, which included the participation of around 50 customers of Banco BPM.
Lastly, the F.I.G. contributed to the Group's foreign trade operations and the dissemination of its image by participating in international banking events.

Foreign Products and Services

In 2019 Banco BPM Group expanded the team dedicated to "foreign products", adding highly qualified professionals with proven experience in the area of structured export finance.
During the year, the team guaranteed the consolidation of traditional trade finance activities with the support of SACE (Institute for Insurance Services for Foreign Trade, CDP Group), in which it has been highly active for several years, offering products such as:

- discounts for SACE insurance policy transfers;
- contractual/bond guarantees and confirmation of documentary credits with SACE coverage. The latter were also carried out by entering into a Master Risk Participation Agreement (MRPA) with SACE, whereby the bank and SACE share the non-repayment risk associated with payment instruments and/or obligations for the export of goods and services (confirmation of documentary credits) and the execution of work abroad (bonds).

Banco BPM signed the extension of the financial guarantees agreement with SACE, which provides for the possibility of providing loans with SACE guarantees. Of the products designed, it is worth noting the IT.EX loan (funding working capital), the JET loan (to support business internationalisation projects).
For Banco BPM Group, new initiatives in foreign operations for 2019 were entry into the "Advanced Foreign" market, concluding pool transactions (both on the primary and the secondary markets), of the following types:

- buyer's credit with SACE coverage (also based on project financing and asset-based financing);
- syndicated loans in favour of foreign debtors;
- Structured commodities and trade finance (pre-export finance).

In 2019, Banco BPM continued its integration of new cutting edge channels, with both information and order functions, addressed to companies that work with or intend to work with firms abroad. In particular, it commissioned the re-launch of the YouWorld portal through an improved user experience aligned with the B2B platform YouLounge. In the initial months of 2020, both the YouWorld and YouLounge platforms will be included in the same hub, with a redesigned, more captivating graphic layout, which will enable users to browse the two worlds using the same interface.
In that regard, it is noted that YouWorld is an information platform that enables businesses to access an exhaustive and continuously updated amount of information on foreign trade (e.g. political-institutional overview of a country, customs and fiscal regulations, contractual obligations, tenders, lists of professionals) and provides references for potential foreign suppliers or buyers (organised by country, type of goods or services). In December 2019, there were a total of 1,172 companies using the service, of which 1,090 were Retail and 82 Corporate.
Instead, YouLounge is a virtual B2B platform that allows company customers to promote their products/services through a virtual shop window (the business card). All companies engaged in expanding their international foreign markets, both in terms of imports and exports, will be able to use the platform, which can be accessed via Banco BPM e-banking portal. Thanks to an agreement signed with Banco Santander in 2017, YouLounge currently participates in the Trade Club Alliance, together with 13 other leading international partner banks. Through a Community Manager, common to the entire Trade Club Alliance, and an internal Local Community Manager, the companies using the service will be engaged by a sophisticated algorithm through targeted messaging, focused on the reference product sector, for the purpose of connecting the needs for purchase/sale of all members of the various communities pertaining to the International Partner Banks. Companies can also autonomously search for selected customer counterparties of the other partner banks. Currently, the Trade Club Alliance's geographical coverage totals 60 countries throughout the world with a population of over 21,000 selected companies.
In December 2019, YouLounge comprised 1,267 companies, of which 1,120 Retail and 147 Corporate.

With regard to Foreign operations, the digital offer is completed by a third portal, YouTrade Finance, which enables goods operations to be managed online (international guarantees - already operational, documentary credits, operational for the import phase), simplifying and optimising the bank-customer relationship. YouTrade Finance that allows digital documents to be exchanged between the bank and the customer, through guided procedures that are constantly tracked, able to ensure maximum security (ex. the use of a digital signature), guaranteeing a reduction in timeframes and allowing the customer to monitor the processing status of the document.
Within the DOT programme, the acquisition of artificial intelligence in the goods area has been inserted. During 2020 the tender for the creation of this ambitious project will be initiated. This project will position the Group at the cutting-edge of the sector, in this area and regarding digitisation.

Agreements with leading institutions

In order to expand the support to customers that operate in the complex field of internationalisation, Banco BPM has signed up with its specialised foreign operations and trade finance managers in numerous associations, or has agreements in place with leading institutions (including ICC Italia International Chamber of Commerce, Credimpex Italia, German-Italian Chamber of Commerce, De International Italia and the previously mentioned SACE). All of this has been done to offer its customers professional support based on in-depth knowledge of regulatory techniques and methods, instruments and rules relating to the world of international trade.

Regarding relations with the Chambers of Commerce, in 2019 Banco BPM maintained its collaboration with the German-Italian Chamber of Commerce (CCIG), as well as with DE International Italia. This company, which belongs to the CCIG, offers a wide range of services for the internationalisation and promotion of forms of cooperation (business days, B2B meetings between Bank customers and foreign operators) with a particular focus on the German area, a region of Europe of particular interest for exporting Italian companies.

Institutional

	2019	2018 (*)	absolute change	% change
Interest margin	55,713	59,476	(3,763)	(6.3%)
Financial margin	**55,713**	**59,476**	**(3,763)**	**(6.3%)**
Net fee and commission income	37,695	35,708	1,987	5.6%
Other net operating income	4,053	3,982	71	1.8%
Net financial result	(42)	1,453	(1,495)	
Other operating income	**41,706**	**41,143**	**563**	**1.4%**
Operating income	**97,419**	**100,619**	**(3,200)**	**(3.2%)**
Personnel expenses	(7,312)	(6,258)	(1,054)	16.8%
Other administrative expenses	(28,262)	(33,086)	4,824	(14.6%)
Net value adjustments to property, plant and equipment and intangible assets	(620)	-	(620)	
Operating expenses	**(36,194)**	**(39,344)**	**3,150**	**(8.0%)**
Profit (loss) from operations	**61,225**	**61,275**	**(50)**	**(0.1%)**
Net adjustments to loans to customers	(8,917)	(22,954)	14,037	(61.2%)
Net provisions for risks and charges	209	1,187	(978)	(82.4%)
Profit (loss) before tax from continuing operations	**52,517**	**39,508**	**13,009**	**32.9%**
Taxes on income from continuing operations	(14,442)	(10,672)	(3,770)	35.3%
Charges related to the banking system, net of taxes	(6,970)	(7,681)	711	(9.3%)
Parent Company's net income (loss)	**31,105**	**21,155**	**9,950**	**47.0%**

(*) Keeping the total of the item unchanged, the figures relating to the previous year were restated to guarantee a like-for-like comparison with the segmentation criteria used for 2019.

Economic performance of the segment

Total operating income of the Institutional segment came to 97.4 million euro, a decrease of 3.2% on the previous year, due to a reduction in the interest margin (55.7 million euro in the current year, 59.5 million euro as at 31 December 2018). The contribution of net fee and commission income was up (+5.6% compared to 2018).

Other operating income showed an increase of 1.4% on the previous year, due to higher income from services.
Commissions related to the loan segment grew, showing an increase in disbursement volumes, as well as the profitability on current accounts and deposits (+2.6%) and other services to companies (9.9 million euro in the current year, 1.9 million euro as at 31 December 2018).
In 2019, income on corporate finance transactions also grew (9.2 million euro in the current year, 0.9 million euro as at 31 December 2018). Foreign commission income decreased on 2018 (-39.3%).

Total operating expenses amounted to 36.2 million euro, compared to the 39.3 million euro recorded in 2018, down by 8.0%. The decrease in administrative expenses was offset by personnel expenses, which increased by 1.1 million euro (+16.8%).

Profit (loss) from operations, equal to 61.2 million euro, was substantially in line with 2018.

Net value adjustments to loans to customers, which came to 8.9 million euro, decreased by 14.0 million compared to the previous year.

Charges related to the banking system, net of taxes, of 7.0 million euro (7.7 million euro in the previous year) were charged to the income statement for the year, with a decrease of 9.3%. These charges include ordinary contributions to the Single Resolution Fund (SRF) and the Deposit Guarantee Scheme (DGS).

The Institutional operating segment closed with 31.1 million euro in income for the year (21.2 million euro as at 31 December 2018), up by 47.0%.

More information on the activities managed by the business segment in question are provided below.

The coordination and commercial support relating to Institutional customers, the Public Administration, Religious Entities, the Third Sector and Centralised Alliances, has been entrusted to the Institutional Customers, Entities and Third Sector Function, which manages the product range offered, developing suitable distributing channels and evolving the service model.
The "business" offices that the Institutional Customers, Entities and Third Sector Function is comprised by, are as follows:

- Institutional;
- Entities and the Public Administration
- Third Sector and Religious Entities.

Institutional

Institutional Counterparties are the main "supervised" parties such as Insurance companies and Non-banking finance companies, SGRs, SIMs, open and closed-end Mutual Funds, Bank Foundations, Social Security and National Insurance entities and Pension Funds. Furthermore, Institutional Counterparties also encompass the State, Constitutional Bodies, Central state entities and several companies part-owned by the Central P.A., in addition to Regional authorities, healthcare organisations and hospitals and large municipalities.

Relations with the Institutional Counterparties are monitored by the Structure of the same name through a complete service model, which includes managers and specialised employees and a dedicated branch.

Institutional Customers are broken down by type of SAE (Sector of Economic Activity) as follows (figures as at 31 December 2019):

Type of Entity by SAE (Sector of Economic Activity) (*)	% Breakdown
Mutual Investment Funds, Pension Funds and UCITs	27%
SIM, SGR and trust companies	7%
Non-banking (Leasing, Factoring) and Consumer Credit companies	6%
Regions, Healthcare Companies, Large Municipalities and Companies Co-owned by the Public Administration	6%
Insurance companies	5%
Bank foundations	2%
Central Government and Constitutional Bodies	2%
Social Security and Social Welfare Entities	1%
Other companies and financial intermediaries	44%
Total	**100%**

(*) Group companies are not included

The office which handles Institutional Counterparties also manages the operations performed for Banco BPM Group Companies.

With a view to achieving greater efficiency in the management of relationships, the services offered have been harmonised and commercial partnerships have been developed with Banca Akros and Banca Aletti to make the range of services offered to this particular type of customer more complete and specialised.

Intragroup synergies include the start of a new service exclusively dedicated to Institutional: Mediation of Alternative Investment Funds. This service, designed and created together with the Private Equity and Funds Function, began on 31 December 2019 and will effectively start-up in 2020.
2019 also saw the awarding of two important treasury management assignments, relating to an important national public entity and a significant European supranational entity, respectively, which together comprise more than 3 billion euro in direct funding.

Commercial partnership with allies external to the Group

The Institutional, Entity and Third-Sector Function is also tasked with supervising and coordinating the structure dedicated to centrally managing commercial alliances with partners external to Banco BPM Group.

These alliances are regulated by specific commercial partnership agreements, which envisage a range of products addressed exclusively to the customers of the external alliance, through a dual distribution channel:

- "off-site" offer, through external financial advisors;
- branch sales, through dedicated branches, in the financial shops of the commercial ally.

Centralised commercial management consists in the presence of a dedicated structure, included within the Institutional, Entity and Third-Sector Function, which has 18 branches spread across Italy, to which the opening of five new branches will be added by the end of the first half of 2020.

Direct supervision through a wholly dedicated structure enables commercial agreements to be constantly developed in view of legislative changes as well as better economic returns and better supervision of operational risks especially as regard Anti-Money Laundering Legislation.
In collaboration with the "allies", we serve around 36,000 customers.

The market for the off-site offer of banking products and services through the networks of financial advisors belonging to groups that do not have banks within their perimeter represents an area with strong potential and the organisational model specifically adopted and the know-how acquired to date by Banco BPM have lain the groundwork for the strong possibility of the further development of constantly growing business on the market.

Entities and the Public Administration

Pursuant to EU Regulation 549/2013 on the European System of National and Regional Accounts, Entity or "Public Sector" Customers consist of:

- Public Administrations, which in turn include the Central Administrations (State and Constitutional Bodies, Ministries and relative Departments, etc.), Local Administrations (Regions, Provinces and Municipalities) and Social Security and National Insurance entities;
- Public Companies, namely parties that produce goods and/or services for sale, or which is a public corporation or which are controlled directly or indirectly by the Public Administrations, under specific laws, decrees or regulations.

In 2019, commercial activities were conducted in full respect of the Group's guidelines, with special attention paid not just to economic results, but also the economic-financial situation of counterparties, to mitigate credit risk, and to the minimisation of location-based service commitments.

The Public Sector function is responsible for managing the segment from a commercial, regulatory and administrative perspective. The activity, in relation to the acquisition of relationships and the management of the Public Administration, is conducted with particular focus on the commitments and critical issues that arise, on the limitations of operational risks, of image, of credit and from a commercial perspective.

The activity is quality certified in accordance with UNI EN ISO 9001:2015. In 2019, the UNI EN ISO 9001 quality certification for the design and management of Treasury and Cash Services and the provision of loans to the Public Administration was also successfully renewed for an additional three years, confirming the full validity of the processes implemented and the significant ability to analyse and manage risks.

In 2019:

1. the "tender procedure with the PA" process and application was certified pursuant to Law 231 (Administrative Liability) to confirm – through an external certification body – the validity and adequacy of Banco BPM in the delicate management of tender procedures called by the Public Administration;
2. specific database records were activated for the correct identification of the perimeter of the P.A. based on the official lists of public entities on the website of the MEF (Ministry for the Economy and Finance), in order to more correctly oversee the related risks.

Entities and P.A Customers are broken down by type of SAE (Sector of Economic Activity) as follows (figures as at 31 December 2019):

Type of Entity by SAE	% Breakdown
Municipalities - Unions of municipalities	39%
Schools and Universities	22%
Companies Co-Owned and Production Companies of Public Services	19%
Other entities	20%
Total	**100%**

Third Sector and Religious Entities

The customers belonging to the Third Sector and Religious Entities are represented by Associations, Foundations, Socially Useful NPOs, Cooperatives and Social Enterprises and other "non-profit" Organisations envisaged by the Law Reforming the Third Sector (Legislative Decree 117/17), in addition to dioceses, parishes, congregations and religious orders.

Third-Sector customers and Religious Entities are broken down by type of SAE (Sector of economic activity)/Legal nature as follows (figures as at 31 December 2019):

Type of Entity by legal nature	% Breakdown
Associations	48%
Foundations	2%
Religious Entities (parishes)	12%
Social Cooperatives	5%
Other entities with or without legal status	33%
Total	**100%**

Given the growing importance of the Third Sector, which offers significant prospects for development, Banco BPM has decided to strengthen its sales efforts through a dedicated structure, which now includes specialists in each geographical area of action of Banco BPM.

Among the distinctive commercial initiatives of 2019, it is specifically worth noting the strengthening of the solidarity partnership with AIRC (Foundation for Cancer Research), of which Banco BPM is an official partner, through exclusive dedicated fund raising service, reproposed also through the first "telethon" broadcast nationally on the RAI networks.

Private

	2019	2018 (*)	absolute change	% change
Interest margin	3,483	(543)	4,026	
Financial margin	**3,483**	**(543)**	**4,026**	
Net fee and commission income	89,857	90,434	(577)	(0.6%)
Other net operating income	(4,554)	(4,886)	332	(6.8%)
Net financial result	18	20	(2)	(10.0%)
Other operating income	**85,321**	**85,568**	**(247)**	**(0.3%)**
Operating income	**88,804**	**85,025**	**3,779**	**4.4%**
Personnel expenses	(54,729)	(50,678)	(4,051)	8.0%
Other administrative expenses	(15,866)	(19,069)	3,203	(16.8%)
Operating expenses	**(70,918)**	**(69,747)**	**(1,171)**	**1.7%**
Profit (loss) from operations	**17,886**	**15,278**	**2,608**	**17.1%**
Net adjustments to loans to customers	(13)	(301)	288	(95.7%)
Net provisions for risks and charges	(2,752)	(20,740)	17,988	(86.7%)
Profit (loss) before tax from continuing operations	**15,121**	**(5,763)**	**20,884**	
Taxes on income from continuing operations	(4,158)	1,586	(5,744)	
Charges related to the banking system, net of taxes	(2,961)	(1,268)	(1,693)	133.5%
Parent Company's net income (loss)	**8,002**	**(5,445)**	**13,447**	

(*) Keeping the total of the item unchanged, the figures relating to the previous year were restated to guarantee a like-for-like comparison with the segmentation criteria used for 2019.

Economic performance of the segment

Total operating income for the Private sector came to 88.8 million euro, up by 4.4% compared to the previous year.

In particular, the interest margin on direct funding on demand (+13.7%) was positively impacted by the performance of market rates compared to 2018, while net fee and commission income remained in line with the previous year.

Operating expenses recorded total growth of 1.2 million euro (+1.7%), despite the decrease in administrative expenses.

The profit (loss) from operations was 17.9 million euro, up by 2.6 million euro compared to 2018.

Net provisions for risks and charges amounted to 2.8 million euro compared to 20.7 million euro in 2018, and still include extraordinary supplementary provisions recognised for charges that could arise from the settlement of present and future disputes and complaints.

Charges related to the banking system, net of taxes, of 3.0 million euro (1.3 million euro in the previous year) were charged to the income statement for the year. These include ordinary contributions to the Single Resolution Fund (SRF) and the Deposit Guarantee Scheme (DGS).

The Private operating segment closed with income for the year of 8.0 million euro compared to -5.4 million euro in the previous year.

As illustrated in the introduction, the "Private" segment includes the management and marketing of banking and financing services/products and loan brokering, which are mainly aimed at private customers with assets that, individually and/or within their business, amount to at least 1 million euro. These activities are carried out by the subsidiary Banca Aletti. More information on the activities managed by the business segment in question are provided below.

At the end of 2019, the Private Banking Network of Banca Aletti recorded a global amount of "assets under management" (administered and managed) of 19.9 billion euro. The figure includes the liquidity positions of private customers of Banca Aletti with accounts at Banco BPM.

The year was characterised by a sharp increase decrease in net interest and other banking income for the Private segment compared to the average figure for the previous year, arising from significant growth in net income from services, in addition to an improvement in the financial margin.

This evidence should be included in a context of strong recovery of consulting operations of the Private Network which, also benefiting from the positive trends in the global financial and currency markets since the beginning of the year, managed to develop significant activities for optimising portfolios, with clear benefits of diversification for customers in terms of risk-weighted returns.

The continued negative structural yields of interbank monetary rates which, during the year, were joined by the changes in the yield curves of many bond markets, increased the downward trend towards very short-term investments, represented by direct funding on demand.

The many actions and strategies aimed at increasing volumes in the medium term and expanding the scope to customers provided comforting results in terms of new net funding. This figure was eroded by the negative effect associated by the volumes related to outgoing private bankers in the second half of 2018 and in 2019.

To support development activities, in line with the strategy of previous years, efforts were made, in concert with the Parent Company, to create opportunities to meet potential customers through a series of local events (around 60 over the year).

In line with BPM's commercial development plan, which envisages increasing use of cross-selling drivers, during the year, together with the Corporate Department, a synergic plan was set out for the development of family-owned businesses, which took shape through the engagement of all corporate managers. This activity was joined by significant opportunities for cooperation with Banca Akros and with the Origination structure of Banco BPM.

As a way of implementing the Group's integration plan, during the year the transfer of the "Non Portfolio Private (NPP) Customers" business segment and the "BBPM Financial Advisors" business segments was carried out: if the former was already included in the scope of management of the Private Network, the latter had an impact on the private network, with the hiring of 12 financial advisor agents.
As at 31 December 2019, Banca Aletti's network was comprised of 11 Areas, 45 Units, 10 remote branches, 270 Private Bankers and 15 Financial Advisors.

Investment Banking

	2019	2018 (*)	absolute change	% change
Interest margin	83,409	92,653	(9,244)	(10.0%)
Financial margin	**83,409**	**92,653**	**(9,244)**	**(10.0%)**
Net fee and commission income	38,821	41,795	(2,974)	(7.1%)
Other net operating income	787	879	(92)	(10.5%)
Net financial result	19,340	(20,369)	39,709	
Other operating income	**58,948**	**22,305**	**36,643**	**164.3%**
Operating income	**142,357**	**114,958**	**27,399**	**23.8%**
Personnel expenses	(29,516)	(24,989)	(4,527)	18.1%
Other administrative expenses	(56,044)	(67,141)	11,097	(16.5%)
Net value adjustments to property, plant and equipment and intangible assets	(1,105)	(1,032)	(73)	7.1%
Operating expenses	**(86,665)**	**(93,162)**	**6,497**	**(7.0%)**
Profit (loss) from operations	**55,692**	**21,796**	**33,896**	**155.5%**
Net adjustments to loans to customers	181	265	(84)	(31.7%)
Net adjustments to securities and other financial assets	664	767	(103)	(13.4%)
Net provisions for risks and charges	(861)	5,915	(6,776)	
Profits (losses) on disposal of investments in associates and companies subject to joint control and other investments	80		80	
Profit (loss) before tax from continuing operations	**55,756**	**28,743**	**27,013**	**94.0%**
Taxes on income from continuing operations	(16,744)	(9,884)	(6,860)	69.4%
Charges related to the banking system, net of taxes	(963)	(4,021)	3,058	(76.1%)
Parent Company's net income (loss)	**38,049**	**14,838**	**23,211**	**156.4%**

(*) Keeping the total of the item unchanged, the figures relating to the previous year were restated to guarantee a like-for-like comparison with the segmentation criteria used for 2019.

Economic performance of the segment

The segment in question is composed of the legal entity Banca Akros, which incorporated the investment banking business segment of Banca Aletti on 1 October 2018.

The trend in the main income statement items marks a decrease in the interest margin, due to the decrease specifically recorded in the contribution from the securities portfolio, especially within the intragroup component. The latter is mainly related to the bond loans, underlying the certificates, issued by the Parent Company and subscribed by Banca Akros. Other operating income reported growth, especially due to product structuring.

Operating expenses decreased overall, despite the growth in personnel expenses, due to careful management of administrative expenses.

As illustrated in the introduction, the "Investment Banking" segment includes the structuring of financial products, access to regulated markets, and the support and development of specialised financial services, carried out by the subsidiary Banca Akros. More information on the activities managed by the business segment in question are provided below.

Trading and market making activities on own account

Throughout 2019, trading on own account of securities, derivatives and exchange rates benefited from a return of risk appetite of investors and financial operators at global level. This was made possible, above all, by the changed approach of the central banks, which became expansive once again at the beginning of the year, in relation to signs of economic slowdown in Europe and Asia and, in the US, due to fears of possible effects of the trade policies enacted by the US administration.

The return to a risk-on situation, particularly visible on the stock markets since the beginning of the year, made it possible to more confidently identify the short-term market trend on which to calibrate trading strategies, on the one hand, while it led institutional and professional customers to increase their operations, favouring the generation of positive results also from market making, on the other.

Trading in interest rate derivatives was marked by sharp growth in volumes with professional customers compared to 2018 in the corporate and business segments, with, instead, operations with institutional customers generally below expectations, despite numerous transactions in options on government bonds, up in the second half of the year. As a result of the volatility of the interest rate curve remaining at historically very low levels, it was difficult to overcome the expectations regarding profit on proprietary trading activities in this asset class.

Fixed income trading and the volumes of securities lending saw good levels of operations with customers, especially in the segment of Italian government bonds, where volumes grew significantly on 2018 and, in any event, were up in the second half compared to the first. The tightening of the BTP-Bund spread, which was even clearer in the second half, had a particular influence on this positive trend. In the financial and corporate sectors, following a low-key start, volumes traded grew starting in the second quarter. Proprietary trading in the fixed income segment featured higher-than-expected revenues, also due to the possibility of identifying short-term market trends, specifically with regard to Italian securities in which the Bank is highly specialised. As stated, the gradual decrease in yields of BTP and bonds in general, also compared to Bund, accelerated starting in June.

Operations on the exchange rate market had a relatively tight trading range, for the entire duration of the year, specifically for the EUR-USD exchange rate (1.09 – 1.1530) and, in any event, with extremely low daily volatility. This reduced operations with customers and made it difficult to gain significant profits from the Bank's risk positions. However, the operations provided a positive contribution to the income statement for the year.

Market making on derivatives on share indices and instruments showed good recovery in volumes with both institutional and professional customers, in the listed segment (Idem and Eurex markets) and OTC, especially starting from the second quarter of the year, when the positive trend in the markets had been confirmed. Also on the equity market, proprietary trading benefited from the bullish trend, in line with the Bank's positions, despite the fact that the positive trend depressed the level of volatility and, as a result, made it more difficult to exploit the presence of market making in the markets on the options traded by the Bank.

The structuring of investment products based on requests from retail customers of the Group and third party distribution networks, recorded positive performance in the investment certificates segment, while volumes of structured asset management products (SICAVs and insurance policies) performed below expectations, but recovered during the second half. Due to the operations and innovations developed in the financial engineering segment, the distribution networks inside and outside the Group were equipped with produce that satisfied customers' requests. Near the end of the year, a significant hedging transaction was also carried out to cover the need to structure the financial liabilities of a leading Italian financial institution. Management of the "book", i.e. the portfolio of financial instruments hedging those assets and products, was positive, and demonstrated rigorous control of risk and compliance with the RAF and operational limits.

Brokerage activities

The year 2019 closed with share indices recovering sharply: the FTSE MIB and FTSE Italia Star gained +28% on the end of the previous year.
Despite this, the volumes of share trading on the stock market showed negative performance if compared with the volumes traded during 2018, recording a decrease in value of around 13% (Source: Borsa Italiana), while the bond segment showed growth in volumes traded of 12.4%.
In that context, we note the positive results achieved in share brokerage on behalf of third parties on domestic markets, where Banca Akros is in third place (up from fourth) among Italian and foreign intermediaries active on the Borsa Italiana's stock markets, with a growing market share of 9.82% (7.45% in 2018, Source: Assosim), also due to the integration of Banca Aletti's brokerage activities.
On the Certificates and ETF markets the Bank is in second place, with a market share of 25.47% (26.24% in 2018) on SEDEX and 10.37% (10.97% in 2018) on ETFPLUS.
On the AIM-Italia Market, the SME market, which has grown significantly in the last few years, Banca Akros is in fifth place, with a market share of almost 11%.
Business also continued positively on the Equiduct market, managed by the Böerse Berlin, where Banca Akros is the leading Italian operator.

Operations on the stock markets, developed with the support of a high quality equity research service, also through ESN – European Securities Network LLP (the partnership in equity research and trading set up with other European investment banks, independent from each other and operating on their respective national stock markets) and thanks to the organisation of numerous road shows (almost 100 in 2019, compared to 61 in 2018) which involved Italian and foreign companies and institutional investors, also successfully aided placements made by the Brokerage division on the primary market of IPOs originated by the Investment Banking area. The synergies between Brokerage and Investment Banking, also evident in the primary bond market, are the foundation of the success of numerous initiatives in 2019.

In specialist and corporate broker activities for issuers listed on the Borsa Italiana, at the end of the year, the total number of mandates in place grew sharply compared to the end of 2018 (12 new mandates), up to 44, in line with the legislative changes introduced by MiFID II.

In brokerage on behalf of third parties on the regulated derivatives markets of the Borsa Italiana, Banca Akros ranks first in the FTSE MIB Index Options, with a market share of 23.65% (12.93% in 2018) and third place in the Futures market on the index with a market share of 3.56% (seventh place with a share of 2.72% in 2018).
Banca Akros is a direct member of the German EUREX market of regulated derivatives on equities and bonds and confirms its position as one of the main domestic operators.

For the first time, in 2019 the Bank reached the absolute number one its position in the brokerage on the Italian bond market, also due to the contribution of SABE, the proprietary system for the automatic search for the best execution, which complies with the dictates of MiFID II, at the service of the Group's customers and over 100 other intermediaries, including those active in online trading. In this regard, the acquisition of foreign institutional customers continued positively.
In terms of volumes brokered on behalf of third parties, during 2019 the classification drawn up by Assosim ranks Banca Akros in first place on the following bond markets: DomesticMOT (third place in 2018), EuroMOT, ExtraMOT and Hi-MTF, with market shares of 19.26%, 26.70%, 29.13% and 26.11% respectively. It was in second place on the EuroTLX market, with 17.95%. The shares on the bond market grew compared to 2018: if we look at all bond markets, Banca Akros holds, as stated, the absolute first place, with a market share of around 20%.

Operations in commodities grew to meet the needs of customers.
Thus, operations on the German market for EEX energy derivatives continued positively, as did operations on the French Powernext market for gas derivatives, with sharp development in volumes traded on behalf of customers active in trading and risk hedging operations in the relative sectors.

Investment Banking

In the Debt Capital Market, the Bank participated in the placement of numerous Corporate bond issues with institutional investors.

In particular, with the role of Joint Lead Manager, it placed the following issues: Abertis, Senior Multi Tranches and Multi Currencies Bond for a total of 3,100 million euro and Telecom Italia SpA Senior Bond maturing 2025, for a total of 1 billion euro.
With the role of Joint Bookrunner, the following are noted: Terna SpA, fixed-rate Senior Bond maturing in 2025, for a total of 500 million euro; IGD SpA, Senior Bond maturing in 2024 for a total of 400 million euro and Brebemi SpA, Senior Bond Multi Tranches.
Lastly, as Bookrunner, the Bank assisted IGT for a Senior Bond maturing in 2026, for a total of 750 million euro.

In the Financial Institutions segment, Banca Akros participated, as Joint-Lead Manager, in the placement of bond issues by the Parent Company, Banco BPM, targeted to institutional customers: the fixed rate Senior Preferred Bond maturing in 2022, for a total of 750 million euro and the Senior Preferred Bond, maturing in 2025 for 500 million euro. Also for Parent Company issues targeted to institutional customers, the Bank acted as Joint Bookrunner for the fixed-rate Subordinated AT1 bond for a total of 300 million euro, the fixed-rate Senior Preferred Bond maturing in 2025, for a total of 500 million euro and the fixed-rate Subordinated T2 bond maturing in 2029, for a total of 350 million euro.

In this segment, it is also noted that, as Joint Lead Manager and Bookrunner, the Bank handled for Anima SpA the issue of the fixed-rate Senior Bond maturing in 2026, for a total of 300 million euro and the issue Quarzo 2019, a floating-rate ABS Senior Bond maturing in 2036, for a total of 600 million euro.
Banca Akros participated, as Joint Lead Manager, in the issue of Agos SpA Sunrise 2019 I and II, floating-rate ABS Senior Bonds maturing in 2044, for a total of 756 million euro.
Lastly, as Joint Bookrunner, it participated in the issue of Nexi SpA, a fixed-rate rate Senior Bond maturing in 2024, for a total of 825 million euro.

In the Green and Social segments, the Bank acted as Joint-Lead Manager and/or Bookrunner for the following placements: Enel Spa, fixed-rate Senior Green Bond maturing in 2025, for a total of 1 billion euro; Cassa Depositi e Prestiti, fixed-rate Social bond issue maturing in 2026, for a total of 750 million euro; IREN SpA, fixed-rate Senior Green Bond issue maturing in 2029, for a total of 500 million euro; MCC Banca del Mezzogiorno SpA, fixed-rate Senior Social Bond maturing in 2024, for a total of 300 million euro.

The Bank has also been involved in over twenty issues by leading Italian and foreign issuers, including the European Investment Bank (EIB) and the German bank, Kreditanstalt Für Wiederaufbau (KFW).

Among operations on the capital markets in the equity segment, in the first half of 2019, Banca Akros acted as Sponsor and Joint Book Runner for the placement and listing of Nexi which, with an amount of over 2 billion euro offered on the market, represented the largest IPO in Europe at that time of the year. In the second half of 2019 the Bank acted as Joint Global Coordinator for the placement and listing of Shedir Pharma on AIM Italia.
The Bank also coordinated the voluntary public purchase offer on Damiani SPA shares and on BIO DUE shares, supported Industrial Stars of Italy 3 in finalising its business combination with Salcef Group and, as Sponsor, assisted Orsero in its move from AIM Italia to the STAR segment.

In the non-performing loan disposal segment, Banca Akros acted as Advisor and Joint Arranger in the sale and resulting securitisation of a portfolio of bad loans amounting to 7.4 billion euro carried out by the Parent Company Banco BPM, obtaining a GACS guarantee (ACE Project), and as Advisor in the sale of a lease portfolio of around 650 million euro, carried out by the Parent Company Banco BPM (L-ACE Project). As Arranger, the Bank also carried out the sale of bad loans, mainly mortgages, by a pool of Italian banks (part of the Multiseller NPL 2018 Project), as well as three sales of Single Name bad mortgage loans the same number of Italian banks, one operation as part of the Single Name Italy 2018 Project and two as part of the Single Name Italy 2019 Project.

In the segment of performing securitisations, the Bank managed, as Joint Arranger and Joint Lead Manager, two "STS" securitisations of consumer loans originated by Agos Ducato, for 1,100 million euro and 1,146 million euro respectively. The Bank also managed, as Arranger, the securitisation of residual mortgages originated by Banca Cambiano and Banca di Pisa e Fornacette for a total of 448 million and, as Joint Arranger, a securitisation warehouse of a lease portfolio originated by Alba Leasing for a total of 1,515 million euro.

In the Advisory area, Banca Akros assisted Banca Popolare di Puglia e Basilicata in closing two Risk Sharing Agreements with the European Investment Fund (EIF) as part of the InnovFin SME Guarantee and AGRI-Italy guarantee schemes, to provide 40 million euro and 14 million euro, respectively, in loans to small and medium-sized enterprises. The Bank also assisted Banca Popolare Pugliese in closing a Risk Sharing Agreement with the EIF, as part of the AGRI-Italy scheme, to provide 80 million euro in loans to small and medium enterprises. The AGRI-Italy Agreement will enable banks to disburse loans to companies using a guarantee ceiling offered by the EIF, for the purpose of improving access to credit of agricultural and agro-industry SMEs. AGRI-Italy involves the EIF, CDP, EIB and eight Italian Regions (Piedmont, Veneto, Emilia Romagna, Tuscany, Umbria, Campania, Calabria and Puglia) in the multi-regional guarantee platform AGRI.
In the segment of synthetic securitisations, as Financial Advisor, Banca Akros assisted Banca Popolare di Puglia e Basilicata in closing a synthetic securitisation with the European Investment Fund (EIF) and the European Investment Bank, as part of the SME Initiative Italy, regarding a portfolio of loans to SMEs previously disbursed by the Bank, for around 120 million euro.

Banca Akros further developed its M&A/Corporate Finance activities, acquiring numerous buy side and sell side assignments, especially with private equity funds and family-owned businesses. Specifically, as Exclusive Financial Advisor, the Bank assisted: the shareholders of Salcef S.p.A. in the business combination with SPAC Indstars3; the Chequers Capital fund in its acquisition of MTA S.p.A; the Alpha fund in the acquisitions of both Laminam S.p.A.

and Luceplan S.p.A by its subsidiary Calligaris S.p.A.; the Equinox fund in its acquisition of Manifatture Valcismon S.p.A. The Bank also acted as Advisor for the holding company of the Damiani family in the takeover bid on Damiani S.p.A. for the purpose of delisting, which was successfully concluded. It also continued cross-selling with the other structures of Banca Akros and with the Parent Company Banco BPM, specifically with Structured Finance, Lending Corporate Origination, Corporate Centres, Territorial Departments, Third Sector Department and with Banca Aletti.

Corporate & Institutional Banking

During the year, coverage of customers by the Corporate & Institutional Banking Division continued with positive results, with specialisation in the Corporate, Banks and Financial Institutions segments.

Following the centralisation of all sales of hedging products for corporate and business customers of the specific Group this within Banca Akros in the fourth quarter of the previous year, activities on hedging and financial risk management instruments were significantly developed, provided as part of cross-selling with the Parent Company, with a particular focus on the specific target represented by the Mid Corporate segment. In 2019, flows from customers on interest rate, exchange rate and commodities risk derivative products amounted to a total, in notional value of around 3.5 billion euro for exchange rate risk hedging transactions and around 3.2 billion euro for interest rate risk hedging transactions.

The structuring and issuing of Certificates by Banca Akros successfully continued. On the basis of customer needs and in compliance with the relevant legislation, the certificates are placed with retail investors by the distribution networks, both inside and outside of the Group. During the year, total issues topped 1,600 million euro, with a significant increase in placements with third party distribution networks, equal to around 280 million euro.
Banca Akros also intervened in the structuring of asset management investment products, with quantitative components, intended for management and insurance company customers, for a total of around 940 million euro, 750 million euro of which in unit-linked insurance products.

As part of ordinary trading operations on the secondary bond market, flows from customers in the government bond, SSA ("Sovereign, Supranational and Agency" Issuers) and credit segments exceeded 13.5 billion euro during the year. The positive contributions from operations in the equity segment, previously described, and the FX segment were confirmed.
Distribution on the primary bond market to support DCM operations was significant, including participation in the placement of numerous issues from leading issuers and a focus also on green and social issues.

In the area of diversifying sources of funding for businesses, the Bank has consolidated its significant presence in the private debt market, also due to the development of a non-exclusive commercial partnership with a leading domestic operator in the sector. To date, Banca Akros has placed two closed-end credit funds with institutional investors, for a total value of over 400 million euro, which invest in Italian SMEs to finance their specific projects for international growth and development.

Strategic partnerships

	2019	2018	absolute change	% change
Interest margin	(8,915)	(10,557)	1,642	(15.6%)
Profits (losses) on investments in associates and companies subject to joint control carried at equity	131,439	157,840	(26,401)	(16.7%)
Financial margin	**122,524**	**147,283**	**(24,759)**	**(16.8%)**
Net financial result	8,948	8,354	594	7.1%
Other operating income	**8,948**	**8,354**	**594**	**7.1%**
Operating income	**131,472**	**155,637**	**(24,165)**	**(15.5%)**
Personnel expenses	(1,947)	(2,072)	125	(6.0%)
Other administrative expenses	(624)	(486)	(138)	28.4%
Operating expenses	**(2,771)**	**(2,558)**	**(213)**	**8.3%**
Profit (loss) from operations	**128,701**	**153,079**	**(24,378)**	**(15.9%)**
Profits (losses) on disposal of investments in associates and companies subject to joint control and other investments	(775)	170,703	(171,478)	
Profit (loss) before tax from continuing operations	**127,926**	**323,782**	**(195,856)**	**(60.5%)**
Taxes on income from continuing operations	3,477	11,953	(8,476)	(70.9%)
Parent Company's net income (loss)	**131,403**	**335,735**	**(204,332)**	**(60.9%)**

(*) Keeping the total of the item unchanged, the figures relating to the previous year were restated to guarantee a like-for-like comparison with the segmentation criteria used for 2019.

The contributions to the consolidated financial statements of the equity investments held in Vera Vita, Vera Assicurazioni, Bipiemme Vita, Agos Ducato, Alba Leasing, Selmabipiemme Leasing, Factorit, CF Liberty Servicing and Anima Holding are included within the Strategic Partnerships segment.

Economic performance of the segment

The main income statement items show a decrease in operating income mainly due to the decrease in the profits from equity investments in associates and companies subject to joint control carried at equity. In particular, a lower contribution was provided by Agos (103.1 million euro in 2019, compared to 126 million euro in 2018). Decreases were also recorded by Vera Vita (8.6 million euro in 2019, compared to 9.6 million euro in 2018) and Vera Assicurazioni (6.6 million euro in 2019, compared to 9.1 million euro in 2018). It is noted that, during 2018, as a result of the extraordinary transaction concerning relating to the bancassurance business, with a decrease in the percentage shareholding held in the companies (from 50% in 2017 to 35% in 2018), a significant capital gain was realised, recognised under profits on disposal of investments in associates and companies subject to joint control and other investments (170.7 million euro).

Leases

	2019	2018 (*)	absolute change	% change
Interest margin	35,506	50,359	(14,853)	(29.5%)
Financial margin	**35,506**	**50,359**	**(14,853)**	**(29.5%)**
Net fee and commission income	4	7	(3)	(42.9%)
Other net operating income	(1,837)	15,418	(17,255)	
Net financial result	-	(16)	16	
Other operating income	**(1,833)**	**15,409**	**(17,242)**	
Operating income	**33,673**	**65,768**	**(32,095)**	**(48.8%)**
Personnel expenses	(5,479)	(6,452)	973	(15.1%)
Other administrative expenses	(29,591)	(35,760)	6,169	(17.3%)
Net value adjustments to property, plant and equipment and intangible assets	(1,288)	(32,599)	31,311	(96.0%)
Operating expenses	**(36,358)**	**(74,811)**	**38,453**	**(51.4%)**
Profit (loss) from operations	**(2,685)**	**(9,043)**	**6,358**	**(70.3%)**
Net adjustments to loans to customers	(95,597)	(92,710)	(2,887)	3.1%
Net provisions for risks and charges	(697)	(12,425)	11,728	(94.4%)
Profits (losses) on disposal of investments in associates and companies subject to joint control and other investments	(5,187)	(1,373)	(3,814)	277.8%
Profit (loss) before tax from continuing operations	**(182,385)**	**(115,551)**	**(66,834)**	**57.8%**
Taxes on income from continuing operations	41,690	33,673	8,017	23.8%
Income (loss) attributable to minority interests	15,376	9,622	5,754	59.8%
Parent Company's net income (loss)	**(125,319)**	**(72,256)**	**(53,063)**	**73.4%**

(*) Keeping the total of the item unchanged, the figures relating to the previous year were restated to guarantee a like-for-like comparison with the segmentation criteria used for 2019.

The leases segment includes finance lease operations of the former Banca Italease incorporated in the parent Company, as well as the operations of Release.

Outstanding lease contracts are managed with a view to run-off, as neither the contracting of new operations nor the disbursement of new financing on those running off is envisaged.

Therefore, the leases segment mainly handles administrative activities or those connected with after-sales management, both relating to the loans and relating to the assets under finance lease.

With regard to lease contracts with unpaid rentals, operations in the leases segment, specifically of Release, is, instead, focused on ensuring that payments return to normal status and, where this is not possible, to pursue the recovery of the loans, minimising the risks and costs of outstanding disputes, also by repossessing the assets. In those cases, operations in the segment aim for the best exploitation of the value of the repossessed assets, specifically properties, through their sale or use for income generation.

Economic performance of the segment

The Leases segment recorded total operating income of 33.7 million euro (down by 32.1 million euro compared to 65.8 million euro in the previous year). That reduction is attributable to both the decrease in the interest margin of 14.9 million euro, resulting from the reduction in interest-bearing assets and market indices, and the downturn in other net operating income of 17.3 million euro (-1.8 million euro as at 31 December 2019 compared to +15.4 million euro in the previous year), mainly referring to Release and due to lower rental income for 6.2 million euro, lower extraordinary income and out-of-period income for 6.9 million euro, higher operating expenses on real estate assets and provisions for unpaid rent for 3.4 million euro.

Other administrative expenses decreased by 6.2 million euro, down from 35.8 million euro in 2018 to 29.6 million euro in the current year, due to a careful policy of cost control.

Operating expenses (36.4 million euro compared to 74.8 million euro in the previous year) decreased by 38.5 million euro, mainly as a result of lower value adjustments on property, plant and equipment and intangible assets of

Release which, due to the change in the measurement criterion of real estate assets and valuable works of art starting from the 2019 financial statements, recorded a decrease on the previous year of 31.3 million euro.

The impacts illustrated above resulted in an improvement of 6.4 million euro in profit (loss) from operations, which rose from -9 million euro in the previous year to -2.7 million euro in the current year.

The cost of credit increased slightly by 2.9 million euro, up from 92.7 million euro to 95.6 million euro.

The new item Profits (losses) from the fair value designation of property, plant and equipment records the impact of the adoption of the new measurement criterion for property for investment purposes (all of the owned properties of Release), which was a negative 78.2 million euro.

Net provisions for risks and charges decreased by 11.7 million euro, from -12.4 million euro to -0.7 million euro, due to the lack of the provision of 10.1 million euro recognised in the previous year on a specific position of Release.

As a result of the above, the Lease segment reported a loss for the year of -125.3 million euro, compared to -72.3 million euro in the previous year.

Corporate Centre

	2019	2018 (*)	absolute change	% change
Interest margin	363,015	461,189	(98,174)	(21.3%)
Profits (losses) on investments in associates and companies subject to joint control carried at equity	(184)	1,617	(1,801)	
Financial margin	**362,831**	**462,806**	**(99,975)**	**(21.6%)**
Net fee and commission income	(19,038)	(1,451)	(17,587)	not significant
Other net operating income	52,854	376,462	(323,608)	(86.0%)
Net financial result	302,205	30,903	271,302	877.9%
Other operating income	**336,021**	**405,914**	**(69,893)**	**(17.2%)**
Operating income	**698,852**	**868,720**	**(169,868)**	**(19.6%)**
Personnel expenses	(449,961)	(459,034)	9,073	(2.0%)
Other administrative expenses	354,863	483,330	(128,467)	(26.6%)
Net value adjustments to property, plant and equipment and intangible assets	(135,236)	(209,867)	74,631	(35.6%)
Operating expenses	**(230,334)**	**(185,571)**	**(44,763)**	**24.1%**
Profit (loss) from operations	**468,518**	**683,149**	**(214,631)**	**(31.4%)**
Net adjustments to loans to customers	13,892	(22,189)	36,081	
Profits (losses) from the fair value designation of property, plant and equipment	(80,314)			
Net adjustments to securities and other financial assets	5,095	2,524	2,571	101.9%
Net provisions for risks and charges	(11,774)	(37,311)	25,537	(68.4%)
Profits (losses) on disposal of investments in associates and companies subject to joint control and other investments	339,033	4,028	335,005	not significant
Profit (loss) before tax from continuing operations	**734,450**	**630,201**	**104,249**	**16.5%**
Taxes on income from continuing operations	(95,745)	(201,127)	105,382	(52.4%)
Charges related to the banking system, net of taxes	(15,075)	(22,957)	7,882	(34.3%)
Profit (loss) from discontinued operations	-	936	(936)	
Income (loss) attributable to minority interests	188	1	187	not significant
Income (loss) for the year without impairment of client relationships after taxes	**623,818**	**407,054**	**216,764**	**53.3%**
Impairment of goodwill and client relationships after taxes	-	(2,929)	2,929	
Parent Company's net income (loss)	**623,818**	**404,125**	**219,693**	**54.4%**

(*) Keeping the total of the item unchanged, the figures relating to the previous year were restated to guarantee a like-for-like comparison with the segmentation criteria used for 2019.

Contributions to the consolidated financial statements that are not represented in the other lines of business are included within the Corporate Centre business line. Specifically, the Corporate Centre includes the financial contributions of the Finance of the Parent Company Banco BPM, of the subsidiary ProFamily, of the Group's real estate companies, as well as the centralised management of functions for the entire Group (such as cost management, personnel, etc.).

Economic performance of the segment

The downturn in the interest margin recorded in 2019 is mainly due to higher costs of funding with institutional counterparties (including Cassa Compensazione e Garanzia), which was also reflected in the lower contribution of the securities portfolio, due to the higher cost of funding in currency other than euro, incurred to finance it. That trend was partially offset by the lower cost of wholesale issues, the gradual reduction of stock and the result of the ALM centre, which was positively impacted by the trend in interest rates.

The fee and commission component was down, impacted by the sale of Custodian Bank activities in the 3rd quarter of 2018. In particular, that specific sale, together with that of the insurance management contracts of Banca Aletti (2nd quarter of 2018), explain the significant decrease recorded in other net operating income, which in 2018 had benefited from significant capital gains (200 million euro for the sale of the Custodian Bank and 113.6 million euro for the sale of insurance management contracts).
The net financial result was up, especially due to transactions in the securities portfolio (+248.3 million euro, which benefitted from the sale of a share of the HTC portfolio), capital gains from valuation and from the sale of the shareholding in Nexi (70.3 million euro), the recoveries on Sorgenia bonds (+44.6 million euro), as well as the improvement in valuation components, specifically of forex swaps, relating to exchange rate risk hedging on the component of the securities portfolio in foreign currency.

In relation to a slight improvement in personnel expenses (which decreased by 9.1 million euro), operating expenses recorded an increase in other administrative expenses, following a reduction in intragroup recoveries. The cost of credit improved, due to recoveries on several credit positions.

The trend in the item Profits (losses) on disposal of investments in associates and companies subject to joint control and other investments was due to the capital gains on the disposal of the captive portion of the business of ProFamily (189.5 million euro) and the controlling stake of First Servicing (142.7 million euro).

More information on the activities managed by the business segment in question are provided below.

Group Finance

The Parent Company coordinates and oversees the management policies of its structural asset and liability items, as well as those of the other Group companies, to optimize available capital, identify adequate funding strategies and transactions for the Group, through action on domestic and international markets, as well as to monitor liquidity requirements and dynamics, and the management of portfolios of securities and of other financial instruments held by the Group.
Group Finance activities are performed by the following organisational units: Investments and ALM, Group Treasury, Funding and Capital Management and Monitoring, and Reporting and Coverage.

Funding and Capital Management

The Group's liquidity position remained extremely strong throughout 2019, with an LCR that remained well above the Group's Risk Appetite Framework objectives during the year.

The overall medium/long-term funding position from the ECB was decreased by 4.5 billion euro. Specifically, in December 2019, 6 billion euro of TLTRO II was repaid early and 1.5 billion euro was drawn down from the first tranche of the TLTRO III.

In regard to the issue of bonds for the wholesale market, the EMTN programme and the Covered Bond programmes that can be used for covered bond issues were adapted and updated.

Regarding public issues, note the following placements: in March, a three-year senior bond for 750 million euro and a coupon of 2%; in April, an AT1 for 300 million euro and a coupon of 8.75%; in June, a five-year senior bond for 500 million euro and a coupon of 2.5%; in October a ten-year Tier II for 350 million euro and a coupon of 4.25% and a five-year, three month senior bond of 500 million euro and a coupon of 1.75%. In addition, in December, an issue was carried out through private placement of a six-year covered bond for 500 million euro and a coupon of 0.5%.

Liquidity buffers were further reinforced via the finalisation of medium/long-term bilateral financing transactions with various market counterparties, using both senior securities issued as part of the non-performing credit securitisation transaction originated by the Group (Leviticus GACS) and the retained covered bonds. The total nominal amount of these transactions was approximately 1.6 billion euro.

Lastly, regarding the optimisation of RWA, in June a synthetic securitisation with the EIF (European Investment Fund) was concluded, acquiring a guarantee on the mezzanine tranche of a portfolio of around 1.7 billion euro in performing loans disbursed to SMEs.
This is the first operation of the Group in this type of instrument.

ALM and Investments

ALM

The management of interest rate risk in the Banking Book is carried out centrally by the Parent Group within a specific delegated department, and the primary objective of management decisions is to mitigate the rebalancing of the dynamics of economic value volatility with the volatility of interest margin as the rate curve changes of monetary and financial market in general, in accordance with the provisions of specific regulations (BCBS, EBA and the Bank of Italy).
The Group utilises an integrated Asset Liability Management (ALM) system with the aim of calculating the risk measurements that also include the use of behavioural models and measures, and management is primarily based around a "natural hedge" model, which tends to pursue a natural compensation of the risks generated by the gaps in liabilities and assets. The items for which hedges are present are above all on-demand items, bond issues, mortgage loans and the securities portfolio.

Management of Proprietary Portfolios

Regarding the management of financial instruments under assets, in 2019 the strategies briefly described below were followed.

Positions in the HFT category
As regards trading, it is noted that the strategies implemented in 2019 resulted in a substantial break from that carried out in previous years in trading activities. Specifically, investments in bonds attributable to the financial sector, on which specific risk was concentrated, were progressively decreased, while intensifying operations on the government component. As regards government bonds, operations were focused on flattening and on country spread, implemented with particular intensity through Spanish government bonds. Instead, the positioning on the German curve was carried out mainly through listed derivatives, primarily options. The risk budget assigned to operations in the equity segment was an order of magnitude lower than that assigned to the bond segment: this resulted, however, in a positive contribution to the income statement, though marginal compared to that produced by operations carried out through bond instruments and related derivatives.

Positions in the HTC accounting category
In 2019 the HTC segment of parent Company Banking Book portfolio increased from 15.3 billion euro to 16.7 billion euro (+9.6%), driven by a net increase of 561 million euro in the government bond and a net increase of 912 million euro in the non-government bond segment. During the year, given the intention to rebalance the exposure to Italy risk, 1.4 billion euro in Italian government bonds was sold; during the same period, foreign government bonds were purchased for a higher amount, which led to an overall increase in the segment.

Positions in the HTCS accounting category
In line with that implemented in the HTC portfolio, in the HTCS accounting category, in relation to the government bonds segment, the exposure to Italy risk was also rebalanced, together with a general reduction in the portfolio, which decreased from 10.9 billion euro to nominal 8.3 billion euro.
The portfolio of the non-government bond segment reached a nominal amount of 2.7 billion euro, recording a decrease of 443 million euro over the year. The decrease was mainly due to the intention to reduce the portfolio in USD. In terms of geographical distribution, Italy's weight on the portfolio remained substantially unchanged, while Europe's weight increased. Distribution by sector increased in favour of the utilities sector.
Indirect exposure in mutual funds (FVTPLM) increased slightly during the year, also based on the expected evolution of the markets.

Private Equity and Funds
During 2019, investment activities in Alternative Investment Funds continued, with an expansion of asset classes and diversification of markets.
The objective remains that of investing in the real economy.
At the end of the year, Due Diligence and Mediation services were launched, targeted to institutional customers that invest in Alternative Investment Funds.

Group Treasury

During 2019 the outlook of particularly weak economic growth drove the European Central Bank toward an even more accommodating monetary policy, with the introduction, *inter alia,* of the tiering of deposits which, in the specific case of Banco BPM, makes it possible to keep a cash balance with the Central Bank of over 6 billion euro remunerated at zero.
The Bank's excellent liquidity position made possible the early repayment of the TLTRO II for 6 billion euro and the participation in the new TLTRO III auction for 1.5 billion euro, thereby reducing the stable financing from the ECB by from 21.4 billion euro to around 17 billion euro.
Activities of the Money Market Desk saw a significant increase in forex swap operations, both to fulfil treasury coverage needs in foreign currencies and to capture market opportunities, expressing an average monthly turnover of over 15 billion euro in nominal amount (value in Euro).
Significant synergies were realised for the achievement of company targets in terms of streamlining the Liquidity Coverage Ratio, working with the other Finance Offices and with the Liquidity Risk team.

The optimisation of available collateral for funding on the money market made it possible to further reduce the cost of financing and capture the best conditions and increase diversification of sources of funding both in Euro and in foreign currencies.
The contribution of secured funding on proprietary assets reported average funding around approximately 8.3 billion euro, of which 6 billion euro through CC&G, while average lending amounted to approximately 6.8 billion euro, of which around 5.6 billion euro through CC&G (excluding long-term bilateral operations).
In 2019, the USD interest rate curve was highly volatile due to a global economic scenario marked by numerous uncertainties. For that reason, in the area of USD it was decided to adopt a strategy of diversifying maturities (up to a maximum of 1 year) in order to capture the expected downwards movements of interest rates, while guaranteeing the possibility of a quick adjustment of the loan in the portfolio in the event of possible changes in monetary policy by the Fed.
Non-collateralised securities lending transactions with leading market counterparties were sustained by a strong liquidity position that made it possible to optimise the economic return on High Quality Liquid Assets. The maximum outstanding amount of transactions concluded reached approximately 1.9 billion euro, to then stand at around 1.3 billion euro at the end of the 4th quarter.
Trading in medium-term repos issues of retained Covered bonds and ABS, with underlying senior tranches of the securitisation of bad loans guaranteed by GACS, developed over the year. It was decided to proceed, taking advantage of the favourable market conditions, with maturities of 2 and 3 years. The total amount financed, for all the above types, at the end of 2019, increased by approximately 1.4 billion euro, reaching a total amount outstanding of approximately 3.5 billion euro.
The actions to improve the liquidity ratio continued, also through switching our retained covered bonds with market covered bonds issued by leading counterparties.

On the currency market, volatility dropped during 2019 compared to the previous year. In relation to this, the operations of the Forex Desk saw a decrease in volumes traded on the market compared to the previous year. Instead, economic returns exceeded expectations, both due to operations of support to the commercial networks and the banknote purchase and sale service.
The desk solicited and collaborated with the competent structures of Human Resources for updates to training courses (course topics and documentation) to be provided to colleagues in the network structures in charge of Foreign operations, in order to provide adequate training on the forex products offered to customers.

Portfolio Management

The Corporate Centre also comprises the activities relating to portfolio management by Banca Aletti.

2019 was characterise by the continued presence of the main central banks on the markets, which supported economies and financial markets with exceptionally expansive policies, impacting the approach to investments, which privileged technical/tactical positioning to the detriment of more strategic approaches, linked to economic fundamentals. In the portfolios managed, exposure to the equity asset class was generally kept moderately overweight, as a result of the significant performance achieved. The average financial duration of the portfolios increased significantly, in relative terms, on that of year-end 2018, and was maintained moderately underweight in relation to the benchmarks. Currency diversification in the portfolios, also based on the risk spread was also managed using a more tactical approach, positively contributing to the overall results.
The results for the year were thus all highly positive, with positive results also in relation to the benchmarks and/or different contractual parameters, recording significant generalised overperformance, specifically with reference to the management mandates with higher exposure to the equity asset class.
As at 31 December 2019, assets under management totalled 3.2 billion euro, slightly down on assets at the end of 2018. The assets of Group Pension Funds had a particularly negative impact, as the Funds decided to modify the management mandates in favour of "third party" asset managers, and which had an impact of around 750 million euro on assets under management.

Real Estate Sector

Operations in the real estate sector involve the management of the Group's instrumental assets and the enhancement and possible disposal of non-instrumental assets.
The process of streamlining and rationalising the offices that handle the real estate sector is at the stage of conclusion.
As a result of the incorporation of BP Property Management into the Parent Company, all the service activities regarding the management and maintenance (both technical and administrative) of Group property used in operations were concentrated in a new office named Property Management.
With a view to increasing the efficiency and reducing the management costs of the spaces occupied, a plan for rationalising locations was launched, which entails leaving owned properties and those of third parties: as a result, the third party properties will be returned to their owners, saving on lease rentals and the owned properties will become available for sale or lease to third parties, also obtaining savings on fixed management costs. To date, the moves from Via Carucci, Rome to Parco dei Medici, Rome and in Bologna from Via Bovi Campeggi to Via Don Minzoni have been completed, generating a total annual savings of approximately 3.6 million euro.
The renegotiation of rental payments of branches rented from third parties continued, with an annual savings achieved of over 3 million euro.
With regard to the Eracle Fund, analyses into the composition of the portfolio are in progress, following the closure of some owned branches, which allows the Group to increase the efficiency of the costs related to the lease, replacing the closed branches with other, operational ones.
Efforts also continued on the equally important energy efficiency project, focused at present on remote adjustment systems for technological plant. The IT platform has been purchased and the first remote tests have been conducted. In 2020, the controlled systems will be implemented.

With regard to non-operating assets, two structures have been identified:

- Advisory Secured NPE, which manages the activities relating to the marketing of real estate resulting from the collection of receivables;

- Property Enhancement and Valuable Works of Art: which is in charge of the management and enhancement of the value of owned properties, with a specific focus on big ticket items.

The technical and legal management of all non-operating assets of the Group continues to be assigned to the subsidiary Bipielle Real Estate. The activity, which also includes properties deriving from defaulted lease contracts, continues from year to year, albeit with a slowdown compared to the previous year.
The company, which already incorporated a number of real estate companies in the previous years, continued the reorganisation process by incorporating a further three subsidiaries, achieving management and operational synergies between their respective organisational structures.

In 2019, the Italian real estate market recorded excellent performance, with a rising trend in almost all asset classes. Excellent results were also achieved by the hotel sector, and Milan as the preferred destination.
In this context, deeds of sale were entered into for around 131 million euro, commitments to sell have been undertaken or the assessment phase is under way for other operations for approximately 87 million euro.
Support to the sales of small ticket items was also provided by several leading advisors, which were assigned to promote sales of real estate assets throughout the country.

The most important operations include: the sale of a property in Piazza del Parlamento, Rome for 57 million euro and the sale of 48 properties, several of them underlying NPL positions, as part of the sale of a portfolio of bad loans to Illimity Bank for the "L- ACE" project, which is expected to be concluded in the next year.

Work also continued for the purpose of generating income from free spaces, including those deriving from recent branch closures. Approximately 35 new leases or renegotiations of existing leases were signed, for a total of new annual rentals of approximately 8 million euro.
The most significant income-earning properties included the signing of the agreement with the Lazio Region for the lease of the property of the Rome-based subsidiary Release, in Via Anagnina, with a full rent that will make the entire property complex, already partially leased to Ericsson, easier to market in relation to its good profitability.

The real estate development sector also showed signs of recovery, especially in the logistics and hotel tourism sectors.
In relation to the buildable land in Cologno Monzese owned by Bipielle Real Estate, the new Territorial Zoning Plan is pending, which resulted in the receipt of several offers (though subject to due diligence) for the purchase of several lots.
An interesting offer was also received for the land in Chivasso, also owned by Bipielle Real Estate, to develop a logistics hub. A good proposal (accepted) was also made for the sale of lots of land in Lodi (former ABB) to construct residential buildings.
One of the most complex cases from the real estate development perspective pertains to the area of Collegno (TO), also owned by Bipielle Real Estate, which the Municipality fully allocated to public services. Consequently, a dispute is in progress before the Court of Appeal, following on from the negative ruling issued by the Court of Turin, in relation to the expropriation allowance requested from the Municipality due to the land-use change imposed.
Regarding the subsidiary BRF Property, which owns a former industrial area in Parma, the redevelopment process is under way via the design of buildings for commercial use and the recovery of the buildings with construction restrictions, which have already been partially carried out. During the next year, significant urban development works should be carried out as part of the commitments made under the Agreement.
The subsidiary Lido dei Coralli placed its assets for sale through a competitive bidding procedure, whose results will be known in the next year. In the meantime, the business lease agreement continues with the current lessee, who holds a pre-emption right on the sale, and the urban planning process is continuing for the renewal of the Agreement.
Instead, the subsidiary PMG sold the property in Genova Nervi for 2.2 million euro. Negotiations are under way for the property in Imperia.
The tourism season was excellent for income-generating structures of Terme Ioniche in Calabria, while an interesting offer was received for the purchase of the agricultural land of Terme Ioniche soc. agricola.
The season was also highly satisfactory for the subsidiary Sagim, which holds a real estate complex and land in the province of Siena. Additional apartments have been recovered in the agritourism structure and the number of beds and tables. Significant returns were obtained from the sponsorship of Eroica (old-fashioned cycling race on dirt roads) and the inclusion of the structure in the bike-friendly network. The excellent management both on the tourism side and the agriculture side, which covers an area of around 1,000 hectares, is creating interest in several operators in purchasing even parts of the business.

RISK MANAGEMENT

Capital adequacy and main risks

The current level of own funds and of risk-weighted assets means that Banco BPM Group is easily able to comply with both the regulatory thresholds and the specific threshold required by the Regulator on conclusion of the Supervisory Review and Evaluation Process (SREP).
In order to provide its Management team, stakeholders and the Supervisory Authority with a complete and informed disclosure, which confirms the adequacy of its own funds, the first defence against the risks assumed, Banco BPM Group assesses its capital situation from a current and future perspective, both as regards Pillar I and Pillar II, based on Basel 3 rules and the specific guidelines that the banks receive from the Supervisory Authority. The Group's capital adequacy is substantiated in the continuous monitoring and management of capital ratios, so as to verify compliance with regulatory limits and ensure the maintenance of the minimum levels of capitalisation required by the Supervisory Authority. These ratios are also estimated during the Budget or Strategic Plan preparation process, as well as their consistency with the thresholds established in the Risk Appetite Framework (RAF). The RAF is the instrument which makes it possible to establish, formalise, communicate and monitor in a unitary and synergistic manner the consistency of the risk profile of the Group with the risk appetite approved by the Board of Directors and constitutes a policy for the development of the main company processes. The Risk Function develops the RAF to support the Body with Management Functions, in collaboration with the Planning and Control Function and the other competent Functions, revising the framework at least annually based on changes in the internal and external conditions in which the Group operates. Preventing exposure to risks that are inconsistent with the risk appetite is also carried out in the process of managing ST - Significant Transactions (relating to credit and finance transactions, sales of impaired receivables, purchases or sales of owned assets or other significant transactions), and in leveraged transactions, which involve in the first place the Risk Function, which is required by law to express a prior, non-binding opinion on all transactions categorised as significant.
One of the ways in which risk exposure is managed is an effective integrated risk reporting system, which enables all risk measurements and the main risk factors to which the group is exposed to be closely monitored. This reporting system is also regularly accompanied by a benchmarking analysis, prepared jointly with the Investor Relations Function, aimed at providing in-depth information on profitability, asset quality, capital adequacy and liquidity, providing a performance comparison with the Group's main competitors.
In 2019 the regular monitoring of capital adequacy of the Group (ICAAP) was started, with a long-term view, based on the most up-to-date baseline and adverse scenarios share in the Scenario Council. This consists of a team responsible for defining and updating or confirming the macroeconomic scenarios adopted in the Group's strategic processes in light of external events or specific vulnerabilities of the Bank. It is also responsible for identifying the specific processes impacted and their potential updating. That team is composed of the Chief Financial Officer and the heads of the Planning and Control, Risk and Administration and Budget Functions, with the participation of the head of the Audit Function as auditor.
In order to promptly and meticulously oversee the risks to which it is exposed, Banco BPM Group adopts a complex group of policies, processes, methods and instruments, which will be described briefly below, while reference should be made to the Notes to the financial statements (Part E) for more information.

Credit risk is managed by means of a portfolio risk estimation model, VaR, which is a default model, applied on a monthly basis mainly to credit exposures of Banco Popolare Group banks. This model enables operating capital absorption to be estimated, taking into account the portfolio concentration and the assumption of a joint non-fulfilment of counterparties, in a predefined context of significant macroeconomic variables. The confidence interval used is 99.9% and the time horizon of reference is one year. At the end of the model's simulation process, the maximum potential loss of the loans portfolio is broken down into the expected loss component and the unexpected loss component. For other residual exposures that are not part of the portfolio model, economic capital is calculated for the purpose of management control of risk through the use of supervisory regulatory metrics (Standardised approach).

As regards the processes and the tools used to manage and control the quality of the loans portfolio pertaining to Corporate and Retail customers, a key element is represented by internal ratings calculated by models that are differentiated and estimated specifically for each customer segment. The rating represents a valuation, referring to a time horizon of 12 months, made on the basis of all reasonably accessible information, both quantitative and

qualitative, expressed by means of a classification on a ranking scale, of the ability of a party to whom a loan has been granted or is to be granted to honour its contractual obligations.
Rating plays a key role in loan granting, credit product disbursement, monitoring and performance management processes. In particular, it plays a role in deciding which bodies are competent to approve loans, as well as on the mechanism for the automatic renewal of uncommitted credit facilities, and it contributes to determining automatic interception in the monitoring and management process (Watchlist).

It is noted that the internal rating is not applied for regulatory purposes to the perimeter of Banca Akros, to which standardised regulatory approach is applied. Therefore, in operational applications, including the quantification of economic capital and the calculation of the Expected Credit Loss under IFRS 9, proxies with average values are used. Instead, the internal rating is used for Banca Akros as part of the loan granting process for customers in common with the Parent Company.
The classification of non-performing exposures is conducted in line with the criteria established by the EBA.
The management of non-performing loans in Banco BPM Group is based, to a great extent, on a model that assigns the management of a specific set of loans (portfolio) to specialist resources. The use of management models that are not based on specialist resources is limited to positions classified as Past Due and Unlikely to Pay, for amounts under the established materiality threshold.
The monitoring, management and assessment of non-performing loans is supported by structured processes and by a specific management procedure.
More specifically, value adjustments are quantified by applying the LGD grids estimated by the Risk Function on a flat-rate basis to Past Due positions regardless of their amount and to those classified as Unlikely to Pay or Bad Loans for amounts below a materiality threshold, while for amounts over said threshold, they are quantified analytically by the manager. Value adjustments valued analytically by the managers are periodically reviewed.
Note that, with regard to the cost of credit for the purposes of the financial statements, analytical valuation is used for defaulted positions attributable to the perimeter of Banca Akros, given the very small number of positions in this category.

With regard to counterparty risk, defined as the risk that the counterparty in a transaction defaults before the final settlement of the cash flows of said transaction (EU Regulation no. 575/2013), for operating purposes and to provide support for capital adequacy assessment processes (ICAAP process), the Parent Company and Banca Akros use internal methods to estimate exposures to the risk of possible default of counterparties in OTC derivative transactions.
These methods are mostly based on statistical-quantitative approaches, partially linked to the techniques used for VaR (Value at Risk) estimates, which assess the impact that market risk factors may have on the positive future market value of the overall derivatives portfolio.
For the Parent Company and Banca Akros, the estimate of exposure to counterparty risk in derivatives, with regard to existing positions with counterparties who have a signed "collateral agreement" (Credit Support Annex – CSA), is carried out using the "Shortcut Method". The expected exposure is assessed on the basis of possible changes of the Mark to Market for the individual contracts underlying the same reference CSA on a time horizon given by the "risk margin period" that characterises each contract.
The measurement is also implemented in the Parent Company and Banca Akros lending process chain, with a daily monitoring and reporting system.
For the remainder of the positions in OTC derivatives, the amount of exposure is calculated using EPE (expected positive exposure) methodology with an analytical or simplified formula.
In calculating exposure to counterparty risk, for Supervisory Reporting, the Group uses the standardised approach on the entire scope of reference (derivatives, repurchase agreements, securities lending and medium and long-term loans).

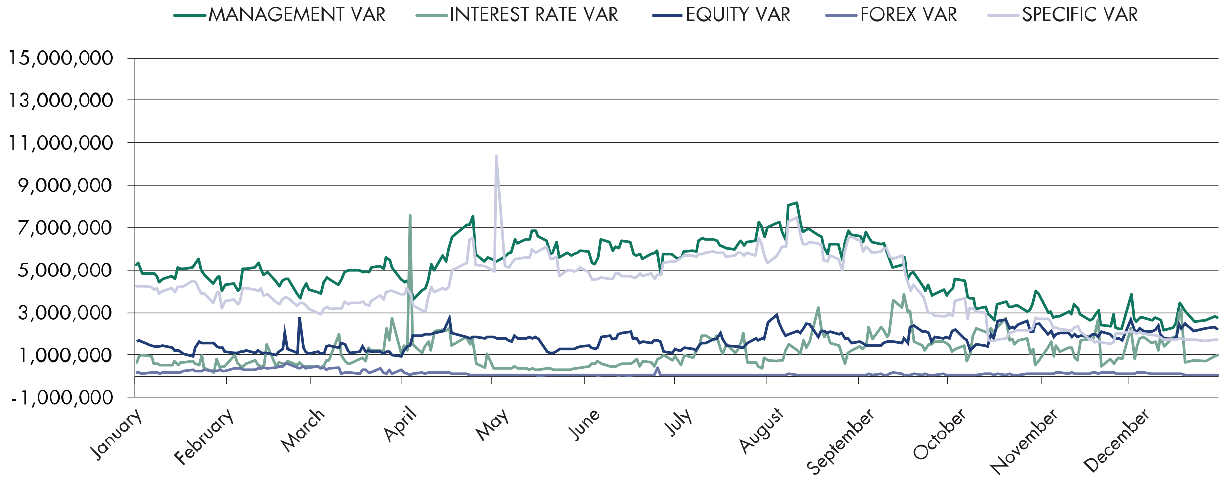
Regarding the control of financial risk management, the identification, measurement and operating control of the risk positions of the Banks of the Group are conducted using a sophisticated position-keeping and risk control system that provides constant monitoring of exposure levels and of the accurate verification of compliance with the operating limits defined by the Board of Directors of the Parent Company and by the Board of Directors of Group banks.

Financial risks are monitored on a daily basis, both through the use of deterministic indicators (sensitivity to market risk factors and referred to the issuer) and probabilistic indicators (Value at Risk - VaR). The VaR, which indicates the maximum potential loss associated with market movements in unexceptional conditions, over a certain time horizon and with a certain confidence interval, represents a synthetic risk measurement. The approach used to calculate the

VaR is based on historical simulation. The values calculated are provided with a confidence interval of 99% and a time horizon of one day. The correlations used are those implicit in historical scenarios applied to estimate the empirical distribution of values in the trading book.

With reference to the Internal Model Approach capital requirement, the Supervisory Authorities the extension of the internal "Target" model for the Parent Company's market risks to Banca Akros, starting from the Final Decision (letter dated 20/08/18, following the TRIM inspection). During 2019, the request was submitted to the Supervisory Authorities to extend the internal model for market risk to the specific risk of debt securities and to the exchange rate risk of the banking book.

Daily VaR and VAR by risk factor
BANCO BPM GROUP: TRADING Book



The relevant risk component is that relating to specific risk on debt securities and the generic and specific component on equity securities, due to the presence of the positions on Italian financial securities and government bonds and positions in equity securities. Changes in these securities can be attributed to the Group's overall risk trend. More specifically, in the second half of the year, the portfolio indicated a lower level of risk, to be attributed both to exposures and to the volatility of the Italian government securities market.

In terms of operational risk, Banco BPM Group was authorised by the European Supervisory Authority to use the combined Advanced Measurement Approach (AMA), relating to the validated perimeter of the former Banco Popolare Group (former Banco Popolare segments of the Parent Group, Banca Aletti, SGS BP and BP Property Management), the Traditional Standardised Approach (TSA) on the perimeter of the former Banca Popolare di Milano Group (segments of the former BPM Scarl Parent Group, former BPM SpA, ProFamily and Banca Akros) and the Basic Indicator Approach (BIA) for the other residual companies that comprise Banco BPM Group. Since the date of the report of 30 June 2018, in line with the decision adopted by the ECB on the matter, the private banking segments of the former BPM SpA and Banca Akros, which merged with Banca Aletti, have adopted the advanced methods. Since the reporting date of 31 December 2018, in line with the decision adopted by the ECB on the matter, Banca Aletti's Corporate & Investment banking segments, which have been merged into Banca Akros, have been subject to the traditional standardised approach (TSA).
When granting authorisation for the merger of BPM S.p.A. into Banco BPM in November 2018, the ECB prudently defined the adoption of a floor on the business segments to be merged, equal to the individual capital requirement of BPM S.p.A. as at 31 December 2017, multiplied by a corrective factor of 1.05.
To ensure a more accurate measurement of exposure to these risks, the improvement of management practices and risk measurement techniques, the achievement in the medium term of reduction in the frequency and the severity of operational loss events and the adoption of solutions in line with industry best practices, Banco BPM Group developed a measurement and management system (standards and processes, actors, roles and responsibilities and IT models and applications) in line with the regulatory requirements for advanced AMA models. This model is used for the regulatory First Pillar measurement on the component authorised for the use of advanced methods, while at overall Group level, the model in question is used continuously at management level and for Second Pillar purposes.

Risk measured using AMA methods is conducted by means of an internal method based on a quantitative and qualitative analysis along VaR logic. The quantitative assessment is based on internal loss data, gathered through a loss collection process and combined with external loss data pertaining to the Italian banking scenario (inbound flows of the DIPO consortium, set up by the major Italian Banking Groups within the ABI - Italian Banking Association), and on data deriving from the Risk Self Assessment, in which also qualitative information resulting from the ongoing assessment of the internal and external operational context are used.
In line with mission of Banco BPM Group, the main risk impacts regard the "Commercial practices" category, followed by "Processes", which together represent the predominant portion of total risk and which, for the most part, arise in the Group's sales networks.
With reference to the category of "External Fraud", given the tendency for criminals to adopt increasingly sophisticated techniques (e.g. identity theft, IT fraud etc.), the Group is constantly reinforcing physical and logical security, therefore containing these phenomena both in terms of frequency and the average impact on loss events of this kind.
The Group takes the measures established in the mitigation plan (e.g. training, implementation of applications processes/procedures etc.) as protection against the main risk factors that arise.

Regarding liquidity risk, in 2019 Banco BPM Group effectively carried out its internal liquidity adequacy assessment process (ILAAP), which the corporate bodies use to ensure that the Group operates with liquidity levels that meet both the minimum regulatory requirements and the risk appetite approved within the RAF.
As part of this process, liquidity risk is monitored regularly, on an intraday, daily (short-term liquidity) and monthly (structural liquidity) basis, for both regulatory metrics (LCR, NSFR, ALMM) and metrics developed internally.
In 2019, all regulatory liquidity reports required at the level of the BPM Group were prepared.
For further information on credit, financial and operational risk, please refer to Part E in the Notes to the financial statements, which is dedicated to risk management. The same chapter also contains detailed information on structured credit products, on exposures towards Special Purpose Entities, on securitisation transactions and operations in derivatives.

The models developed internally by Banco BPM Group are subject to periodic tests by the Internal Validation function, which is independent from the functions in charge of developing the models. The results of the tests are illustrated in specific reports shared with the Corporate Bodies.

Outlook for Group risks and objectives

The macroeconomic scenario currently forecast for 2020 sees slight growth in the GDP, along with underlying conditions of uncertainty in the Italian political and economic context. For that reason, it is not easy to classify the outlook for risks. Thus, the Group's objectives are to take a prudent approach and to continuously monitor activities with a view to limiting the impact of potential adverse changes that are difficult to expect in the national economic scenario. The capital ratios of Banco BPM Group are actually much higher than the minimum levels set by the Supervisory Authorities, and this guarantees adequate coverage of risks also in worsening macroeconomic conditions.

This being said, with regard to credit risk, the Group intends to continue with the process begun in the previous years of reducing the weight of non-performing loans, combined with the objectives pursued in terms of loan composition by sector. For this reason, it is licit to suggest that the risk profile should prudently improve in regards to both performing exposures, due to the provisioning policies, and to the portfolio of non-performing loans.
With regard to both operational and structural liquidity risk, it is possible to forecast a situation of substantial stability and security.

The interest rate risk of the Group's own portfolio still shows a bullish trend, which, in the event of an increase in market rates, which are currently at very negative levels, would allow for an improvement in the interest margin to be achieved. During the year the Group's overall risk profile appeared to be adequate and consistent with the approved risk thresholds, just as the liquidity profile appeared to be adequate in the short and longer term, complying with the internal risk limits and, where present, with regulatory ones.

Banco BPM has launched an assessment of the new framework for minimum capital requirements for market risk, in light of the recent regulatory developments regarding the FRTB and their application in European regulations, with

the objective of defining the actions necessary to adjust the current organisational, methodological and IT structures. In that context, the first step was to conduct a gap analysis of the new requirements, to assess the Bank's current positioning in relation to full adequacy and compliance with the FRTB framework.
In January 2019 the Basel Committee finalised the second revision of the FRTB framework, amending the first version dated January 2016. The EU has adopted an approach in numerous steps for the application and implementation of the FRTB into regulations on banks' capital requirements.
The plan for implementing FRTB in the European Union entails an initial phase of reporting, starting from 2021 for the new standardised approach and from 2023 for the new IRB approach, and the adoption for the purposes of capital requirements in a subsequent phase, expected in 2025.

The Risk Function coordinated the renewal of insurance coverage relating to the protection of both assets used in operations of the Group, both property, plant and equipment and intangible assets, and assets used to guarantee business transactions, with a view to appropriately managing the transfer of operational risk.
In that context, following the Group's decision to sell the internal broker, Arena Broker, the Risk Function coordinated the rationalisation of the insurance brokerage companies operating in support of the Group, resulting in the concentration of all insurance operations for the Group with a single broker.
As part of that operation, a project was started which will be developed over the long-term and, starting with the operational loss data accurately recorded by the Risk Function, will make it possible to appropriately balance retention and the transfer of operational risks.

SUPERVISORY, CONTROL AND SUPPORT ACTIVITIES

Human resources

Following the conclusion of significant Group integration and reorganisation projects, management activities focused on the growth and development of resources, promoting the central focus on people.

In this view, and in order to favour the growth in skills, during 2019, the Interfunctional Internship project, targeted to resources of the Head Office, was started. The project involved structured working alongside personnel in the Departments of the Parent Company, the Territorial Departments or the Group companies, for the purpose of teaching colleagues about the single activities performed, favouring greater transversal integration among the offices. The identification of the interns and the host structures was based on the existing relationships of day-to-day cooperation. Particularly important actions were implemented through the "Evolution Project" which, combined with specific, dedicated training, was targeted to high potential resources in the Operations area.

The training initiatives aimed at facilitating the success of flexible working also continued, promoting conduct focused on target-based work, autonomy and responsibility and enhancing smart communication in the new organisation of work. Implementing the trade union agreement signed, flexible working was extended to an additional 500 resources.

During 2019, the hiring of people for their first job was allocated to expanding the commercial network, in the most dynamic geographical areas of interest for the Group, and to targeted structures of the head office, specifically Customer Support. The hiring plan was implemented in compliance with the trade union agreements, also in order to favour generational turnover. It resulted in the creation of new opportunities for development, also meeting the professional expectations of the resources already working for the Group. The hirings also regarded high-level professionals for the qualitative and quantitative oversight of head office structures.

The reorganisation of the Group structure and operations was completed with the plans for merger by incorporation into Banco BPM of the subsidiaries Società Gestione Servizi BP S.C.p.A. and BP Property Management S.C.a r.l., which involved over 2,100 resources.

Management activities also focused on supporting the significant reorganisation measures that involved the Parent Company structures.

In particular, the role of Chief Lending Officer (CLO) was created in the credit area, which fulfilled the need to better focus certain activities of defining budget and credit management strategies, in line with legislative changes, and the role of the Chief Financial Officer (CFO), who was assigned full oversight in terms of planning, finance, management control and equity investments. Both directly report to the Chief Executive Officer.

Management choices are based on the intention of guaranteeing equal opportunities and avoiding all types of discrimination.

The breakdown of personnel by category and gender as at 31 December 2019 is shown in the table below:

Category	Men			Women			Total
	Full-time	Part-time	Total	Full-time	Part-time	Total	
Executives	292	-	292	32	-	32	324
Middle Managers	5,811	35	5,846	2,198	412	2,610	8,456
Professional Areas/Other Personnel	5,794	155	5,949	4,326	2,868	7,194	13,143
Companies abroad	11	-	11	7	-	7	18
Total workforce	**11,908**	**190**	**12,098**	**6,563**	**3,280**	**9,843**	**21,941**
of which:							
Apprentices	117	-	117	112	1	113	230
Permanent contracts	11,789	190	11,979	6,451	3,279	9,730	21,709
Supply contracts	2	-	2	-	-	-	2

Development and Training

The function oversaw development, selection and training, consolidating the underlying processes to guarantee continuity in professional growth pathways, innovatively and consistent with the main reference trends.

Planning and Development

In terms of development, the 2019 performance assessment cycle ended at the beginning of the year with the feedback phase. The system, applied to all Group companies, promotes the empowerment of managers and collaborators and encourages the diffusion of quality conduct, via the recognition of individual performance and the application of assessment criteria based on the principles of fairness and merit.

In the first half, the know-how of the Control Functions was mapped, in order to identify knowledge gaps and define training actions to consolidate professional expertise of individuals and their skills. The project is part of the management and development measures that contribute to guaranteeing the company business and customer satisfaction by developing sound, distinctive expertise of Group employees. The mapping was carried out involving all the resources of the Control Functions, due to the strategic role they hold in the company. This made it possible to identify the levels of oversight and dissemination of the various types of know-how analysed in the specific functions and, more generally, in the company. The personnel involved in the mapping can benefit from dedicated training on the technical know-how that needs to be improved, and, therefore, an increase in their professional expertise, which can be used inside and outside the company.

The new development model that will guide the professional progression of people within the company and promotes integration and cross-sectoral movement between the business chains is under way, with a view to enhancing individual skills acquired.

Selection and Assessment

During 2019, Banco BPM took part in some employer branding initiatives promoted by Universities with the goal of making students more aware of the company and offering them support as they approached the world of work. The Bank took part in several career days and recruiting days, meeting students in classrooms, at dedicated corporate presentations or at information stands set up at the universities, in order to illustrate the possibility of working for the Bank and the profiles sought, and to collect CVs, consolidating the collaboration with the Placement offices of Universities with the local training bodies. Internships have proven to be a useful tool for young students and recent graduates, as they allow them to experience the work environment. In 2019, Banco BPM Group launched 34 internships from a variety of academic sources representative of their local areas. The office supported the search for junior and senior profiles to be hired at Group companies. More specifically as regards junior profiles, in line with the business plan, around 500 recent graduates participated in entry tests in the classroom. The selection process concluded with the hiring of 159 new employees, 120 of which signed a professional apprenticeship contract. For the senior profiles, the search was conducted both directly and working with headhunters. Internal assessments were also carried out with the aim of creating professional development pathways.

Training

The table below shows the hours of training provided in 2019, broken down by the various types of training course and the level of attendees.

2019	Man-days/ Hours provided
Training days	174,554
Training hours	1,309,154
of which in % by training area:	
Qualifying technical - professional *	38.7%
Technical - professional	33.5%
Mandatory	13.3%
Managerial	6.0%
Soft skills and skills development	4.4%
Transversal technical - professional	2.3%
Commercial services	1.9%

(*) The "Qualifying technical - professional" training area includes training days provided on IVASS and MiFID II - ESMA.

In 2019, the office tasked with training was asked to provide support to the finalisation of the 2016-2019 Business Plan and to develop the synergies necessary to support the company's growth and objectives.

The main training initiatives implemented in 2019 were focused on:

- increasing "flexible" organisational conduct, for the purpose of a "smart" approach to work - Smart Organization;
- centralising the development of personnel - Banco BPM Managerial Style;
- consolidating a leadership style and common approach; identifying and promoting a standard *modus operandi* within the Territorial Departments - Baveno Residential Workshops;
- spreading a culture of inclusion and to stimulate its expression in tangible managerial and operational actions – Inclusion;
- strengthening the governance skills over the results from an approach that is customer-oriented and focused on risk prevention and control - Business Sustainability;
- disseminating the Digital Business strategy and Banco BPM Multi-Channel distribution model - DOT Programme;
- developing job-specific skills - training courses to support hiring at the company and professional development paths;
- developing skills in the area of Bankassurance - Development Commercial services;
- improving technical and advisory skills - MIFID II disclosure of *ex-post* costs and charges for investment services of Banco BPM Group;
- overseeing credit risk in business crisis - Assessment of credit, loan quality and management of business crises;
- overseeing and developing skills of Control Functions;
- overseeing and developing the areas of mandatory and qualifying training;
- developing the specialist skills of the Central Offices;
- developing the specialist skills of Group Banks – Banca Aletti Academy and Banca Akros Training.

Lastly, in 2019, the office launched a series of activities to upgrade the training system towards a digital system (Smart Learning and Learning Evolution Projects).

Remuneration Policies

In 2019, the Human Resources department coordinated activities relating to the remuneration policies for Group personnel. When implementing the remuneration policies, the annual incentive system took on particular importance as an additional way of sharing and involving staff in achieving company objectives, not to mention those of the Group as a whole. As such, it was defined by accounting for the characteristics and peculiarities of each Group company, and the overall consistency in terms of rules and application methods at Group level.

The annual incentive system, together with the three-year incentive system launched in 2017, is a useful management tool for the company to enhance the contribution of personnel and recognise individual merit.
Detailed information concerning the Group's remuneration and incentive policies can be found in the "Banco BPM Banking Group's Remuneration Report", which was drafted in accordance with the applicable provisions of the Italian and European supervisory authorities and approved by the Bank's Governing Bodies.
The Report is presented at the annual Ordinary Shareholders' Meeting and is published on the Group's website www.bancobpm.it (section Corporate Governance - Remuneration Policy).

Industrial Relations - Agreements relating to employees

During 2019, the ongoing dialogue with the social partners was particularly active regarding the implementation in the company of the corporate integration process triggered by Banco BPM Group 2016-2019 Strategic Plan. This implementation, continuing the process of simplification, already underway, of the organisational and corporate structures and the enhancement of the core business, confirmed additional significant remodulations of the corporate governance structure.

The dialogue with the trade union organisations was mainly focused on the agreements concerning the reorganisation of the Group, professional development and retraining, second-level bargaining and corporate bonuses.

Concerning the Group's reorganisation measures, the following agreements were implemented:

- the transfer of the business segment relating to the management of NPLs of Banco BPM, composed of 153 resources, to a specialised company of Credito Fondiario, with the objective of completing the related Group derisking plan;
- as part of the restructuring of consumer credit operations, the demerger of ProFamily with the establishment of the newco ProFamily, with 65 employees, dedicated to carrying out activities with non-captive customers, and the contextual renaming of the demerged company, sold to Agos Ducato, as ProAgos, with 12 employees, dedicated to carrying out activities with captive customers.

Moreover, through specific disclosure to the trade unions envisaged by law and the national labour agreement regulations, with a view to simplifying the organisational and corporate aspects and enhancing the company's core business, the sale of the controlling share package of Arena Broker was sold to Assiteca.

Regarding training, access to financing from the Joint Inter-professional Training Fund (Fondo Paritetico Interprofessionale) was completed, with the aim of carrying out two training projects concerning the skill development of the new professionals and professional re-training, commercial policies, work organisation, flexible working, equal opportunities and diversity management.

As a result of the continuation of second level negotiations, in the first half of 2019, a standard regulation for the Group was also created concerning subsidised financial conditions for employees, lunch vouchers and other welfare benefits.
During the second half of 2019, a smart learning agreement was defined to carry out training activities outside the Bank's premises in a more flexible manner, and the smart working agreement was extended by two years, expanding the base of possible beneficiaries up to around 1,000 people. The validity of the Framework Agreement of 23 December 2016 was also extended up to the date of closure of the procedure for discussions following the presentation of the upcoming new Business Plan of the Group.

Finally, as part of second-level bargaining and the regulatory framework of art. 48 of the National Collective Labour Agreement, it was agreed that the company bonus would be paid to the employees in the Professional Areas and Management categories, which may allow - during the current year and when the regulatory conditions in force with regard to variable disbursements are met - for an amount that can be used through the usual methods, as welfare or cash to be paid, in addition to a notional economic amount that can only be used for welfare.

Internal audit

On the one hand, the Audit Function of Banco BPM, the Parent Company, is responsible for monitoring the regular performance of operations and the evolution of risks, with a view to third-level controls, including on-site and off-site checks, and, on the other hand, it strives to assess the completeness, adequacy, functionality and reliability of the organisational structure and other components of the internal control system, presenting possible improvements in the risk management, measurement and control process to the corporate bodies and taking an active part in their implementation.

The Audit Function is responsible for the internal audit activities of all the central and peripheral structures of the Italian companies of the banking Group. It also provides guidance, coordination and control to the structures assigned the audit activities for the only foreign entity belonging to the Group (Banca Aletti Suisse).
When performing its duties, the Audit function takes the provisions of the widely accepted professional standards into account.

The audits conducted in 2019 regarded the following areas:

- Governance Processes;
- Risk Control and Management Processes;
- Finance;
- Commercial;
- Loans;
- Support processes;
- Banking networks;

with regard to the organisational processes adopted, compliance with internal regulations as well as the conduct of employees.

The most significant activities involving the Audit Function in 2019 included, in addition to obligatory audits (deriving from fulfilments required by external regulations or Internal Regulations), audits on processes regarding the management of irregular or non-performing loans, projects for the application of the new definition of default and on the measures for development of the risk measurement processes (with specific regard to internal models validated for regulatory and Second Pillar purposes), as well as support to Supervision (provided both as part of the on-site inspections and as part of the monitoring carried out by the JST.

In addition to typical internal audit activity, the Audit Function has also provided advisory services, offering its experience by predominately participating in projects and working groups, such as:

- adapting to MiFID II legislation;
- the reorganisation project for the Group's Wealth Management department;
- the project to extend the specific risk of the trading book and the FX risk of the banking book, as part of the internal model on market risks;
- the project to define a new Internal Model Inventory & Model Risk Management;
- the revision of the outsourcing process for the Important Operating Functions (I.O.F.).

Lastly, the Function also took part in projects outside the Group (Italian Internal Auditors Association (AIIA) tables) with reference to:

- SREP – evolution of Internal Audits according to SREP guidelines;
- internal and external fraud in the banking industry;
- Skills (R)evolution;
- outsourcing.

Compliance

The Group's Compliance Function carries out its activities, reporting directly to the Chief Executive Officer, both for the Parent Company and for the Group companies that have outsourced the service.
The compliance function oversees the management of compliance risk with regard to all Group activities, according to a risk based approach, verifying that internal procedures are adequate to mitigate that risk.

The regulatory areas overseen by the Compliance Function are classified in: (i) highly important banking and financial rules directly overseen by the Compliance Function; (ii) rules with specialised control centres, which implement, in compliance with the required methodologies and processes, the compliance risk management model for specific areas with responsibilities in terms of executing compliance activities; (iii) rules overseen by other Control functions, which have directly responsibility in those areas and with which coordination mechanisms and periodic sending of information flows have been envisaged.
The Compliance Manager has also been given the role of Data Protection Officer (DPO) in accordance with European Regulation 2016/679 (GDPR) concerning personal data protection.

The current organisational structure of the compliance function is divided into five specific units, two of which are on the staff of the Compliance Manager (one tasked with providing methodological guidelines and coordination, preparing Management Reporting and defining the requirements for developing supporting applications, and the other which oversees the area of privacy regulations) and three dedicated to the regulatory issues which apply to Banco BPM Group. Specifically, these are the following Organisational Units:

- Methodology Coordination and Reporting;
- DPO Support;
- Compliance of Banking Services, Governance and ICT;
- Markets and Investments Services Compliance;
- Anti-Money Laundering.

In the specific year, the development projects for processes, methods and IT instruments continued, aiming to strengthen the compliance risk management model and to bring about more incisive integration and coordination with the other control functions.

During 2019, pursuant to internal regulations, the Compliance Function carried out the operational activities and controls to oversee compliance risk.
The function continuously identified the applicable rules and assessed their impacts on company processes, models and procedures, provided consulting on compliance (mainly for the regulatory areas of Transparency, Remuneration Systems, MiFID, Corporate Governance, Payment Services, conflicts of interest, distribution of non-IBIPS insurance products), and assessed compliance with internal regulations as part of the issuing process.
In application of the annual or specific plan required by the Corporate Bodies or the Supervisory Authorities, the function conducted compliance checks (mainly on the areas of Investment Services, markets, related activities and Banking, Payment and Financial services and personal data protection) in order to evaluate the existence and adequacy of governance, organisation, control and IT measures of the Group, their strength and effectiveness in mitigating compliance risks, and the compliance of the operational practices and conduct of employees or workers, reporting any situations of non-compliance and identifying possible remediation actions (monitoring their implementation).
The Compliance Function also provided its cooperation to personnel training, in order to disseminate suitable knowledge of the regulations and the related responsibilities and ensure full awareness of the supporting instruments and procedures in the fulfilment of obligations.

The most important activities involving the Compliance Function in 2019 included:

- several internal changes to the function (in particular, we note the enrichment of the set of remote indicators; increased complexity of compliance opinions; inclusion of the activities of the specialised control centres in the function's reporting; adoption of a new internal management model for critical issues and replanning of mitigation actions; and the strengthening of the control over Pillar I and II risk management processes);
- the activities regarding the requests from the Supervisory Authorities formulated during the on-site inspections, as well as the management of the remediation actions for the findings of such inspections;
- the continuation of support activities to the updating and adjustment of the governance model on privacy and data processes, and the promotion and application of the culture of privacy by design and by default.

The Compliance Function also supported the implementation of important projects. These include the DOT project pertaining to the multi-channel digital transformation process begun by the Bank and the project activities relating to MiFID II and Systematic Internaliser, as well as the Product Governance project.

The Anti-Money Laundering Function of the Parent Company, which is part of the Compliance Function, is fully independent and oversees the risk of money laundering and terrorism financing, as well as reports of suspicious transactions. The Function performs the activities envisaged by the regulation through the head of the Anti-Money Laundering Function and the party Delegated to manage Reports of Suspicious Transactions (RST).

Research and development

Given the banking nature of the Group, research and development mainly regards studying the possible application of new technology to customer accounts, to improve and/or extend the range of products/services offered, as well as in internal company services, to simplify them or make them more efficient. In addition, important regulatory projects, relating to the issue of new legislation at industry level have been completed or are in progress.
These activities are managed centrally by the Parent Company Banco BPM, following the incorporation during the year of the subsidiary SGS BP, a company in which all IT functions, security management and the supervision of middle and back office administrative activities were concentrated.

The main initiatives for each area are outlined below.

Technological projects and investments

Legal compliance

Italian Legislative Decree 231/01 - Administrative liability of companies
In 2019, Banco BPM updated its Organisational Management and Control Model pursuant to Italian Legislative Decree 231/01 and those of numerous subsidiaries in order to implement the introduction of new predicate offences in the Decree. At the same time, the activities were implemented to update the mapping of "231/01 risks" within the company's corporate functions.

European Regulation 2016/679 - GDPR (General Data Protection Regulation)
In relation to the obligations set out in Regulation EU 2016/679 on the protection of natural persons with regard to the processing of personal data (GDPR), the updating and adjustment of the organisational model, processes and internal regulations continued in 2019. Specific training was also provided to all employees.

Italian Legislative Decree 231/07 and subsequent amendments. – Anti-money laundering and the prevention of terrorist financing activities
During 2019 Banco BPM updated its operational and regulatory structure to implement the main changes introduced by the measure of the Bank of Italy on due diligence of customers to combat money laundering and terrorist financing.

During the year, numerous measures were carried out to adjust procedures and processes to the new regulations introduced by numerous Regulators. In this area the following are noted:
- the adjustment of the Group database to the new DoD (Definition of Default) regulations and the related calculation logics for the new management of default;
- the implementation of all banking products in compliance with the PSD2 regulations in order to increase the security of transactions, through strong authentication;
- the conclusion of an important process of revision of the method for calculating the Value-at-Risk (VaR), introducing a model for calculating specific risk, called the IRC model;
- the evolution of the money laundering, terrorist financing and market abuse risk monitoring procedures.

Technological projects and investments

The development of the new Digital model, based on the integration of channels (multi-channel digital services).

The .DOT, Digital Omnichannel Transformation Programme of Banco BPM guides the evolution of services to customers, the IT platform and the operational model, as well as the company culture and ways of working.

This sets out an integrated action plan, aimed at:

- enriching the service model for various customer profiles with new high value elements;
- introducing significant digital developments for Individual customers, with specific focus on the time to market;
- developing new high-level digital services dedicated to Mid Cap SME customers;
- setting up cutting-edge digital CRM instruments capable of ensuring greater understanding of customers' characteristics and enhancing the commercial and service-based interactions with customers.

In particular, in 2019, the following were created:

- for private customers, simpler, paperless, multi-channel products. A new prepaid card, online Vera motor and family policies, a section dedicated to filling out the IDD Self questionnaire are available to customers and, in generally, greater enhancement of the loans section;
- for business customers, the new Smart Lending functionalities, which ensure that managers can optimise the timeframes and allow customers to apply for loans also outside branch opening hours and to reduce the traditional time required to fill out the application, as well as the use of the Digital Supply Chain for non-banking products, with the resulting simplification of financial, administrative and accounting management of companies due to an agreement with a leading partner;
- measures to improve the digital experience: a new ATM front-end capable of reducing response times (withdrawals in less than 30 seconds), whose graphic interface simplifies usage and improves the usability of the service; a new commercial site with search function based on customers' needs; activation of PSD2 services; the new Webank App and an upgrading of YouAPP, as well as enhancement of the trading engine. For Businesses, a new YouBusiness Web user experience is available, which is more simple and personalised, capable of offering new services such as electronic invoicing, advanced payment on invoices and management of company cards;
- measures in preparation of future developments, such as the convergence of applications aimed at optimising development activities and improving the Internet Banking platform, as well as functional to the digitisation of processes from a multi-channel viewpoint.

Support activities

Support to the network – multi-channel customers

An important new service was introduced in June 2019, with the activation of the instant bank transfer (Instant Payment) service, i.e. the possibility of making funds available to the beneficiary within no more than 10 seconds from the order, in all of Italy and the Eurozone. Operations are guaranteed 24-7, 365, for a maximum limit set at 15 thousand euro. This function can also be accessed via YouBusiness Web.

In the area of mobile payment, the following new services are noted:

- Pagobancomat Digit: a new payment service that can make your ATM (Bancomat) card virtual and make POS payments using mobile devices;
- BancomatPay: a new payment network operating at national level, which allows P2P (person-to-person payments), P2C (person-to-charity payments), P2B (person-to-business payments) and P2G (person-to-government payments). It is exclusively based on your current account IBAN and is settled via a standard or instant bank transfer;
- YouPos Mobile: a new mobile method for collecting payments, which enables merchants to make mobile POS transactions.

Technological Developments

During 2019, developments of infrastructural components were introduced which resulted in:

- increasing the power of the Group's pre-exiting hardware components to increase connectivity (up to 40 Gb/s);
- guaranteeing greater efficiency and security in data traffic flows;
- adding newly designed hardware which expand connectivity bandwidth and fully support the new technological features available on the market.

Other projects in progress: organisational model

Activation of the Chief Lending Officer (CLO) role

Following the results achieved in 2018, with a significant decrease in the overall level of NPEs due to the accelerated pace of sales, and in execution of the partnership agreement with Credito Fondiario, it was necessary to conduct a complete overhaul of the processes relating to the management of the entire lifecycle of loans and the related organisational structure. The initiative was conducted taking account of the following guidelines:

- adopting a view of portfolios that covers all credit segments and statuses and is capable of translating the Group's risk appetite into consistent lending policies;
- increasing the effectiveness of default prevention measures, implementing new advanced analysis and business intelligence capabilities;
- introducing an integrated, coordinated approach to managing non-performing exposures, completely separate from disbursement, working to implement and extend best practices.

The new role of Chief Lending Officer was assigned the mission of guiding strategic aspects and supervising the results of the entire credit chain and the lease operations of the Group. The following Functions directly report to the CLO:

- Granting;
- NPE Management;
- Credit Governance;
- Monitoring and Prevention;

and the subsidiary Release. In particular:

<u>Granting</u> oversees the process of approving and granting loans, guaranteeing the continuous compliance with the Group's lending policies as well as the quality of credit disbursed, ensuring coordination of granting activities within the Commercial Network and the Companies of the Group;

<u>NPE Management</u> oversees the processes of managing and restructuring irregular credit positions, with the goal of safeguarding the continuity of relations with customers, and bad loans, with the objective of maximising recovery, managing partnerships and workout activities;

<u>Credit Governance</u> supports the CLO in defining the lending policies, strategies and parameters for managing credit and the operational plans. It establishes the rules for classifying loans and carries out oversight of the loan data tape and the rating desk. It ensures the monitoring of and strategic reporting on the portfolio and oversight of credit data analysis for the entire Group;

<u>Monitoring and Prevention</u> guarantees the performance monitoring of single watch list positions, and supports the commercial structures in managing high risk loans. It monitors default prevention activities and the handling of positions for their return to performing status. The Function is also responsible for classifying loans, in compliance with the rules defined in the area of Credit Governance.

During the second half, said Functions were fully activated, organised in the following main areas of action:

- defining the entire organisational structure and organisational units;
- defining the mission and functional chart in detail;
- updating the company regulatory structure (e.g. Regulation on Limits of Powers and Rights for Granting and Managing Credit, Governance Regulations);
- assigning delegated powers;
- defining needs.

Activation of the Chief Financial Officer (CFO) role

The new role of Chief Lending Officer was assigned overall oversight regarding finance, planning and management control, administration and budget and equity investments, as well as the responsibility to define strategies for managing key financial statement items that may influence income and equity balances of the Group.

The initiative was conducted taking account of the following guidelines:

- improving coordination between the various functions in the CFO area, taking advantage of the related synergies deriving from a holistic approach consistent with the common issues and problems;
- introducing a new Function focused on financial statement strategies, to translate the objectives of the strategic plan in terms of level and composition of balance sheet aggregates and to identify the actions and drivers most suitable to translate these objectives into economic and financial results.

Through a dedicated structure that reports to the CFO, the CFO ensures strategic oversight of leverage on the main asset classes (loans, securities portfolios, real estate and other assets), on the capital allocation processes and on the correct determination of the value of risk-weighted assets (RWA accuracy).
The Administration and Budget, Finance, Equity Investments and Planning and Control Functions report to the CFO.

ProFamily organisational restructuring
The sale of ProFamily to Agos Ducato was subject to the finalisation of a partial demerger of ProFamily's non-captive operations in favour of a newly established company, 100%-owned by Banco BPM. In the first half of the year, the Organisation Function was involved in preparatory activities for the start up of that new business (NewCo) through the detailed identification of the areas being sold, the redefinition of the structures and the new organisational structure, the functional chart and communications and authorisation profiles in relation to the Supervisory Authorities.

Data Governance and IT Security

Security evolution plan
During 2019 a Security Assessment was conducted, availing of a leading independent auditing firm, in order to detect any existing gaps and adjust the security structure to NIST standards (The National Institute of Standards and Technology is a US government agency in charge of technology management).
During 2020 the results of the assessment will be used to guide the project plan to improve the level of security of processes.
During 2019 the review of security regulations continued, prioritising the aspects focused on the new European regulations and the findings raised by the ECB in its inspection at the beginning of the year.

Strengthening of security controls and creation of the Security Operation Center (SOC)
During the initial months of 2019, the following objectives of strengthening IT security controls were achieved:
- strengthening the lifecycle of users with privileged access and managing the main IT infrastructures: servers, databases and network of the Group IT system;
- increasing the robustness of the access credentials for company devices and improving the process of verifying any vulnerability of the IT structures and applying the related mitigation actions;
- activating and subsequently developing over the year the SOC (Security Operation Centre), which operates 24-7, 365 days a year, to implement and manage cyber security alarms protecting the Group.

The losses deriving from IT fraud were contained in line with the system, in a scenario of new payment services offered to customers such as, for example, instant payment, urgent bank transfers and open banking payments through third parties.

Business Continuity Tests
During the year the following scenarios were tested:
- "Unavailability of site": a surprise test that involved all significant organisational units of the Group in order to verify the restart of activities from secondary sites. The tests involved moving resources, who verified the operational functionality of the workstations set up;
- "Unavailability of resources": a surprise test that involved the entry of backup resources in the organisational units, suitably trained in advance, to take over the significant activities of the organisation units.

From 4 to 6 June, Banco BPM also participated in the CBCE-G7 exercise promoted by the ECB, which simulated a cyber attack on the global financial system. The simulation made it possible to test the effectiveness of the business continuity plans and the company incident management process.

Disaster Recovery Tests
The Group tested the restart of the IT system from the disaster recovery sites, also verifying the functionality of key applications for the purpose of business continuity, by involving end users at the head office and at the branches.
Tests of key suppliers were conducted, and the Group also participated in the tests organised by market counterparties such as Borsa Italiana, SIA, EBA, Hi-MTF and RNI.

Data Governance and Data Quality
In 2019 the Data Governance framework was defined, including the regulatory structure, composed of the Data Governance Regulations, the Standard Methodological Data Governance Manual, the Data Management Process Rules and the Data Quality Process Rules.

The main responsibilities of the framework (Data Officer, Data Owner, Risk Function and IT Applications Staff) were defined and the responsibility of Data Owner was assigned in all risk areas, activating targeted training sessions.

The activities were carried out in full compliance with the BCBS 239 project.

Evolution of applications architecture
In 2019 projects in the API Management area (process of creating and managing interfaces for web applications) were finalised, which enable the evolution of architecture with a view to open banking. The API Management platform supports the provision of the services necessary for PSD2 compliance and the integration of Internet Banking with the insurance company Cattolica.

Other Risk Management projects

Banco BPM Group aims to guarantee the development and the continuous improvement of the models and of risk measurement metrics, also through projects addressed at implementing advanced models, at aligning with standards that are, over time, introduced at international level and at implementing Supervisory regulations and directives, as well as at developing increasing effective oversight.

Over the year, the Group conducted several activities which are summarised below.

2nd level controls
A series of activities were launched to revise the framework of 2nd level controls enacted in the credit area. The main actions involved: i) the updating the regulations on Significant Transactions (ST), launching the issue by the Risk Function of additional types of non-binding "*ex-ante*" opinions in the credit area; ii) implementing a set of Key Risk Indicators (KRI) to assign each counterparty a risk level, while intercepting potentially high risk areas to subject to analytical testing; and iii) revising the reporting system.

Investment Services Control Framework
With regard to checks implemented on Investment Services – MiFID, during 2019 the implementation of the controls attributable to macro-processes of Advisory, Product Governance, Pricing, KID management and Best Execution continued.

Data Quality Aggregation
As regards Data Quality and Data Governance, as the assessment concluded, in March the Group launched the project for alignment with the BCBS 239 Standard (Basel Committee on Banking Supervision's standard number 239). The BCBS 239 project was implemented, on one side, in the area of data quality, where the 1st level, 2nd instance controls were additionally developed on all risk areas, and on the issue of data governance, on the other side, the methodology was fine-tuned to develop the business lineage, and was applied as a priority on the metrics of risk integration and interest rate risk.

The main steps in the development of data quality controls activated during the year were as follows:
- IFRS 9: in March the creation of controls regarding all the phases of processing (input, rules for completion, calculation of staging…);
- Liquidity Risk: in March and July all the priority controls that regard both input data and output data of the process of calculating the main liquidity indicators (LCR, ALMM and NSFR) were created;
- Credit Risk: the set of ongoing controls on the credit risk calculation processor was expanded to cover all the main information that affect the RWA calculation. New controls were developed relating to guarantees. Data quality checks were conducted to support the application to change the AIRB model;
- Market Risk: after conducting several data quality analyses to support the application for review of the IMA (Internal Model Approach) model in April, in the second half of the year, there was a significant commitment to expand 2nd level controls. In particular, controls were developed on market parameters

(bond curve, ASW, CDS, indices, bond option volatility) and on specific risk positions (appropriate use of the curves on associating credit to issuers) and equivalent controls are being created for generic risk;
- IRRBB: in October, all controls relating to the main input data for interest rate risk were released, specifically those required for the models, and on output data of the main metrics;
- Operational Risk: in December new controls were released, to complement the pre-existing framework, which, also in this case, regard all phases of the process (Loss Data Collection, calculation of capital requirements…).

These activities will continue in 2020, with specific focus on issues of data governance, with the goal of developing the alignment of the main business areas with the main metrics of all risk areas, by the end of the year.
Moreover, participation in all the development projects is envisaged in 2020, which will result in significant changes to risk processes and models (e.g. Definition Of Default, single step Loss Given Default).
Lastly, starting with an assessment carried out in December 2019, data quality measures will be identified to strengthen the controls on Supervisory Reporting on risk.

<u>Credit risk</u>
- Activities linked to the A-IRB application of 2019, containing new Corporate and Retail LGD/PD/EAD models;
- Activities linked to updating the time series of the LGD model in production;
- Change to the software for calculating capital ratios relating to exposures to securitisations, useful to implementing the updates to the CRR (Regulation 575/2013) as per Regulations 2401 and 2402 of 2017;
- Updating of the satellite models for the LGD parameter across the entire Banco BPM perimeter;
- Updating of the forecast PD curves and the calculation model for forecast LGD for provisioning purposes for Banco BPM Group perimeter, with a view to IFRS 9;
- Completion of the activities connected to implementing the new definition of default in a shadow environment;
- Activities linked to building the databases necessary for the re-valuation of the PD, LGD and EAD models that was requested by the Supervisory Authorities in view of the production of the new DoD (Definition of Default) (1 January 2021) for both regulatory and management purposes. Filling in the Monitoring Template from September 2019;
- Preparation of the Group Credit Risk report on a quarterly basis.

<u>Market risk</u>
- Request to extend the internal model for market risk to the specific risk of debt securities and to the exchange rate risk of the banking book.

Starting from 2 October 2019, the Eonia interest rate was joined by a new interest rate called the European Short Term Rate (€str). The phase of transition from the Eonia to €str will take place from 2 October 2019 to 31 December 2021, the date on which the Eonia interest rate will no longer be published. As requested by the ECB, on 6 August 2019, the Bank sent a document indicating the plan of activities and measures to be implemented, as well as the critical aspects that it is expected may emerge. In order to be able to manage the problems and activities relating to the issue in question, a specific team has been set up.

<u>Interest rate risk</u>
- Implementation of the EBA Guidelines on interest rate risk (EBA/GL/2018/02), which entered into force on 30 June 2019, with the resulting adjustment of the measurement and reporting framework;
- Extension of the internal model on drawdowns of free credit lines to interest rate risk;
- Development of the 1st level, 2nd instance controls.

<u>Reputational risk</u>
- Realisation of a specific project to develop and implement a Machine Learning & Artificial Intelligence engine, for the purpose of also considering the web reputation component, thereby guaranteeing greater reactivity and strengthening the predictive capacity of that methodology;
- Re-estimate of the nodes of the experiential function, used to quantify the amount of capital allocated to cover potential losses related to reputation;

- Verification of the adequacy of all Key Reputational Risk Indicators selected and introduction of a new income indicator, for the purpose of specifically monitoring the evolution, volatility and profitability of the fee and commission components relating to investment services offered to customers.

Business Risk

- Completion of the conceptual review of the estimate approach as part of the ICAAP, and verification of the robustness of the model, also in relation to the new Group perimeter.

Real Estate Risk

- Refining of the correlation matrix and enrichment of the data quality process underlying the classification of real estate assets by type and geographical area.

Strategic Risk

- Definition of the new approach to risk assessment in adverse scenarios, specifically regarding the main macroeconomic variables.

Equity Risk

- Updating of the mapping process of the equity portfolio with the reference sector indices. Verification of the robustness relating to the infra-segment correlation matrix used to estimate economic capital.

Integration of Risks

- Recalibration of the estimate parameters used in the methodology for integrating the various types of risk. These activities required the updating of the time series relating to expected/actual loss analysed and the verification of the statistical assumptions of the single marginal distributions.

EBA 2020 EU-Wide Stress Testing
In the last quarter of 2019, activities were begun to prepare for the EU-Wide Stress Test 2020 exercise, coordinated by EBA/ECB, which will be carried out in the first half of 2020 and will conclude on 31 July 2020 with the presentation of the results to the market. The exercise will consist of the assessment of the impacts of the application of a common macroeconomic scenario, both baseline and adverse, as at 31 December 2019 (starting point), projected over a time horizon of 3 years, based on the assumption, *inter alia,* of static financial statements, using the methods indicated by the Supervisory Authorities.

Risk-based incentive system
The 2019 Incentive System of the Group and the individual companies was defined on the basis of the new Supervisory provisions concerning "Remuneration and incentive policies and practices" issued by the Bank of Italy (Circular 285/2013 and subsequent updates). In this regard, the conditions for activating the 2019 incentive system were aligned with the Group's RAF framework and, more generally, with the risk appetite approved by the Parent Company's Board of Directors.

Internal Model Inventory & Model Risk Management
In 2019 the internal model inventory was populated with all the internal models, with full mapping of the models in the risk area, the uploading of the related methodologies and the creation of the project flows, launching a risk management model pathway applied to the entire portfolio of models via the identification of a few risk indicators.

Communication

In 2019 the function in charge of Brand Identity continued to oversee communications activities that impact the Bank, both and central and local level.
Over the year, the first testing phase of the Digital Signage project of Banco BPM was concluded. This involved the positioning of monitor display stands in the display windows on the street in 6 branches of the Bank, in Milan, Verona, Novara and Bergamo.
The project entails the installation of a total of 30 "Flagship" branches in the main areas where Banco BPM operates. A platform will be introduced that is capable of speaking to the various targets in a personalised manner, eliminating the distribution of brochures and leaflets to support the initiative and significantly reducing the use of paper, also with a view to protecting the environment.

The Brand Naming project on the Naming Strategy was also concluded. That project was implemented to create a Commercial Naming Strategy for Banco BPM by involving the top management with a view to steering the producing naming choices over the next 5-10 years.
A project was also launched which aims to revise bank-customer communications with a view to greater transparency, simplicity and effectiveness (R-Evolution).
In the area of transparency towards customers, the entry into force of the first European MiFID directive in 2007 allowed the banking system to implement actions to know their customers. In this context, Banco BPM promoted the advisory service. Following this approach of greater transparency, Banco BPM provided customers with a written statement using simple language, designed to highlight the elements of value of the advisory service of the bank, understanding the results both in the internal context and that of the reference markets.
Therefore, an external and internal information process was created, aimed at all Bank commercial structures.

Banco BPM places the signing of a five-year partnership with the AIRC Foundation (Foundation for Cancer Research) in a wider view of social responsibility. Through this partnership Banco BPM assists the Foundation as an institutional fund raising partner supporting the scientific research and dissemination of the correction information on the prevention, diagnosis and treatment of cancer.
Over the year, a Community Report was also drawn up. This is a communication and information instrument that collects, documents and testifies to the aspect of the bank as a "Community Bank". A map for orientation in a virtuous, detailed process, guided by the 17 Sustainable Development Goals set by the UN in the Agenda 2030.

In the area of institutional communication, in December, the first "Stra-ordinario" (Extra-ordinary) campaign was presented in December. With the claim "*Siamo una banca che fa cose normali. Ma insieme facciamo cose straordinarie*." (We're a Bank that does normal things. But together we can do extraordinary things.), Banco BPM speaks up for a traditional approach (that of a local bank, the bank around the corner) through an unexpected, contemporary model, focused on the issues of a continuously changing society.
Due to the new partnership with Cattolica, the line of products dedicated to the world of insurance was updated and, along with this, the language and communications style. "BancapiùAssicurazione" (Bank and Insurance) is used to characterise Banco BPM entire range of products and services. Two new products were launched: CasapiùFamiglia (Home and Family), insurance that can be modulated based on the customer's insurance needs, and AutopiùSicura (Car and Safety), motor insurance and an additional connect guarantee which includes SOS services, breakdown services, geolocation, etc.).

During 2019, Media Relations mainly concentrated on consolidating and disseminating messages and communications regarding the new Group perimeter. This involves informing the media regarding significant operations executed in line with the 2016-2019 Business Plan: from the process of rationalising the produce companies to the continuation of derisking, from the reporting on ECB communications on capital requirements to the resolutions of the Board of Directors, up to operations regarding the issue of financial instruments.
In 2019, around 90 press releases were issued. Banco BPM also organised and/or hosted, based on partnerships or sponsorship agreements, many press conferences and events involving the media, with around 40 meetings in various local offices.

As regards events, a customised office was set up to ensure the best Group management of all initiatives of a more institutional nature.
During the year, 70 events were held in 27 Italian towns, meetings on specific issues, cultural and sports events, for a total of 4,000 guests. As part of the partnership with AIRC, the Events Office contributed to creating and participated in around fifteen charity and prevention awareness events.

Also in 2019, the social media activity of Banco BPM was conducted via Facebook, Twitter, LinkedIn and Instagram: the purpose of the institutional presence on social media is to strengthen the brand positioning and improve its reputation.
During the year, social media activities concentrated on better structuring work in terms of planning, internal reporting tools, mapping projects and initiatives promoted by the Bank and listening to the web audience.
For this purpose, interviews were conducted to record and catalogue all activities bearing positive values (local initiatives, CSR, human resources, corporate activities, third sector, etc.).
A Social Network Analysis was also conducted to find out about issues of interest for those on the web, privileged discussion channels and leading influencers.

In 2019 more than 600 posts were published, obtaining an increase in followers of 50% on Facebook, 109% on LinkedIn, 131% on Instagram and 36% on Twitter.
In December, the Group's new websites were published: the commercial website www.bancobpm.it and the institutional website http://gruppo.bancobpm.it. Both of these have been designed to facilitate the user experience. The former has a product catalogue that it easy to consult and highly intuitive, while the latter mainly targets institutional investors and journalists.
A magazine, periodically updated, is also proposed as an informational tool both in terms of education and to promote the activities that the Bank carried out in the areas where it is located.
Also 2019 Banco BPM worked on numerous measures and activities that allowed the bank to operate in synergy with its local areas. The "School Project" was particularly important for the CSR and Corporate Relations offices: it was achieved in collaboration with regional partners and institutions, involving 19 Italian municipalities in need of support to upgrade the teaching equipment of almost 50 in public schools of all kinds and levels.
The "Financial Awareness" initiatives were also significant, providing workshops at branches and at schools, with different ways to interact (live and through social networks) on economic and financial topics, through 39 meetings in 19 towns, involving almost 4,000 people.
In 2019, the unit also organised local sponsorships and support to initiatives aimed and the social sphere and inclusion, intercepting, while in line with the cost reduction objectives, around 150 projects worthy of attention.
The commitment to be present in all areas and within the reference communities increased even more over the last year. A particularly successful event was the "Meet the Author" festival, which saw the bank host 58 book presentations by leading Italian authors at its offices, with over 11,000 people participating.
The office also drew up the Non-Financial Statement for 2018, which was published as a separate report to the Financial Statements. This Statement was introduced by Italian Legislative Decree 254/2016 on non-financial information, according to which large-scale entities of public interest are obliged to report specific information of a non-financial nature to the extent necessary to enable an understanding of the company's business, its performance, its results and the impact generated by the same, in terms of environmental, social and staff-related spheres, with regard to human rights and the prevention of active and passive corruption.
The office also coordinated the organisation and management of over 330 events and conventions promoted at the representative offices of Banco BPM.

In regard to the company intranet, internal events and other specific initiatives, Internal Communication took action to spread and share company objectives and strategies, which contributed to consolidating the identity culture of Banco BPM and making all information promptly accessible to employees.
Engagement, involvement and awareness-raising concerning the company's objectives and issues were also pursued via meetings that made colleagues active participants in the process of building the new identity: in 2019 around 20 meetings were organised internally, from Management events to small face-to-face meetings with the Chief Executive Officer, to opportunities for engagement.

In 2019 Corporate TV was also launched. This is a multimedia platform that provides colleagues with instant access to the most important video contributions launched on the intranet, through carousels, news items or dedicated sections.
Lastly, amongst the activities of the Identity Project headed up by Internal Communication, the Brand Ambassador project was particularly important in 2019: following a dedicated training period that began at the end of 2017, 300 colleagues decided to represent the Bank, to be active in local areas, promoting Banco BPM brand and the values it represents.
During 2019, the Brand Ambassadors participated in numerous activities: supporting events and branches, participating in surveys and/or focus groups and supporting commercial initiatives.
During 2019 a task-force of around 50 "geolocalised" Brand Ambassadors was created, with informational responsibilities and skills on economic-financial issues, which may cover the roles of external instructors and teachers for education and financial awareness sessions promoted by Banco BPM at the branches and at schools (primary schools, middle and high schools).
As regards the companies in Banco BPM Group, after the division of operations between Banca Aletti (Private) and Banca Akros (Investment), it was necessary to revise the line of institutional communication to provide both banks with a distinctive image which contributes to highlighting the specific characteristics of each.

Investor Relations

In 2019, the Investor Relations team managed 116 events overall, typically with the involvement of the Group's top management, which entailed meeting 454 investment companies (both on the equity and fixed income markets), financial analyst firms and rating agencies. These events were supplemented by 4 telephone conferences held with audio webcasts over the year to present the Group's financial performance to the market (results as at 31 December 2018, 31 March 2019, 30 June 2019 and 30 September 2019).

	No. of events	% of total	no. of companies met with	% of total
Industry conferences (stock market) (*)	5	4.3%	90	19.8%
Industry conferences (fixed income market) (*)	2	1.7%	10	2.2%
Roadshows (stock market)	4	3.4%	48	10.6%
Roadshows (bond market)	8	6.9%	99	21.8%
Other individual and/or group meetings, telephone conferences and video conferences (stock market)	67	57.8%	161	35.5%
Other individual and/or group meetings, telephone conferences and video conferences (bond market)	5	4.3%	13	2.9%
Meetings/calls with rating agencies	11	9.5%	11	2.4%
Other assets	14	12.1%	22	4.8%
Total	**116**	**100.0%**	**454**	**100.0%**
Presentation to the financial market with conference calls/webcasts	4			

(*) Excluding investors from the calculation of the companies, who attended any "Floor presentations" of the industry conferences.

On the stock market front, participation in the 5 industry conferences and the 4 Road Shows organised in various European cities by leading research and brokerage companies, was significant. Together, these resulted in meeting 138 counterparties, equal to 30.4% of the total reached overall during the year.
Similarly, in the fixed income market, we participated in 2 industry conferences and 8 roadshows, meeting 109 counterparties (24.0% of the total) in various European cities.
The remaining 45.6% of the institutional parties involved had the chance to interact with the Group on 97 occasions (direct individual and/or group meetings, telephone conferences and/or video conferences), including 11 meetings/calls with rating agencies.

OTHER INFORMATION

Members and Shareholders

The share capital of Banco BPM, amounting to 7,100,000,000.00 euro, is represented by 1,515,182,126 ordinary shares, with no nominal value.
Banco BPM shares are listed on the Electronic Equity Market (MTA) organised and managed by Borsa Italiana S.p.A..

As at 31 December 2019, the shareholders of the Bank broke down as follows:
- approximately 250,000 depositors at Banco BPM Group;
- around 125,000 depositors with other brokers. This figure represents the situation on the share exchange date (2 January 2017) after the merger between Banco Popolare Soc. Coop. and BPM S.c.a r.l., as no accounting transactions on share capital were subsequently recorded.

Pursuant to art. 120 of the Consolidated Law on Finance, any investor with shares representing over 3% of the share capital of a listed company, must make a disclosure to the investee company and to Consob.
On 31 December 2019, according to the information published on the CONSOB website, parties which have declared shares of over 3% in the share capital of Banco BPM are the following:
- Capital Research and Management Company with a 4.98% equity investment;
- Invesco LTD with a 4.715% equity investment.

Banco BPM stock

In 2019, the value of Banco BPM shares fluctuated between a minimum closing price of 1.620 euro on 14 August 2019 and a maximum closing price of 2.155 euro on 16 October 2019.
From the beginning of the year, Banco BPM shares recorded a positive performance of +3.05%. During 2019, average daily volumes were approximately 27 million shares.
Lastly, at the end of 2019, Banco BPM share was "covered" by 17 equity research companies (of which: 7 with positive recommendations, 9 neutral and 0 negative, to which 1 suspension of the "not rated" temporary rating should be added), with which continuous dialogue was maintained during the year.

Group ratings

Summary table of Banco BPM Group ratings

Rating agency	Type of Rating	31/12/2019	31/12/2018
Moody's Investors Service	Long Term on Deposits	Baa3/Stable Outlook	Ba1/Stable Outlook
	Long Term on Senior Unsecured Debt	Ba2/Negative Outlook	Ba2/Negative Outlook
	Issuer Rating	Ba2/Negative Outlook	Ba2/Negative Outlook
	Short term	P-3	NP
	Baseline Credit Assessment	ba3	b1
	Counterparty Risk Assessment	Baa3(cr)/P-3(cr)	Ba1(cr)/NP(cr)
DBRS	Long-Term Issuer Rating	BBB (low)/Stable Trend	BBB (low)/Stable Trend
	Long Term on Senior Debt	BBB (low)/Stable Trend	BBB (low)/Stable Trend
	Long Term on Deposits	BBB/Stable Trend	BBB/Stable Trend
	Short-Term Issuer Rating	R-2 (middle)/Stable Trend	R-2 (middle)/Stable Trend
	Short Term on Debt	R-2 (middle)/Stable Trend	R-2 (middle)/Stable Trend
	Short Term on Deposits	R-2 (high)/Stable Trend	R-2 (high)/Stable Trend
	Intrinsic Assessment	BBB (low)	BBB (low)
	Support Assessment	SA3	SA3

Summary table of Banco Akros ratings

Rating agency	Type of Rating	31/12/2019	31/12/2018
DBRS Morningstar	Long-Term Issuer Rating	BBB (low)/Stable Trend	BBB (low)/Stable Trend
	Long Term on Senior Debt	BBB (low)/Stable Trend	BBB (low)/Stable Trend
	Long Term on Deposits	BBB/Stable Trend	BBB/Stable Trend
	Short-Term Issuer Rating	R-2 (middle)/Stable Trend	R-2 (middle)/Stable Trend
	Short Term on Debt	R-2 (middle)/Stable Trend	R-2 (middle)/Stable Trend
	Short Term on Deposits	R-2 (high)/Stable Trend	R-2 (high)/Stable Trend
	Support Assessment	SA1	SA1

Changes in the ratings of Banco BPM Group during 2019, broken down by rating agency, are described below.

Moody's Investors Service (Moody's)

On 28 May 2019, Moody's Investors Service (i) improved the long-term rating on the deposits of Banco BPM, raising it from Ba1(Stable) to Baa3 (Stable), thus within the Investment Grade category; (ii) improved the Baseline Credit Assessment (BCA), a rating which analyses the Bank's financial profile in its operating context, raising it from b1 to ba3; (iii) confirmed the long-term rating on the senior unsecured debt at Ba2 (Negative).
At the same time, the short-term rating on deposits was also raised from NP to P-3, and the Counterparty Risk Assessment (CR Assessment) went from Ba1(cr)/Not Prime(cr) to Baa3(cr)/P-3(cr).

DBRS Morningstar

On 21 November 2019, DBRS Morningstar confirmed all of Banco BPM's ratings, including: (i) the long and short term Issuer Ratings and the long and short term ratings on senior securities at BBB (low)/R-2 (middle); (ii) the long and short term rating on deposits at BBB/R-2 (high); and (iii) the Support Assessment at SA3. The trend on all ratings was confirmed at Stable.
Identical actions on ratings were also carried out for Banca Akros, which has the same long and short term ratings and trend as the Parent Company, with the exception of the Support Assessment, which was confirmed at SA1.

PERFORMANCE OF THE MAIN GROUP COMPANIES

A summary of the main equity investments in Group companies is presented below, with an indication of the most significant balance sheet, income statement and operating balances as at 31 December 2019.

Banca Aletti

	31/12/2019	31/12/2018 combined (*)	Changes	31/12/2018
Income statement figures (*in millions of euro*)				
Interest margin	(1.2)	(5.7)	(79.3%)	63.0
Net fee and commission income	96.2	92.6	3.9%	91.0
Operating income	96.3	205.0	(53.0%)	262.5
Operating expenses	(75.5)	(80.1)	(5.7%)	(111.9)
Profit (loss) from operations	20.8	124.9	(83.3%)	150.6
Profit (loss) before tax from continuing operations	4.2	102.5	(95.9%)	128.9
Profit (loss) after tax from continuing operations	(31.4)	65.1	(148.2%)	84.0
Net income (loss)	(31.4)	61.2	(151.3%)	80.2

(*) The figures for 2018 have been reclassified to provide a like-for-like comparison, considering as income statement figures the combined figures determined by aggregating the contributions of the Private segments of Banca Aletti and Banca Akros. The column 31/12/2018 shows the figures from the published separate financial statements.

	31/12/2019	31/12/2018	Changes
Balance sheet figures (*in millions of euro*)			
Total assets	2,734.9	3,010.3	(9.1%)
Loans to customers (net)	155.6	120.9	28.7%
Financial assets and hedging derivatives	9.4	9.5	(1.7%)
Shareholders' equity	345.4	453.6	(23.9%)
Customers' financial assets (*in millions of euro*)			
Direct funding	2,170.7	1,672.5	29.8%
Indirect funding	21,863.2	21,081.8	3.7%
- Asset management	10,302.0	10,171.0	1.3%
- Mutual funds and SICAVs	5,198.2	4,463.0	16.5%
- Securities and fund management	3,240.5	4,046.2	(19.9%)
- Insurance policies	1,863.3	1,661.8	12.1%
- Administered assets	11,561.2	10,910.8	6.0%
Information on the organisation			
Average number of employees (*)	473.7	483.3	
Number of bank branches	55	55	

(*) The average number of employees in 2018, on a like-for-like basis with the combined income statement figures, was recalculated, estimating it based on the number of employees of the Private structures of Banca Aletti and Banca Akros.

	31/12/2019	31/12/2018 combined (*)	Changes	31/12/2018
Profitability ratios (%)				
Financial margin/Operating income	(1.2%)	(2.8%)	(57.14%)	24.0%
Net fee and commission income/Operating income	99.9%	45.2%	121.02%	34.7%
Operating expenses/Operating income	78.4%	39.1%	100.51%	42.6%
ROA	0.2%	3.4%	(94.12%)	4.3%
ROE	(9.1%)	13.5%	(167.35%)	11.5%
Operational productivity figures				
Gross loans to customers per employee (thousands of euro)	329	251	31.20%	223
Operating income per employee (thousands of euro)	203	424	(52.06%)	485
Operating expenses per employee (thousands of euro)	159	166	(3.80%)	207
Capitalisation ratios				
Common Equity Tier 1 ratio	73.5%			80.6%
Tier 1 capital ratio	73.5%			80.6%
Total capital ratio	73.5%			80.6%
Leverage ratio	85.6%			106.9%
Other ratios				
Gross loans/Direct funding	7.2%			7.2%

(*) The figures for 2018 have been reclassified to provide a like-for-like comparison, considering as income statement figures the combined figures estimated based on the Private structures of Banca Aletti and Banca Akros. The 2018 column was maintained based on the figures from the separate financial statements.

For a more detailed analysis of the main events that affected Banca Aletti, please refer to the section in this Report on Operations dedicated to describing the business segments and, specifically, the Private segment.

Banca Akros

(millions of euro)	31/12/2019	31/12/2018 combined (*)	change	31/12/2018
Income statement figures				
Interest margin	83.4	92.6	(9.9%)	23.9
Net fee and commission income	38.8	41.3	(6.1%)	34.2
Operating income	142.4	114.2	24.7%	55.8
Operating expenses	(86.7)	(90.2)	(3.9%)	(57.4)
Profit (loss) from operations	55.7	24.0	132.0%	(1.6)
Profit (loss) before tax from continuing operations (**)	55.8	31.7	76.0%	5.3
Net income (loss)	38.0	21.5	76.8%	2.6

(*) the figures for 2018 have been reclassified to provide a like-for-like comparison, considering combined income statement figures determined by aggregating the contributions of the CIB segments of Banca Akros and Banca Aletti. The column 31/12/2018 shows the figures from the published separate financial statements.
(**) gross of contributions to guarantee schemes.

(millions of euro)	31/12/2019	31/12/2018	change
Balance sheet figures			
Total assets	9,803.9	11,158.4	(12.1%)
of which: Loans to customers (gross)	819.1	1,385.4	(40.9%)
of which: Financial assets	8,234.3	8,113.0	1.5%
Shareholders' equity	748.1	707.1	5.8%
Customers' financial assets			
Direct funding	1,337.8	826.8	61.8%
Information on the Organisation			
Average number of employees (*)	208	215	
Number of bank branches	1	1	

(*) The average number of employees in 2018, on a like-for-like basis with the combined income statement figures, was recalculated based on the number of employees of the CIB structures of Banca Akros and Banca Aletti.

	31/12/2019	31/12/2018 (*)
Profitability ratios (%)		
ROE	5.36%	3.05%
RORAC	21.33%	11.68%
Profit (loss) before tax from continuing operations/Operating income	39.17%	27.74%
Return On Assets (ROA)	0.39%	0.19%
Interest margin/Operating income	58.59%	81.12%
Net fee and commission income/Operating income	27.27%	36.21%
Operating expenses/Operating income	60.88%	78.97%
Operational productivity figures (thousands of euro)		
Loans to customers (gross) per employee	3,900.4	6,443.7
Operating income per employee	677.9	531.0
Operating expenses per employee	412.7	419.3
Annual average operational VAR (99%, 1 day)	2,200	(**) 1,400
Other ratios		
Financial assets/Total assets	83.99%	72.71%
Derivative assets/Total assets	16.54%	14.73%
- trading derivatives/total assets	16.54%	14.73%
- hedging derivative assets/total assets	-	-
Net trading derivatives/total assets	7.89%	9.68%
Gross loans/Direct funding	61.23%	167.57%
Regulatory capitalisation ratios		
Common Equity Tier 1 ratio (CET1 capital ratio)	28.57%	32.84%
Tier 1 capital ratio	28.57%	32.84%
Total capital ratio	28.57%	32.84%
Leverage ratio	13.53%	16.88%

(*) The figures for 2018 have been reclassified to provide a like-for-like comparison, considering the combined income statement figures processed as specified above.
(**) average for the last quarter 2018.

For a more detailed analysis of the main events that affected Banca Akros, please refer to the section in this Report on Operations dedicated to describing the business segments and, specifically, the Investment Banking segment.

Other equity investments

(millions of euro)	Total assets	Shareholders' equity (*)	Direct Funding	Indirect Funding	Net loans	Income (Loss)
Banks						
Banca Aletti & C. (Suisse)	133.3	28.5	103.6	486.2	13.1	(1.4)
Bipielle Bank (Suisse)	27.3	21.4	4.2	-	-	(1.6)
Financial companies						
Aletti Fiduciaria	10.1	7.5	0.1	943.0	1.0	(0.4)
Release	1,615.8	170.8	5.6	-	732.7	(105.2)
ProFamily	1,390.9	84.9	3.8	-	1,340.9	5.7
Other companies						
Bipielle Real Estate	1,319.0	1,222.6	37.5	-	7.1	30.2
Tecmarket Servizi	43.4	25.1	-	-	-	8.5
Ge.Se.So.	1.5	0.3	-	-	-	0.0

(*) amount inclusive of the income (loss) for the year.

Relations with subsidiaries and associates

The disclosure on related party transactions and the description of the significant transactions concluded with related parties during the financial year, as provided for by the Regulation adopted by CONSOB through resolution no. 17221 dated 12 March 2010 and subsequently amended with resolution no. 17389 dated 23 June 2010, are included in the Notes to the Consolidated Financial Statements, Part H, to which reference should be made.

Treasury shares of the Parent Company and of subsidiaries

Please refer to section 13 - Group Shareholders' Equity in Part B of the Notes to the Consolidated Financial Statements.

Consolidated non-financial statement

Banco BPM Group prepares the Consolidated Non-Financial Statement pursuant to Italian Legislative Decree no. 254/2016 and CONSOB Resolution no. 20267 of 18 January 2018 in a separate document, published on the website www.bancobpm.it, in the "Corporate Governance" section.

Report on corporate governance and ownership structure

Banco BPM Group prepares the Report on corporate governance and ownership structure pursuant to Art. 123-bis of Italian Legislative Decree no 58/1998 in a separate document published on the website www.bancobpm.it, in the "Corporate Governance" section.

OUTLOOK FOR BUSINESS OPERATIONS

A slight growth rate expected for the GDP, though accelerating on that recorded in 2019, will maintain the outlook for expansion of the domestic production system and Italian household consumer spending quite low. Though reporting a moderate reduction, the (negative) differential of growth compared to the average growth of the Eurozone is estimated to remain high.
The domestic scenario is impacted by numerous internal and international factors (risks deriving from the spread of the viral pneumonia named coronavirus, effects of the trade war on the investment cycle and the automotive industry, difficulties in global supply chains, implications of Brexit recently decided by the UK parliament and lower demand from EM).

With specific regard to the effects of the coronavirus, it is noted that in January, a new type of viral pneumonia began to spread in China, which was then identified as a previously unknown strain of coronavirus, transmitted from animals to humans. The epicentre of the first outbreak was identified as the fish market in Wuhan, a city of around 11 million inhabitants, located in the Hubei province. The Chinese authorities reported the gradual spread of contagion due to the transmissibility of the virus from person to person: the number of infected people grew rapidly and the first deaths occurred.
At the end of January, the World Health Organisation declared that the global risk deriving from the coronavirus originating in China was "high", "very high in China and high at regional as well as global level". In the last few days, the first cases of contagion in Italy have been reported. The most recent bulletins from the Chinese authorities (updated to midnight of 4 February) and the WHO (updated to 10 a.m. of 3 February) reported 24,304 confirmed cases in China, with 490 deaths and 159 cases in the rest of the world. In the EU the totals at 1 p.m. on 5 February came to 26 cases.
The possibility that the contagion could accelerate in China and spread in a virulent manner also outside that country cannot be ruled out *a priori*, given what has occurred in the past with other unknown diseases at the time of their initial appearance. Nonetheless, the health authorities are still assessing those possibilities in light of the development occurring. Likewise, as things stand, an assessment of the potential negative consequences of the spread of that virus on international and domestic economic activities and, thus, the reflections on the performance of Banco BPM Group is extremely uncertain. To date, the International Monetary Fund has not produced revisions to their estimate of global growth in light of the effects of the coronavirus.
Nonetheless, the decision by the Chinese government to postpone in most of the country the reopening of productive activities following the Chinese New Year will certainly have negative effects on growth in the first quarter of 2020, despite the launch of economic support measures. As a result, therefore, some unfavourable repercussions are also to be expected on the international economic trend. However, should the spread of the virus significantly grow at international level, the general economic consequences and specific consequences for our Group could be significantly more severe, but of a scope that it is not possible to estimate at this point.

Those elements of uncertainty are added to the non-continuous actions of the government, which could have a stronger negative impact on the BTP/Bund spread. However, significant support will once again be provided by monetary policy, characterised by an extremely expansive approach, especially after the ECB started to purchase securities from the system again in 2019.
Thus, in that framework, the growth of loan volumes will be fuelled in a relatively low amount by the demand for loans from households, especially over the medium and long term, and from businesses, which will show positive net demand once again, also due to the extension of super-amortisation. At the same time, the improvement in the quality of bank assets should continue, lengthening the derisking process already under way, while disposals of non-performing loans will be favoured by the renewal of the GACS. Overall, a moderate increase in the stock of loans, net of bad loans is expected, in a context of greater competition among intermediaries.
As regards funding, the aforementioned expansive measures in monetary policies, especially the TLTRO III operations, will keep the level of liquidity in the system high, providing banks with an easy rollover of TLTRO II loans and quite flexible, gradual use of funding through medium/long-term instruments to be placed with the public. It is estimated that the combined provisions will trigger a modest increase in funding, with a marginal shift to instruments with longer-term maturities. The combination of careful assessment of creditworthiness, a rigorous filter for disbursement activities, and the aforementioned measures that will facilitate funding, will tend to reduce the cost of funding, facilitating a stabilisation of the cost of debt for households and businesses.
Concurrent with a small decrease in average interest rates on loans, the mark-up should close slightly in relation to the bank interest spread, which should tighten marginally. Despite the reduction in the costs of funding linked to the

action by the ECB and the moderate increase in volumes, that change is expected to be reflected in an erosion of margins from customers, and, due to a reduction in government yields, also a moderate decrease in the interest margin. Trading gains and measurement at fair value will make a positive contribution to other revenue. In payment services, the increased competitiveness and the expansion of the digital offer will continue to create downward pressures on prices. A support for the fee and commission component will come from managed savings, growing further following the recovery in 2019. The combination of the factors described above is expected to lead to a slight decrease in net interest and other banking income.

Given that scenario, the Group's operations will be focused on the key initiatives of the new Strategic Plan, which will be presented at the beginning of March and will be focused on organic development of the core business. During the year, the pressure on the interest margin, mainly attributable to the market conditions and the elimination of the contribution of the PPA (Purchase Price Allocation), is expected to be offset by growth in fee and commission income. The limitation of operating expenses by improving efficiency will continue to be one of the factors receiving the greatest attention, contributing to the mitigation of the impacts of the renewal of the national labour agreement for the category, and the increase in structural investments, specifically concentrated in IT. Following the significant reduction in non-performing exposures and the current trend for new non-performing loans, the cost of credit is expected to decrease in relation to a high level of coverage. The Group's solid equity base, along with its capacity to organically generate capital, will allow for sustainable remuneration to shareholders and the management of future potential impacts of regulatory headwinds.

SIGNIFICANT EVENTS OCCURRING AFTER THE END OF THE FINANCIAL YEAR

In compliance with special instructions issued by the Bank of Italy, significant events occurring after the end of the financial year are illustrated in the Notes to the financial statements, part A, Section 4.

Milan, 6 February 2020

The Board of Directors

Consolidated financial statements

CONSOLIDATED BALANCE SHEET

Asset items	31/12/2019	31/12/2018
10. Cash and cash equivalents	912,742	922,017
20. Financial assets at fair value through profit and loss	7,181,477	5,738,595
a) financial assets held for trading	5,726,814	4,522,529
c) other financial assets mandatorily at fair value	1,454,663	1,216,066
30. Financial assets at fair value through other comprehensive income	12,526,772	15,351,561
40. Financial assets at amortised cost	133,147,117	123,840,007
a) due from banks	10,834,518	4,377,526
b) loans to customers	122,312,599	119,462,481
50. Hedging derivatives	103,614	130,511
60. Fair value change of financial assets in macro fair value hedge portfolios (+/-)	29,161	42,173
70. Equity investments	1,386,079	1,434,163
90. Property, plant and equipment	3,624,312	2,775,885
100. Intangible assets	1,269,360	1,277,941
of which:		
- goodwill	76,200	76,389
110. Tax assets	4,619,636	5,012,477
a) current	159,845	330,436
b) deferred	4,459,791	4,682,041
120. Non-current assets and asset disposal groups held for sale	131,082	1,592,782
130. Other assets	2,106,849	2,346,679
Total assets	**167,038,201**	**160,464,791**

Liability and shareholders' equity items	31/12/2019	31/12/2018
10. Financial liabilities at amortised cost	138,333,959	136,160,342
a) due to banks	28,523,335	31,633,541
b) due to customers	94,099,912	90,197,859
c) debt securities issued	15,710,712	14,328,942
20. Financial liabilities held for trading	10,366,668	6,502,522
30. Financial liabilities at fair value	420,561	692,890
40. Hedging derivatives	552,761	726,307
50. Fair value change of financial liabilities in macro fair value hedge portfolios (+/-)	62,299	49,756
60. Tax liabilities	619,269	505,402
a) current	9,235	11,181
b) deferred	610,034	494,221
70. Liabilities associated with asset disposal groups held for sale	5,096	3,043
80. Other liabilities	3,303,823	3,814,589
90. Employee termination indemnities	384,886	377,498
100. Provisions for risks and charges	1,101,797	1,327,368
a) commitments and guarantees given	115,990	123,814
b) retirement benefits and similar commitments	150,910	150,676
c) other provisions for risks and charges	834,897	1,052,878
120. Valuation reserves	164,836	(346,438)
140. Equity instruments	298,112	-
150. Reserves	3,512,575	3,577,955
170. Share capital	7,100,000	7,100,000
180. Treasury shares (-)	(11,518)	(12,610)
190. Minority interests (+/-)	26,076	45,599
200. Net income (loss) for the year (+/-)	797,001	(59,432)
Total liabilities and shareholders' equity	**167,038,201**	**160,464,791**

CONSOLIDATED INCOME STATEMENT

Items	2019	2018
10. Interest and similar income	2,513,924	2,861,587
of which: interest income calculated with the effective interest method	2,468,870	2,780,914
20. Interest and similar expense	(515,972)	(569,025)
30. Interest margin	**1,997,952**	**2,292,562**
40. Fee and commission income	1,870,979	1,949,561
50. Fee and commission expense	(133,875)	(100,801)
60. Net fee and commission income	**1,737,104**	**1,848,760**
70. Dividends and similar income	69,611	51,956
80. Profits (losses) on trading	(178,416)	(95,610)
90. Fair value adjustments in hedge accounting	7,497	(2,657)
100. Profits (losses) on disposal or repurchase of:	337,551	(111,630)
a) financial assets at amortised cost	76,510	(238,062)
b) financial assets at fair value through other comprehensive income	265,432	130,940
c) financial liabilities	(4,391)	(4,508)
110. Profits (losses) on other financial assets and liabilities measured at fair value through profit and loss	109,668	(17,152)
a) financial assets and liabilities designated at fair value	2,965	(29,630)
b) other financial assets mandatorily at fair value	106,703	12,478
120. Net interest and other banking income	**4,080,967**	**3,966,229**
130. Net losses/recoveries on credit risk relating to:	(721,953)	(1,678,529)
a) financial assets at amortised cost	(724,741)	(1,674,775)
b) financial assets at fair value through other comprehensive income	2,788	(3,754)
140. Profit/loss from contractual changes without derecognition	(1,997)	(1,843)
150. Net income from banking activities	**3,357,017**	**2,285,857**
180. Net income from banking and insurance activities	**3,357,017**	**2,285,857**
190. Administrative expenses:	(2,739,685)	(2,974,742)
a) personnel expenses	(1,692,122)	(1,728,610)
b) other administrative expenses	(1,047,563)	(1,246,132)
200. Net provisions for risks and charges	(107,038)	(345,341)
a) commitments and guarantees given	7,832	12,160
b) other net provisions	(114,870)	(357,501)
210. Net adjustments to/recoveries on property, plant and equipment	(197,689)	(155,093)
220. Net adjustments to/recoveries on intangible assets	(110,039)	(117,118)
230. Other operating expenses/income	337,674	700,803
240. Operating expenses	**(2,816,777)**	**(2,891,491)**
250. Profits (losses) on investments in associates and companies subject to joint control	130,441	330,160
260. Profits (losses) from the fair value designation of property, plant and equipment and intangible assets	(158,533)	-
280. Profits (losses) on disposal of investments	333,965	2,655
290. Profit (loss) before tax from continuing operations	**846,113**	**(272,819)**
300. Taxes on income from continuing operations	(64,676)	202,828
310. Profit (loss) after tax from continuing operations	**781,437**	**(69,991)**
320. Profit (loss) from discontinued operations, net of taxes	-	936
330. Net income (loss) for the year	**781,437**	**(69,055)**
340. Income (loss) attributable to minority interests	15,564	9,623
350. Parent Company's net income (loss)	**797,001**	**(59,432)**
Basic EPS (euro)	0.525	(0.039)
Diluted EPS (euro)	0.525	(0.039)

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

Items	31/12/2019	31/12/2018
10. Net income (loss) for the year	**781,437**	**(69,055)**
Other comprehensive income after tax without reclassification to the income statement	**334,319**	**(219,348)**
20. Equity instruments designated at fair value through other comprehensive income	119,809	(230,126)
30. Financial liabilities at fair value through profit and loss (changes to its own credit risk)	(6,583)	5,204
60. Property, plant and equipment	249,658	-
70. Defined benefit plans	(28,296)	5,432
90. Share of valuation reserves related to investments in associates carried at equity	(269)	142
Other comprehensive income after tax with reclassification to the income statement	**192,440**	**(299,351)**
100. Foreign investment hedges	(845)	(754)
110. Exchange rate differences	2,497	2,721
120. Cash flow hedges	129	1,148
140. Financial assets (other than equity instruments) at fair value through other comprehensive income	178,775	(296,117)
160. Share of valuation reserves related to investments in associates carried at equity	11,884	(6,349)
170. Total other comprehensive income after tax	**526,759**	**(518,699)**
180. Comprehensive income (Items 10+170)	**1,308,196**	**(587,754)**
190. Consolidated comprehensive income attributable to minority interests	(15,563)	(9,599)
200. Consolidated comprehensive income attributable to the Parent Company	**1,323,759**	**(578,155)**

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

31 December 2019	Balance as at 31/12/2018	Changes in opening balances	Balance as at 1/01/2019	Allocation of net income from previous year		Changes in the year									Shareholders' equity as at 31/12/2019	Group shareholders' equity as at 31/12/2019	Minority interests as at 31/12/2019
							Operations on shareholders' equity										
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity investments	Comprehensive income for the year			
Share capital:	**7,163,927**	**-**	**7,163,927**	**-**		**-**	**-**	**-**					**(234)**		**7,163,693**	**7,100,000**	**63,693**
a) ordinary shares	7,163,927	-	7,163,927	-		-	-	-					(234)		7,163,693	7,100,000	63,693
b) other shares	-	-	-	-		-	-	-					-		-	-	-
Share premium reserve	**-**	**-**	**-**	**-**		**-**	**-**	**-**					**-**		**-**	**-**	**-**
Reserves:	**3,569,082**	**(11,912)**	**3,557,170**	**(69,119)**		**5,026**	**(1,546)**	**-**	**-**		**-**		**(1,003)**		**3,490,528**	**3,512,575**	**(22,047)**
a) retained earnings	3,064,319	(11,912)	3,052,407	(69,119)		98	(1,546)	-	-				(1,003)		2,980,837	3,002,882	(22,045)
b) other	504,763	-	504,763	-		4,928	-	-			-		-		509,691	509,693	(2)
Valuation reserves	**(346,270)**	**-**	**(346,270)**	**-**		**(15,659)**							**-**	**526,759**	**164,830**	**164,836**	**(6)**
Equity instruments	**-**	**-**	**-**							**298,112**					**298,112**	**298,112**	**-**
Treasury shares	**(12,610)**	**-**	**(12,610)**			**-**	**1,092**	**-**							**(11,518)**	**(11,518)**	**-**
Net income (loss) for the year	**(69,055)**	**-**	**(69,055)**	**69,119**	**(64)**									**781,437**	**781,437**	**797,001**	**(15,564)**
Shareholders' equity	**10,305,074**	**(11,912)**	**10,293,162**	**-**	**(64)**	**(10,633)**	**(454)**	**-**	**-**	**298,112**	**-**		**(1,237)**	**1,308,196**	**11,887,082**	**11,861,006**	**26,076**
- of the Group	**10,259,475**	**(9,429)**	**10,250,046**	**-**	**-**	**(10,457)**	**(454)**	**-**	**-**	**298,112**	**-**		**-**	**1,323,759**	**11,861,006**		
- of minority interests	**45,599**	**(2,483)**	**43,116**	**-**	**(64)**	**(176)**	**-**	**-**					**(1,237)**	**(15,563)**	**26,076**		

31 December 2018	Balance as at 31/12/2017	Changes in opening balances	Balance as at 1/01/2018	Allocation of net income from previous year		Changes in the year									Shareholders' equity as at 31/12/2018	Group shareholders' equity as at 31/12/2018	Minority interests as at 31/12/2018
							Operations on shareholders' equity										
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity investments	Comprehensive income for the year			
Share capital:	**7,164,561**	**-**	**7,164,561**	**-**		**-**	**-**	**-**					**(634)**		**7,163,927**	**7,100,000**	**63,927**
a) ordinary shares	7,164,561	-	7,164,561	-		-	-	-					(634)		7,163,927	7,100,000	63,927
b) other shares	-	-	-	-		-	-	-					-		-	-	-
Share premium reserve	**1,216**	**-**	**1,216**	**-**		**-**	**-**	**-**					**(1,216)**		**-**	**-**	**-**
Reserves:	**1,953,356**	**(993,155)**	**960,201**	**2,606,512**		**4,255**	**(1,786)**	**-**	**-**		**-**		**(100)**		**3,569,082**	**3,577,955**	**(8,873)**
a) retained earnings	1,456,946	(993,155)	463,791	2,606,512		(4,098)	(1,786)	-	-				(100)		3,064,319	3,073,190	(8,871)
b) other	496,410	-	496,410	-		8,353	-	-			-		-		504,763	504,765	(2)
Valuation reserves	**251,849**	**(78,229)**	**173,620**	**-**		**(1,192)**							**1**	**(518,699)**	**(346,270)**	**(346,438)**	**168**
Equity instruments	**-**	**-**	**-**							**-**					**-**	**-**	**-**
Treasury shares	**(14,146)**	**-**	**(14,146)**			**-**	**1,536**	**-**							**(12,610)**	**(12,610)**	**-**
Net income (loss) for the year	**2,606,704**	**-**	**2,606,704**	**(2,606,512)**	**(192)**									**(69,055)**	**(69,055)**	**(59,432)**	**(9,623)**
Shareholders' equity	**11,963,540**	**(1,071,384)**	**10,892,156**	**-**	**(192)**	**3,063**	**(250)**	**-**	**-**	**-**	**-**		**(1,949)**	**(587,754)**	**10,305,074**	**10,259,475**	**45,599**
- of the Group	**11,900,230**	**(1,065,641)**	**10,834,589**	**-**	**-**	**3,063**	**(250)**	**-**	**-**	**-**	**-**		**228**	**(578,155)**	**10,259,475**		
- of minority interests	**63,310**	**(5,743)**	**57,567**	**-**	**(192)**	**-**	**-**	**-**					**(2,177)**	**(9,599)**	**45,599**		

CONSOLIDATED CASH FLOW STATEMENT

Indirect method

A. Operating activities	**31/12/2019**	**31/12/2018**
1. Cash flow from operations	**1,626,388**	**1,904,011**
- net income (loss) for the year (+/-)	797,001	(59,432)
- gains/losses on financial assets held for trading and on other financial assets/liabilities measured at fair value through profit and loss (-/+)	(215,314)	25,978
- capital gain/loss on hedging activities (-/+)	(7,497)	2,657
- net losses/recoveries on credit risk (-/+)	723,950	1,680,372
- net adjustments to/recoveries on property, plant and equipment and intangible assets (+/-)	307,728	272,211
- allocations to provisions for risks and charges and other costs/revenues (+/-)	99,274	362,577
- net premiums not collected (-)		-
- other insurance income/expenses not collected (-/+)		-
- duties, taxes and tax credits not settled (+/-)	52,501	(220,895)
- net adjustments to/recoveries on discontinued operations net of taxes (-/+)		-
- other adjustments (+/-)	(131,255)	(159,457)
2. Cash flow from/used in financial assets	**(6,428,823)**	**(1,676,210)**
- financial assets held for trading	(1,046,801)	339,364
- financial assets designated at fair value	-	-
- other financial assets mandatorily at fair value	(182,604)	69,015
- financial assets at fair value through other comprehensive income	2,827,577	1,394,757
- financial assets at amortised cost	(10,033,848)	(2,754,235)
- other assets	2,006,853	(725,111)
3. Cash flow from/used in financial liabilities	**4,609,673**	**(26,162)**
- financial liabilities at amortised cost	1,777,378	8,318,166
- financial liabilities held for trading	3,899,777	(1,622,027)
- financial liabilities at fair value	(278,969)	(2,560,266)
- other liabilities	(788,513)	(4,162,035)
Net cash flow from/used in operating activities	**(192,762)**	**201,639**
B. Investing activities		
1. Cash flow from:	**75,348**	**887,398**
- sales of investments in associates and companies subject to joint control	1	809,739
- dividends collected on investments in associates and companies subject to joint control		-
- sales of property, plant and equipment	75,347	77,659
- sales of intangible assets	-	-
- sales of subsidiaries and business segments		-
2. Cash flow used in:	**(172,385)**	**(1,143,514)**
- purchases of investments in associates and companies subject to joint control	-	(803,409)
- purchases of property, plant and equipment	(70,263)	(237,543)
- purchases of intangible assets	(102,122)	(102,562)
- purchases of subsidiaries and business segments		-
Net cash flow from/used in investing activities	**(97,037)**	**(256,116)**
C. Financing activities		
- issues/purchases of treasury shares		-
- issues/purchases of equity instruments	280,588	-
- dividend distribution and other allocations	(64)	(192)
- third-party sales/purchases		
Net cash flow from/used in financing activities	**280,524**	**(192)**
Net cash flow from/used during the period	**(9,275)**	**(54,669)**

Reconciliation	31/12/2019	31/12/2018
- Cash and cash equivalents at the beginning of the period	922,017	976,686
- Net cash flow from/used during the period	(9,275)	(54,669)
- Cash and cash equivalents: foreign exchange effect		-
Cash and cash equivalents at the end of the period	**912,742**	**922,017**

Below is the information required under IAS 7, paragraph 44, A and B.

(thousands of euro)	31/12/2018	Cash flows	Non-monetary changes			31/12/2019
			Business combinations/loss of control of companies	Fair value changes	Other	
Liabilities deriving from loan activities (items 10, 20 and 30 in the liabilities)	144,191,348	5,398,186	(28,296)	(33,615)	(406,435)	149,121,188

Notes to the consolidated financial statements

Declaration for the purposes of exemption from the requirement to file the Consolidated Financial Statements in electronic format suitable for processing (XBRL language)

We hereto declare explicitly and without reservation that Banco BPM S.p.A. is exempted from the requirement to submit its consolidated financial statements in electronic format suitable for processing pursuant to the provisions of art. 3 of Italian Prime Ministerial Decree of 10 December 2008, being a corporation listed on a regulated market (Mercato Telematico Azionario, managed by Borsa Italiana S.p.A.).

Legal Representative
Carlo Fratta Pasini, Esq.

PART A – ACCOUNTING POLICIES

A.1 - General Part

Section 1- Statement of compliance with international accounting standards

These consolidated financial statements have been prepared according to the international accounting standards IAS/IFRS issued by the International Accounting Standards Board (IASB) and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC) endorsed by the European Commission, as established by EU Regulation no. 1606 of 19 July 2002, in implementation of Italian Legislative Decree no. 38 of 28 February 2005.

For the interpretation and application of international accounting standards, the following documents, although not endorsed by the European Commission, have been referenced:

- Conceptual Framework;
- Implementation Guidance, Basis for Conclusions and any other documents prepared by the IASB or IFRIC to complete the accounting standards issued.

The accounting standards applied in the preparation of these financial statements are those in force on 31 December 2019 (including the SIC and IFRIC interpretation documents).

For an overview of the accounting standards and the related interpretations endorsed by the European Commission, whose application is planned for 2019 or future years, refer to "Section 5 - Other aspects", below, which also illustrates the main impacts on the Group.

The communications of the Supervisory Authorities (Bank of Italy, CONSOB and ESMA) issuing recommendations on the information to be included in the Annual Report on aspects of greater importance or on the accounting treatment of particular transactions have also been considered as applicable.

Section 2- General preparation principles

The consolidated financial statements consist of the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the cash flow statement and the Notes to the consolidated financial statements and are accompanied by the Directors' report on operations and on the situation of all the companies included within the scope of consolidation.

The financial statements and the contents of the notes to the financial statements have been prepared in keeping with Circular no. 262 of 22 December 2005 "Bank financial statements: layouts and rules for preparation" and the subsequent updates (most recently, the 6th update published on 30 November 2018). Specifically, this was a Circular issued by the Bank of Italy in exercising its powers established by the above-mentioned Legislative Decree

38/2005 (hereinafter also referred to as "Circular no. 262"). The additional requests transmitted by said Supervisory Authority, through communication dated 23 December 2019, were also considered. These specifically related to the disclosure on multi-originator transfers of loans to a mutual fund, assigning shares to the originator intermediaries, for which reference is made to the specific section of Part E of these Notes (Sub-section "D. Sale Transactions", point "D.3 Prudential Consolidation - Financial assets sold and fully derecognised").

The financial statements provide, in addition to the accounting data as at 31 December 2019, comparative information relating to the last financial statements approved as at 31 December 2018. In this regard, note that the balance sheet and income statement balances relating to 2018 are not fully comparable with those of 2019, for the following reasons:

- starting from 1 January 2019 the first-time adoption of the new accounting standard IFRS 16 "Leases" became mandatory, in relation to which Banco BPM Group applied the option, set out in the transitional provisions of that standard, not to restate the comparative figures. As a result, the balances for 2018, drawn up in compliance with the previous accounting standard IAS 17, are not fully comparable with those of 2019, with specific reference to the valuation of rights of use, lease payables and the related economic effects;
- starting on 31 December 2019, as part of the usual options permitted by the accounting standards IAS 16 and IAS 40, Banco BPM Group decided to voluntarily modify the measurement criterion for owned property and valuable works of art, changing from the cost criterion to the revaluation/fair value model. As a result, the balances for 2018 are not fully comparable with those of 2019 with regard to the balance sheet amounts and the correlated economic effects of property used in operations, property for investment purposes and works of art.

For details on the transition to the accounting standard IFRS 16 and the change to the measurement criterion of real estate assets, refer to that set out in the paragraph "Changes in 2019 in the accounting standards applied by the Group", below.

These financial statements have been prepared using the euro as the reference currency.

The amounts of the financial statements and the data shown in the tables of the Notes are expressed in thousands of euro, unless otherwise indicated.

The consolidated financial statements are drawn up clearly and provide a true and fair view of the balance sheet and income statement result for the financial year of Banco BPM and its subsidiaries, as detailed in Section 3 "Scope of consolidation and methods". The financial statements used to prepare the consolidated financial statements are those prepared by the subsidiaries with reference to 31 December 2019, adjusted, where necessary, to adapt them to IAS/IFRS used by the Group.

Wherever the information required by international accounting standards and the provisions contained in the aforementioned Circular are considered insufficient to give a faithful representation, additional information required for such purpose is provided in the Notes.
Wherever, in exceptional cases, the application of a provision of international accounting standards is incompatible with a faithful representation of the equity and financial situation and economic result, it is not applied. In such case, the reasons for such possible derogation and its influence on the representation of the balance sheet and income statement result are explained in the Notes to the financial statements.

The financial statements have been prepared in accordance with the following general principles:

- <u>*going concern:*</u> the financial statements are drawn up with a view to the continuity of the Group's business activities: on the basis of the main economic and financial indicators, the directors can reasonably expect the Group to continue to operate for the foreseeable future;
- <u>*accrual accounting*</u>: the financial statements have been drawn up on an accruals basis with the exception of the information on cash flows;
- <u>*consistency of presentation*</u>: the presentation and classification of items in the financial statements is kept constant from one financial year to the next unless a standard or interpretation requires a change in presentation or another presentation or classification is no longer appropriate, taking into account the provisions of IAS 8. In the latter case, the Notes to the financial statements provide information on the changes made compared to the previous year;

- *materiality and aggregation*: the balance sheet and income statement schedules are made up of items (identified by Arabic numerals), sub-items (identified by letters) and by additional detailed disclosure (the "of which" captions of the items and sub-items). The items, sub-items and related information details constitute the financial statement accounts. The layouts comply with those defined by the Bank of Italy in Circular no. 262 of 22 December 2005 and subsequent updates. New items may be added to these layouts where the content of such is not attributable to any of the items already provided in the layouts and only if they are significant amounts. The sub-items provided in the layouts may be grouped together when either of the following conditions is met:
  a) the amount of the sub-items is irrelevant;
  b) the grouping adds to the clarity of the financial statements; in this case, the Notes to the financial statements contain the grouped sub-items shown separately.

  The balance sheet, the income statement and the statement of comprehensive income do not include accounts with no amounts for either the financial year to which the financial statements relate or the previous financial year;
- *predominance of substance over form*: the transactions and other events are recognised and stated in compliance with their substance and economic entity and not just their legal form;
- *offsetting*: assets and liabilities, income and costs are not offset, unless permitted or required by an international accounting standard or its interpretation or by the provisions of the Bank of Italy Circular;
- *comparative information*: comparative information relating to the previous year is provided for each balance sheet and income statement account, unless an accounting standard or interpretation does not allow for this or provides otherwise. As stated above, the 2019 balances are not comparable as a result of the first-time adoption of IFRS 16 and the change in the measurement criterion for property and valuable works of art. The figures for the previous financial year may be adjusted, where necessary, to ensure the comparability of information for the current financial year. Any non-comparability, adaptation or impossibility of the latter is indicated and commented on in the notes to the financial statements.

The notes to the financial statements are divided into parts: A - Accounting policies, B - Information on the consolidated balance sheet, C - Information on the consolidated income statement, D - Statement of consolidated comprehensive income, E - Information on risks and related hedging policies, F - Information on consolidated shareholders' equity, G - Business combinations regarding companies or divisions, H - Transactions with related parties, I - Share-based payment agreements, L - Segment reporting and M - Disclosure on leases.
Each part of the Notes is divided into sections, each of which explains a single operational aspect.

Significant accounting policies and uncertainties regarding the use of estimates in the preparation of consolidated financial statements (pursuant to the provisions of IAS 1 and the recommendations contained in the Bank of Italy/CONSOB/ISVAP Documents no. 2 of 6 February 2009 and no. 4 of 3 March 2010)

The application of certain accounting standards necessarily involves the use of estimates and assumptions which affect the values of the assets and liabilities recorded in the financial statements and the disclosures made on contingent assets and liabilities.
The assumptions underlying the estimates made take into account all the information available as of the date of preparation of this annual report, as well as the assumptions considered reasonable in the light of past experience.
Due to their nature, it thus cannot be excluded that the assumptions adopted, however reasonable, might not be confirmed by future scenarios in which the Group finds itself operating. The results which will be achieved in the future could therefore differ from the estimates made for the purpose of drawing up this annual report and could consequently make adjustments necessary which at present cannot be foreseen or estimated with respect to the book value of the assets and liabilities recorded in the financial statements. In that regard, note that it may be necessary to adjust the estimates as a result of changes in the underlying circumstances, following new information or increased experience.
Among the main factors of uncertainty that could impact the future scenarios in which the Group finds itself operating, the negative effects of the contagion of the global and Italian economy directly or indirectly connected with the Coronavirus (COVID-19) outbreak cannot be underestimated. This outbreak, which began in China in January 2020, could also extend beyond that country, as illustrated in greater detail in the section "Outlook for business operations" in the Group's report on operations. At the date of preparation of this Annual Report, it cannot be ruled out that, should the virus spread significantly at international level, the general economic consequences and

specific consequences for the Group could be more severe than that hypothesised at the current time, but to an extent that is difficult to estimate.

Specifically, it is deemed that the information and sensitivity analyses provided with regard to the main financial statement items subject to estimate (recoverability of intangible assets with indefinite useful life, recoverability of deferred tax assets, fair value of financial instruments, expected losses on performing loans, liabilities for defined benefits to employees) are capable of reflecting the impacts related to the elements of uncertainty that may be hypothesised at the date of preparation of this Annual Report.
Nonetheless, with specific reference to the random nature of the spread of the Coronavirus outbreak, as also indicated in "Section 4 - Events subsequent to the reporting date", below, it cannot be ruled out that a new - worse - estimate may need to be made, both with regard to the book values of the main items subject to estimate and with regard to the scenarios considered for the sensitivity analyses as at 31 December 2019.

The accounting policies considered most critical for giving a faithful representation of the Group's equity, economic and financial situation, both in terms of the materiality of the values recognised in the financial statements affected by such policies and the high level of judgement required for assessments entailing the use of estimates and assumptions by the management, are illustrated below with reference to the specific sections of the Notes to the financial statements for detailed information on the assessment processes conducted as at 31 December 2019.

Determining the impairment on loans disbursed recognised in balance sheet assets

Loans represent one of the items subject to estimates most exposed to choices made by the Group in terms of disbursement and risk management and monitoring.
More specifically, the Group manages the risk of default of borrowers by continuously monitoring customer accounts in order to assess their ability to repay the amount borrowed, based on their economic-financial situation. This monitoring activity is designed to detect signs of impairment of loans, also with a view to a timely classification within the perimeter of non-performing loans and a precise estimate of the relative total value adjustments. This estimate can be made, depending on the materiality threshold for the exposure being measured, on an analytical basis based on recoverable cash flows, or on a lump-sum basis, considering the losses historically recorded on loans with equivalent characteristics.
With regard to loans for which no objective evidence of impairment has been individually identified, i.e. for performing loans, the impairment model, based on expected losses, requires the implementation of adequate monitoring systems aimed at identifying whether or not there has been a significant deterioration since the date of initial recognition of the exposure. The IFRS 9 impairment model requires that losses be determined with reference to the time horizon of one year for financial assets that have not suffered a significant deterioration in their creditworthiness with respect to initial recognition (Stage 1) rather than with reference to the entire life of the financial asset if a significant deterioration is found (Stage 2).
On the basis of the above, it follows that losses on receivables must be recorded with reference not only to the objective evidence of impairment already seen at the reporting date, but also on the basis of expectations of future impairment losses not yet evident, which must be reflected:

- the likelihood of different scenarios occurring;
- the effect of discounting using the effective interest rate;
- historical experience and current and future valuations.

It follows that the determination of expected losses is a complex exercise that requires significant judgements and estimates. More specifically:

- the calculation of the significant deterioration in creditworthiness with respect to the date of initial recognition of the exposure ("SICR") is based on the identification of adequate qualitative and quantitative criteria, which also consider forward-looking information. Thus, it cannot be ruled out that the use of different criteria may result in the definition of a different scope of exposures to be classified under Stage 2, with the resulting impact on expected losses to be recognised in the financial statements;
- the result of the impairment model must reflect an objective estimate of the expected loss, obtained by evaluating a range of possible results. This implies the need to identify possible scenarios, based on assumptions about future economic conditions, to which the relative probability of occurrence must be associated. The selection of different scenarios and probability of occurrence, as well as changes in the set of macroeconomic variables to be considered in the forecast time horizon could have significant effects on the calculation of expected losses; In order to appreciate the impact on the expected losses resulting from

the selection of different macroeconomic scenarios, in the section on credit risk in Part E of these Notes, a sensitivity analysis is provided of the expected losses relating to performing loans to customers;

- the determination of expected losses requires the use of estimation models:
  - o the cash flows that individual debtors (or portfolios of debtors that are similar in terms of risk) are expected to be able to generate in order to satisfy, in whole or in part, the obligations undertaken with regard to the Group. With regard to non-performing loans, where a disposal plan exists, it is also necessary to use a multi-scenario approach, estimating the cash flows recoverable from disposal, to be considered as an alternative scenario to those deemed recoverable through work out;
  - o recovery time;
  - o the estimated realisable value of property and collateral.

Within the range of possible approaches relating to estimation models permitted by the reference international accounting standards, the use of a method or the selection of certain estimation parameters may have a significant influence on the valuation of loans. These methods and parameters are necessarily updated through a continuous process in order to best represent the estimated realisable value of the credit exposure. Specifically, during 2019 the following improvements were made:

- to determine expected losses on performing loans, in addition to updating the time series of risk parameters and macroeconomic factors based on the latest available forecasts, the models were upgraded, in order to improve the estimate of the expected loss both “point in time” and “forward looking”, in line with that required by accounting standard IFRS 9. In addition, the improvements introduced include the use of three forward-looking macroeconomic scenarios, regarding recession, stability and improvement, respectively, in the stead of the previous five, as well as a review of the process of selecting said scenarios and assigning the related probabilities;
- for “lump-sum” assessments relating to non-performing exposures, starting on 31 December 2019, a new valuation model is now used, with the objective of searching for the utmost consistency in valuation in relation to operational approaches that guide the determination of the analytical forecasts carried out by the Manager. The above model is applied to non-performing exposures classified as unlikely to pay and bad loans exceeding a specific materiality threshold, which was raised from 300 thousand euro to 1 million euro, in addition to all the past due non-performing exposures.

Those revisions did not result in significant impacts, overall, on the Group’s income statement or balance sheet.

Given the above, it cannot be excluded that alternative monitoring criteria or different methodologies, parameters or assumptions in determining the recoverable value of the Group's credit exposures - influenced, however, also by possible alternative strategies for their recovery approved by the competent corporate bodies as well as by the evolution of the economic and financial context and reference regulations - may result in valuations different from those conducted for the purposes of the preparation of the consolidated financial statements as at 31 December 2019.

Estimated impairment losses in relation to intangible assets with an indefinite useful life and investments in associates

On an annual basis, when the financial statements are drawn up, it is verified that there are no indicators of lasting losses in value in relation to intangible assets with an indefinite useful life (goodwill and trademarks) and equity investments recorded in the balance sheet. This impairment test is usually carried out by determining the value in use or fair value of the assets and verifying that the value at which the intangible asset or investment is recorded in the financial statements is lower than the higher of its value in use or fair value net of costs to sell.
At 31 December 2019, the Group's intangible assets with an indefinite useful life amounted to 580.5 million euro, aligned with the figures as at 31 December 2018, and were represented by 76.2 million euro of goodwill attributable to the “Bancassurance Protection” cash generating unit (CGU) and the “Bancassurance Life” CGU and 504.3 million euro of trademarks recognised following the business combination with the former Banca Popolare di Lodi Group (222.2 million euro) and the former BPM Group (282.1 million euro). The impairment test of the above assets did not reveal the need to make any write-down of the book values.
In Part B of these Notes, Section 10 - “Intangible assets” illustrates the main assumptions underlying the verification of the recoverability of goodwill, the related results and a sensitivity analysis of the results based on reasonable changes in the main assumptions.
Considering that the impairment test requires significant elements of judgement, with particular reference to the definition of the scope of the individual cash generating units to which the values subject to verification are

attributed, the related cash flows and the discount rate, it cannot be excluded that the assumptions and parameters used may show different developments from what was assumed, also in view of a different evolution of the macroeconomic and market context, which is currently unforeseeable.
As regards equity investments, note that the unavailability, as at the date of preparation of the draft consolidated financial statements, of the draft financial statements of the investee companies and of their updated forecast business plans, introduces further elements of uncertainty in the process of assessing the value of equity investments. In these circumstances, we can therefore not rule out the possibility that the value attributed to the equity investments based on the information available may possibly differ from subsequent assessments made in light of different available information.

Determination of the fair value of financial assets and liabilities

In the event of financial instruments that are not listed on active markets or illiquid and complex instruments, adequate valuation processes need to be set in place, characterised by significant elements of judgement as regards the choice of the valuation model and of the relative input parameters, which sometimes cannot be observed in the market.
There are margins of subjectivity in the valuation with regard to whether certain parameters are observable or not, and in the consequent classification in correspondence with the fair value hierarchy levels.
For qualitative and quantitative information on the method adopted to measure the fair value of instruments recognised at fair value through profit and loss in the financial statements and for those values at amortised cost, please refer to the Notes, “Part A.4 - Fair value disclosure”.

Estimating the recoverability of deferred tax assets

The Group has significant deferred tax assets among its assets, mainly deriving from temporary differences between the income statement recognition date of given business costs and the date when said costs may be deducted, and also resulting from tax losses carried forward. The recognition of these assets and the subsequent maintenance in the balance sheet entails a judgement as to their potential recoverability, which must also consider the tax regulations in force at the date of preparation of the financial statements.
In particular, deferred tax assets that meet the requirements established by Law no. 214 of 22 December 2011 can be transformed into a tax credit in the event that a “statutory loss”, a “tax loss” for IRES purposes or a “net negative value of production” for IRAP purposes is recorded. The recovery of the DTAs is therefore certain, since it does not depend on their ability to generate future profits.
For the remaining tax assets that cannot be transformed into tax credits, the judgement of their probability of recovery must be based on reasonable income forecast taken from approved strategic plans and projections, also considering that, for IRES purposes, tax regulations permit tax losses to be carried forward without any time limit. That judgment is a complex exercise, specifically when regarding the DTAs on tax losses carried forward, whose existence may be an indicator of the fact that sufficient future taxable income for their recovery will not be earned. Based on that set out in accounting standard IAS 12 and the considerations formulated by ESMA in its document dated 15 July 2019, said judgment of recoverability requires a careful survey of all the evidence supporting the probability that sufficient future taxable income will be generated, also considering the circumstances that generated the tax losses, which must be attributed to specifically identified causes, which are deemed will be recurring in the future. To that end, the estimate of the income forecasts to be used as the basis of the judgment of recoverability must be based on reasonable and realistic hypotheses and assumptions, also considering a weight on the related degree of uncertainty, which increases the longer the time horizon of the estimate.
Lastly, it must be noted that the recoverability of all the DTAs may be negatively influenced by changes in the tax regulations in force, which cannot be forecast at present.

Section 11 - “Tax assets and liabilities” contained in Part B - “Assets” of these Notes provides information on the nature and checks carried out with regard to the recognition of deferred tax assets and the results of the sensitivity analyses relating to the time horizon of recoverability of the DTAs, based on reasonable changes in the forecast income streams.

Estimating provisions for risks and charges

The companies belonging to the Group are defendants in a wide range of lawsuits and tax disputes and are also exposed to a number of types of contingent liabilities. The complexity of the situations and corporate deals that underlie the outstanding disputes, along with the difficulties in the interpretation of applicable law, require significant elements of judgement to estimate the liabilities that may result when pending lawsuits are settled. The difficulties lie in assessing if and what may be due and how much time will elapse before liabilities materialise and are particularly evident when the proceedings are at the initial stage and/or the relative preliminary analysis is underway. The specific nature of the matter disputed and the consequent absence of case law relating to similar disputes, not to mention the differing opinions expressed by judgement bodies both at the various levels of the proceedings and by bodies at the same level over time, make a valuation of contingent liabilities difficult even when the provisional rulings relating to the courts of first instance are available. Previous experience demonstrates that in a number of cases, the rulings made by the judges in the courts of first instance were then completely overturned on appeal or in the supreme court, which may be in favour or not in favour of Group companies. On the basis of the above, the classification of contingent liabilities and the consequent valuation of the provisions needed is based on subjective elements of judgement which require recourse to estimation processes which can be highly complex. It cannot therefore be ruled out that following the issue of the final ruling, allocations made to provisions for risks and charges on the basis of the contingent liabilities of lawsuits and tax disputes may turn out to be lacking or surplus to requirements.

For information on the Group's main risk positions in relation to legal disputes (actions to void and pending lawsuits) and tax disputes with the tax authorities, reference should be made to Section 10 - "Provisions for risks and charges" contained in Part B - "Liabilities" of these Notes, which also provides an illustration of the risks and uncertainties associated with the reporting activity to the specialised company Intermarket Diamond Business S.p.A. of customers interested in purchasing diamonds.

Determination of the fair value of property and valuable works of art

The fair value of property and valuable works of art is determined by using specific appraisals drawn up by qualified, independent experts. As part of a range of possible measurement approaches permitted by the IAS/IFRSs for the purpose of determining fair value, the use of a measurement method or the selection of certain estimation parameters may significantly influence the determination of the fair value of those assets, considering the specifics and distinctive characteristics of the object to be appraised.
For qualitative and quantitative information on the specific method of determining fair value, please refer to the contents of the Notes, Part A.4 – "Fair value disclosure".

Estimating obligations relating to employee benefits

The calculation of the liabilities associated to employee benefits, with specific reference to defined benefit plans and to long-term benefits, implies a certain degree of complexity. The outcome of assessments depends, to a large extent, on the actuarial assumptions used in both demographic terms (such as mortality rates and employee turnover) and financial terms (such as discounting rates and rates of inflation). The judgement expressed by management is therefore fundamental when selecting the most suitable technical bases for the assessment in question, which is influenced by the socio-economic climate in which the Group operates, as well as the performance of the financial markets. An illustration of the main actuarial assumptions, together with a sensitivity analysis of the liabilities with respect to the most significant actuarial assumptions, are provided in sections 9 and 10 of the liabilities, contained in Part B of these Notes, respectively for the provision for employee termination indemnities and for defined-benefit company pension funds.

The list of valuation processes shown above is included simply to provide readers with a better understanding of the main areas of uncertainty, and it should in no way be considered as implying that, to date, alternative assumptions can prove more appropriate. In addition, valuations are based on the going concern assumption: the directors, in fact, have a reasonable expectation that the Group will continue its current activity in the foreseeable future and have prepared the financial statements on the assumption of going concern. The directors also believe that the risks and uncertainties that the Group may face in carrying out its operations are not significant and are therefore not such as to cast doubt on its ability to continue as a going concern.

Information on risks and related controls can be found in "Part E –Information on risks and related hedging policies" of these Notes, as well as in the Group's report on operations.

Section 3 - Scope of consolidation and methods

(A) Subsidiaries

The consolidated financial statements include the balance sheet and income statement results of the Parent Company Banco BPM S.p.A. and its direct and indirect subsidiaries, including structured entities, in accordance with that envisaged by accounting standard IFRS 10. Based on the cited standard, the requirement of control is the basis for the consolidation of all types of entity, including structured entities, and is met when an investor simultaneously:

- has the power to direct the relevant activities of the entity;
- is exposed to or benefits from variable returns resulting from its involvement with the entity;
- has the ability to use its power to affect the amount of said returns (link between power and returns).

IFRS 10 establishes therefore that, in order to possess control, the investor must have the ability to direct the relevant activities of the entity, by virtue of a legal right or of a mere state of fact, and must also be exposed to changes in the results that result from said power.
The Group therefore consolidates all types of entity when all three control elements are present.
Generally, when an entity is considered direct by virtue of voting rights, control results from holding over half of those rights.
In the other cases, establishing the scope of consolidation requires all factors and circumstances that give the investor the practical ability to unilaterally conduct the relevant activities of the entity (actual control). To this end, a set of factors has to be considered, such as, merely by way of example:

- the purpose and the design of the entity;
- the identification of the relevant activities and how they are managed;
- any right held by means of contractual arrangements which awards the power to direct the relevant activities, such as the power to establish the financial and operating policies of the entity, the power to exercise majority voting rights in the decision-making body or the power to appoint or remove the majority of the body with decision-making functions;
- any voting rights that may potentially be exercised and that are considered substantial;
- involvement with the entity in the role of agent or principal;
- the nature and dispersion of any rights held by other investors.

The following paragraphs provide further details on the scope of entities controlled exclusively as at 31 December 2019, broken down into companies controlled through voting rights and structured entities.

Companies controlled through voting rights

With reference to the Group's situation as at 31 December 2019, companies in which a majority of voting rights in the ordinary shareholders' meeting is held are considered to be exclusively controlled, insofar as there is no evidence that other investors have the practical ability to direct the relevant activities.
As regards companies in which half or a lower amount of voting rights are held, as at 31 December 2019, there are no arrangements, statutory clauses, or situations able to establish that the Group has the practical ability to unilaterally direct the relevant activities.

Consolidated structured entities

The control of structured entities, namely entities for which voting rights are not considered relevant to establish control, is retained to exist where the Group has contractual rights to manage the relevant activities of the entity and is exposed to the variable returns of the same. On this basis, the consolidated structured entities recognised by the Group for the purpose of consolidation are represented by the several SPEs for securitisation transactions originated by the Group. For those SPEs, the elements deemed significant for identifying control and the resulting consolidation are:

- the purpose of said SPEs;
- exposure to the outcome of the transaction;

- the ability to structure transactions and to direct the relevant activities and take critical decisions through servicing contracts;
- the ability to arrange for their liquidation.

Line-by-line consolidation method

Controlled entities are consolidated from the date on which the Group acquires control, according to the purchase method, and cease to be consolidated from the moment a situation of control no longer exists, as described in paragraph "16 - Other information, Business combinations, goodwill and changes in interest holdings" below, in section "A.2 - Key financial statement items", which should be referenced.
Full consolidation consists of the "line-by-line" acquisition of the balance sheet and income statement aggregates of subsidiary entities. For consolidation purposes, the book value of the equity investments held by the Parent Company or by the other Group companies is eliminated against the acquisition of the assets and liabilities of the investees, as a balancing entry to the corresponding portion of shareholders' equity attributable to the Group and the portion held by minority interests, also taking into account the purchase price allocation upon acquisition of control.
For subsidiary entities, the portion of shareholders' equity, income (loss) for the year and comprehensive income pertaining to minority interests is indicated as a separate item in the respective schedules of the consolidated financial statements (respectively in items: 190 Minority interests", "340. Income (loss) attributable to minority interests", "190. Consolidated comprehensive income attributable to minority interests").
In this regard, please note that there is no effect on the balance sheet, the income (loss) or comprehensive income pertaining to minority interests resulting from the consolidation of the separate equities held by the SPEs for securitisations originated by the Group, not subject to derecognition in the separate financial statements of the assigning Group banks. For a description of the effects of the consolidation of these equities, please refer to the information contained in part "A.2. Key financial statement items" below, paragraph "16 - Other information, Securitisations - derecognition from financial statements of financial assets transferred".

The costs and revenues of the subsidiary entity are consolidated from the date on which control was acquired. The costs and revenues of a subsidiary sold are included in the income statement up until the date of the disposal; the difference between the sale price and the book value of the net assets of the same is recognised under the income statement item "280. Profits (losses) on disposal of investments". In the event of the partial disposal of a subsidiary entity, which does not result in a loss of control, the difference between the sale price and the relative book value is recognised as a balancing entry of shareholders' equity.
The assets, liabilities, off-balance sheet transactions, income and expenses relating to transactions between consolidated companies are eliminated in full.
The balance sheet and income statement results of the consolidated companies whose operating currency is different from the euro are translated based on the following rules:

- the balance sheet assets and liabilities are converted at the exchange rate in effect at the end of the period;
- the revenues and costs on the income statement are converted at the average exchange rate for the period.

All exchange rate differences originated by the conversion are recognised in a specific valuation reserve under shareholders' equity. Said reserve is eliminated through a concurrent debiting/crediting of the income statement when the investment is disposed of. Changes in value of the valuation reserve due to exchange rate differences are included in the Statement of comprehensive income.
In order to prepare the consolidated financial statements as at 31 December 2019, all of the exclusively controlled companies have prepared a balance sheet and income statement in accordance with the Group's accounting principles.
Investments in associates and companies subject to joint control held for sale are recorded in compliance with the reference international accounting standard IFRS 5, which regulates the recording of non-current assets held for sale. In this case, the assets and liabilities held for sale are included in the balance sheet items "120. Non-current assets and asset disposal groups held for sale" and "70. Liabilities associated with asset disposal groups held for sale". As regards the income statement, expenses and income associated with assets and liabilities classified as held for sale, net of taxes, have been recognised in the separate item "320. Profit (loss) from discontinued operations, net of taxes". If the fair value of the assets and liabilities held for sale, net of costs to sell, turns out to be lower than the book value, a value adjustment is recognised in the income statement.

(B) Investments in companies subject to joint control and subject to significant influence

Associated companies, i.e. companies not controlled in which a notable influence is exercised, are considered to be companies subject to significant influence. The company exercises a significant influence in all cases where it holds 20% or more of voting rights in the investee, and, irrespective of the shareholding percentage, whenever it has the power to participate in business and financial decisions of the investees, by virtue of specific legal relations, such as shareholders' agreements, the purpose of which is to ensure that the members of the agreement are represented in the management bodies and to safeguard a consistent management approach, without, however, controlling the same.
Investments in companies subject to joint control and subject to significant influence are recognised according to the equity method. For a description of the classification, recognition, measurement and derecognition criteria, refer to part "A.2 - Key financial statement items" in section "5. Equity investments" below.

1. Investments in exclusively controlled companies

The table below lists the equity investments in exclusively controlled companies. For information on investments in companies subject to joint control and significant influence by Banco BPM Group please refer to "Part B- Information on the consolidated balance sheet" in Section "7. Equity investments" in these Notes.

	Company names	Operational headquarters	Registered office	Type of relationship (1)	Investment relationship		Available % of votes (2)
					Holder	% held	
	Banco BPM S.p.A.	**Verona**	**Milan**		**Parent Company**		
1.	Agriurbe S.r.l. in liquidation Share capital € 10,000.00	Milan	Milan	1	Banco BPM	100.000%	100.000%
2.	Aletti & C. Banca di Investimento Mobiliare S.p.A. Share capital € 121,163,538.96	Milan	Milan	1	Banco BPM	100.000%	100.000%
3.	Aletti Fiduciaria S.p.A. Share capital € 1,040,000.00	Milan	Milan	1	Banca Aletti & C.	100.000%	100.000%
4.	Banca Akros S.p.A. Share capital € 39,433,803.00	Milan	Milan	1	Banco BPM	100.000%	100.000%
5.	Banca Aletti & C. (Suisse) S.A. Share Capital CHF 35,000,000	CH - Lugano	CH - Lugano	1	Banca Aletti & C.	100.000%	100.000%
6.	Bipielle Bank (Suisse) S.A. in liquidation Share Capital CHF 25,000,000	CH - Lugano	CH - Lugano	1	Banco BPM	100.000%	100.000%
7.	Bipielle Real Estate S.p.A. Share capital € 298,418,385.78	Lodi	Lodi	1	Banco BPM	100.000%	100.000%
8.	BPM Covered Bond S.r.l. Share capital € 10,000.00	Rome	Rome	1	Banco BPM	80.000%	80.000%
9.	BPM Covered Bond 2 S.r.l. Share capital € 10,000.00	Rome	Rome	1	Banco BPM	80.000%	80.000%
10.	BRF Property S.p.A. Share capital € 2,000,000.00	Parma	Parma	1	Banco BPM	65.428%	65.428%
11.	BP Covered Bond S.r.l. Share capital € 10,000.00	Milan	Milan	1	Banco BPM	60.000%	60.000%
12.	BP Trading Real Estate S.r.l. Share capital € 4,070,000.00	Lodi	Lodi	1	Bipielle Real Estate	100.000%	100.000%
13.	Consorzio AT01 Share capital € 100,000.00	Lodi	Lodi	1	Bipielle Real Estate	95.000%	95.000%
14.	FIN.E.R.T. S.p.A. in liquidation Share capital € 103,280.00	Rome	Rome	1	Banco BPM	80.000%	80.000%
15.	Ge.Se.So. S.r.l. Share capital € 10,329.00	Milan	Milan	1	Banco BPM	100.000%	100.000%
16.	Immobiliare Marinai d'Italia S.r.l. Share capital € 258,024.00	Lodi	Lodi	1	Banco BPM	100.000%	100.000%
17.	Lido dei Coralli S.r.l.	Sassari	Sassari	1	Bipielle Real Estate	100.000%	100.000%

Company names	Operational headquarters	Registered office	Type of relationship (1)	Investment relationship		Available % of votes (2)
				Holder	% held	
Share capital € 10,000.00						
18. Meleti S.r.l.	Lodi	Lodi	1	Perca	100.000%	100.000%
Share capital € 20,000.00						
19. Milano Leasing S.p.A. in liquidation	Milan	Milan	1	Banco BPM	99.999%	99.999%
Share capital € 1,541,808.00						
20. Partecipazioni Italiane S.p.A. in liquidation	Milan	Milan	1	Banco BPM	99.966%	100.000%
Share capital € 350,000.00						
21. Perca S.r.l.	Lodi	Lodi	1	Immobiliare Marinai d'Italia	100.000%	100.000%
Share capital € 50,000.00						
22. P.M.G. S.r.l. in liquidation	Milan	Milan	1	Banco BPM	84.000%	84.000%
Share capital € 52,000.00						
23. ProFamily S.p.A.	Milan	Milan	1	Banco BPM	100.000%	100.000%
Share Capital € 43,000,000.00						
24. Release S.p.A.	Milan	Milan	1	Banco BPM	85.387%	85.387%
Share capital € 430,488,261.00						
25. Sagim S.r.l. Società Agricola	Asciano (SI)	Asciano (SI)	1	Agriurbe	100.000%	100.000%
Share capital € 7,746,853.00						
26. Sirio Immobiliare S.r.l.	Lodi	Lodi	1	Bipielle Real Estate	100.000%	100.000%
Share capital € 10,000.00						
27. Tecmarket Servizi S.p.A.	Verona	Verona	1	Banco BPM	100.000%	100.000%
Share capital € 983,880.00						
28. Terme Ioniche S.r.l.	Cosenza	Lodi	1	Bipielle Real Estate	100.000%	100.000%
Share capital € 1,157,190.00						
29. Terme Ioniche Società Agricola S.r.l.	Cosenza	Cosenza	1	Bipielle Real Estate	100.000%	100.000%
Share capital € 100,000.00						
30. BP Mortgages S.r.l. (*)	Milan	Milan	4	-	0.000%	
Share capital € 10,000.00						
31. BPL Mortgages S.r.l. (*)	Conegliano V. (TV)	Conegliano V. (TV)	4	-	0.000%	
Share capital € 12,000.00						
32. Italfinance Securitisation Vehicle S.r.l. (*)	Conegliano V. (TV)	Conegliano V. (TV)	4	Banco BPM	9.900%	9.900%
Share capital € 10,000.00						
33. Italfinance Securitisation Vehicle 2 S.r.l. (*)	Conegliano V. (TV)	Conegliano V. (TV)	4	-	0.000%	
Share capital € 10,000.00						
34. Leasimpresa Finance S.r.l. in liquidation	Conegliano V. (TV)	Conegliano V. (TV)	1	Banco BPM	100.000%	100.000%
Share capital € 10,000.00						
35. ProFamily Securitisation S.r.l. (*)	Conegliano V. (TV)	Conegliano V. (TV)	4	-	0.000%	
Share capital € 10,000.00						

(1) Type of relationship:
1 = majority of voting rights in the ordinary shareholders' meeting
4 = other forms of control
(2) Availability of votes in the ordinary shareholders' meeting, distinguishing between actual and potential
(*) Special Purpose Entity for securitisation transactions originated by the Group.

Changes in the scope of consolidation

Changes in the scope of consolidation compared to the situation as at 31 December 2018 are shown in the tables below:

Fully consolidated companies	
Newly-incorporated company for demerger operation	
"new" ProFamily S.p.A.	100.00%
Outgoing company due to sale	
ProFamily S.p.A.	100.00%
Arena Broker S.r.l.	57.300%
Outgoing companies due to merger operations	
Name of company incorporated	**Name of incorporating company**
BP Property Management S.c.a r.l.	Banco BPM S.p.A.
Società Gestione Servizi BP S.c.p.a.	Banco BPM S.p.A.
Sviluppo Comparto 6 S.r.l.	Bipielle Real Estate S.p.A.
Sviluppo Comparto 8 S.r.l.	Bipielle Real Estate S.p.A.
Manzoni 65 S.r.l.	Bipielle Real Estate S.p.A.
Holding di Partecipazioni Finanziarie Banco Popolare S.p.A.	Banco BPM S.p.A.
Outgoing companies due to corporate liquidations	
Liberty S.r.l. (in liquidation)	100.00%
BPM Securitisation 3 S.r.l. (in liquidation)	100.00%
Beta S.r.l. (in liquidation)	100.00%
Tiepolo Finance S.r.l. in liquidation	100.00%
Outgoing company due to change in shareholding	%
First Servicing S.p.A. (now CF Liberty Servicing S.p.A.)	100.00%
Outgoing SPE due to completion of securitisation transactions/sale of receivables	
Erice Finance S.r.l.	-
Leviticus SPV S.r.l.	-
BPM Securitisation 2 S.r.l.	-

Companies consolidated with the equity method	
Incoming company due to change in shareholding	%
First Servicing S.p.A. (now CF Liberty Servicing S.p.A.)	30.00%
Outgoing company due to corporate liquidation	
Motia Compagnia di Navigazione S.p.A. in liquidation	
Outgoing company due to sale	
Immobiliare Centro Milano S.p.A. (in liquidation)	

During 2019, we can note, as a change in the consolidation scope, the exclusion of the subsidiaries Liberty S.r.l., BPM Securitisation 3 S.r.l., Beta S.r.l., Tiepolo Finance S.r.l. and the associate Motia Compagnia di Navigazione S.p.A. following cancellation from the competent Companies Registers upon completion of the respective liquidation procedures. During the year, the subsidiary Arena Broker S.r.l. and the associate Immobiliare Centro Milano S.p.A. were also sold.
The SPEs Erice Finance S.r.l. and BPM Securitisation 2 S.r.l. also leave the scope of consolidation on a line-by-line basis, due to closure of their respective securitisation transactions, as well as Leviticus SPV S.r.l., following completion of the transfer of receivables under the scope of the ACE project and the consequent derecognition of such from the accounts.
In addition the SPE First Servicing S.p.A., a company wholly owned by the Parent Company with the purpose of performing the functions of servicer in the context of the "ACE" project, was moved into the segment of associates measured with the equity method as a result of the sale of 70% of the capital of the same to Credito Fondiario S.p.A. completed in May.

As part of the process of restructuring the consumer credit segment we can note also that in June Banco BPM completed a demerger operation that entailed:

- the entry among fully consolidated companies of the "new" ProFamily S.p.A., a newly-incorporated company fully controlled by Banco BPM, involving the assignment of the business segment related to the consumer credit activity performed through the "Non-captive network";
- the exclusion owing to sale to Agos Ducato of the "old" ProFamily S.p.A. which, at the same time, had assumed the name ProAgos.

Lastly, during the year the mergers by incorporation of the subsidiaries BP Property Management S.c. a r.l., Società Gestione Servizi BP S.c.p.az. and Holding di Partecipazioni Finanziarie Banco Popolare S.p.A. into the Parent Company Banco BPM and of the subsidiaries Sviluppo Comparto 6 S.r.l., Sviluppo Comparto 8 S.r.l. and Manzoni 65 S.r.l. into Bipielle Real Estate were finalised. These operations, which took effect for accounting and tax purposes as of 1 January 2019, occurred in the simplified form established for wholly owned companies.

For further details, please refer to the section that explains the significant events that occurred during the period in the Report on Operations.

2. Significant assessments and assumptions used to determine the scope of consolidation

Within the scope of fully-controlled Companies, inclusion in the scope of the Group is related to the concept of majority voting rights at the shareholders' meeting without exclusion in the case of legal control.

The only exceptions are those of Special Purpose Entities for securitisation transactions. As previously explained, even in the absence of direct equity investments, the Group has contractual rights to manage the relevant activities of the entity and is exposed to the variable returns of the same.

As at 31 December 2019, there were no minority interests in subsidiaries deemed significant for the Group, either individually or as a whole, as shown in the table in "Section 14 - Minority interests" in part B of the liabilities of these Notes. The same is true for the financial statements as at 31 December 2018.

3. Investments in exclusively controlled companies with significant minority interests

3.1 Minority interests, availability of minority votes and dividends distributed to minority interests

No information is given for the reasons explained above.

3.2 Investments with significant minority interests, accounting information

No information is given for the reasons explained above.

4. Significant restrictions

As at 31 December 2019, there were no legal or substantial constraints or restrictions capable of obstructing the rapid transfer of capital resources within the Group. The only constraints are those attributable to the regulatory legislation, which may require the maintenance of a minimum amount of own funds, or to the provisions of the Italian Civil Code on distributable profits and reserves.
It should also be pointed out that there are no protective rights held by minorities able to limit the Group's ability to access or transfer assets between Group companies or to settle Group liabilities, in part due to the fact that there are no subsidiaries with significant minority interests, as explained in the previous paragraph.

5. Other information

All the subsidiaries prepare financial statements as at 31 December 2019, the date of closure of the consolidated financial statements (and separate financial statements of the Parent Company).

Section 4 - Events subsequent to the reporting date

Illustrated below are the most significant events occurred from the reporting date (31 December 2019) to the date of approval of the draft financial statements by the Board of Directors (6 February 2020), fully attributable to the category of non-adjusting events pursuant to accounting standard IAS 10, i.e. events that do not entail any adjustments to the financial statement balances, as they express situations arising subsequent to the reporting date.

Issue of Additional Tier 1 financial instruments

On 14 January, Banco BPM launched a second issue of Additional Tier 1 instruments for an amount of 400 million euro, intended for institutional investors. This transaction is part of the plan to optimise the Bank's capital structure.
The securities are perpetual and may be called by the issuer, based on the applicable regulations, starting in 2025 and, if not called, the call may be exercised every six months thereafter, at the coupon detachment date.
The initial six-monthly coupon was set at 6.125%. The loan settlement provides for a number of mechanisms for payment of the said coupon as well as temporary reduction of the nominal value.
The security, placed mainly with funds, banks and hedge funds, is listed on the Luxembourg Stock Exchange.

Closing liquidation of associate

In January the associate Leasimpresa Finance in liquidation was struck off the related Companies Register following completion of the liquidation procedure, which did not entail significant impacts on the balance sheet or income statement of the Group.

Declaration of the international emergency due to the Coronavirus outbreak

On 30 January 2020 the World Health Organisation declared the coronavirus outbreak a Public Health Emergency of International Concern, with a very high risk in China and high risk at global level. As illustrated above, based on the accounting standard IAS 10, this is an event that should not entail any adjustments to the financial statement balances, as the event and its consequences arose subsequent to the reporting date.
Taking account of the absolute uncertainty regarding the spread of the outbreak and the resulting measures that will be implemented by governments to combat it, particularly harsh effects on the international and Italian economies cannot be ruled out, which could result in the need to make a new estimate of the financial statement values, in light of the information that will become available. For more details on the related elements of uncertainty, refer to that illustrated in the paragraph "Significant accounting policies and uncertainties regarding the use of estimates in the preparation of consolidated financial statements" above, and in the Group Report on Operations.

Section 5 - Other aspects

Terms for approval and publication of the financial statements

Art. 154-ter of Italian Legislative Decree 58/98 (Consolidated Finance Act or CFA) states that, within one hundred and twenty days from the end of the financial year, the separate financial statements must be approved and the annual financial report must be published. The latter must contain the draft separate financial statements, the consolidated financial statements, the report on operations and the declaration of the Manager responsible for preparing the company's financial reports pursuant to art. 154-bis, paragraph 5.

The draft financial statements of Banco BPM S.p.A. were approved by the Board of Directors at its meeting on 6 February 2020 and will be submitted for approval by the Shareholders' Meeting convened for 4 April 2020.

Independent audit

The separate financial statements and the consolidated financial statements at 31 December 2019 are subject to independent auditing by the auditing firm PricewaterhouseCoopers S.p.A., in application of the appointment conferred on this firm with resolutions of the shareholders' meetings of Banco Popolare Soc. Coop. and Banca Popolare di Milano S.c.a r.l. of 15 October 2016. This appointment has the legal duration (9 financial years) and runs from the date of effectiveness of the merger (1 January 2017). The full auditors' report, together with the annual financial report, is made available to the public, pursuant to art. 154-ter of Italian Legislative Decree 58/98.

New accounting standards/interpretations or amendments or changes to existing standards approved by IASB/IFRIC

An illustration of the new accounting standards or the amendments to existing standards approved by the IASB is provided below, as well as new interpretations or amendments to existing ones, published by the IFRIC, with separate disclosure of those applicable in 2019 from those applicable in subsequent years.

IAS/IFRS accounting standards and related SIC/IFRIC interpretations endorsed that must be applied when preparing the 2019 financial statements

Regulation no. 1986 of 31 October 2017 - IFRS 16 "Leases".
The standard IFRS 16, published by the IASB on 13 January 2016, defines, from the point of view of both the lessor and the lessee, the principles on the subject of recognition, measurement, presentation and disclosure of lease contracts, replacing the previous standards/interpretations (IAS 17, IFRIC 4, SIC 15 and SIC 27).
For an illustration of the impacts of the transition to the new accounting standard IFRS 16, refer to paragraph "Changes in 2019 in the accounting standards applied by the Group" below.

Regulation no. 498 of 22 March 2018 – "Amendments to IFRS 9 Financial Instruments – Prepayment Features with Negative Compensation"
These amendments aim to clarify the classification of certain financial assets that are redeemable in advance when applying IFRS 9. In particular:
- for financial assets: there is the option of also measuring at amortised cost loans which, in the event of prepayment, require payment by the lender;
- for financial liabilities: in the event of a change in the contractual terms of a liability that does not entail derecognition, it is expected that the effect of the change on amortised cost will be recognised in the income statement at the date of the change.

For the 2019 financial statements, the amendments in question had no impacts on the Group.

Regulation no. 1595 of 23 October 2018 – IFRIC 23 "Uncertainty over Income Tax Treatments"
The purpose of the interpretation is to provide clarification on how to apply the recognition and measurement criteria for income taxes set out in IAS 12, where there is uncertainty over specific tax treatment. The interpretation specifically considers the situation where it is not known whether a particular tax treatment will be accepted until the competent tax authority or a judge makes a decision, requiring that such uncertainty be reflected in determining the tax values. In carrying out that assessment, the entity has to assess the effects of a change in facts and circumstances or new information in the context of the applicable tax regulations, such as, for example: the acceptance or rejection by the tax authority of the tax treatment or of a similar tax treatment applied by the entity or by another entity; the information relating to the amount received or paid to bring a similar tax treatment into compliance.
The clarifications set out in the interpretation in question were considered by the Group in defining the accounting treatment correlated with situations of uncertainty in applying the applicable tax regulations right from the 2019 financial statements.

Regulation no. 237 of 8 February 2019 – "Amendments to IAS 28 Investments in Associates and Joint Ventures - Long-term Interests in Associates and Joint Ventures"
These amendments aim to clarify that the provisions on the subject of impairment pursuant to IFRS 9 "Financial Instruments" apply to long-term interests in associates and joint ventures.
For the 2019 financial statements, the amendments in question had no impacts on the Group.

Regulation no. 402 of 13 March 2019 – "Amendments to IAS 19 Employee Benefits – Plan Amendment, Curtailment or Settlement".
The purpose of the Regulation in question is to clarify the accounting treatment for amendments, curtailments or settlements of defined benefit plans, with regard to the method for determining the past service cost, gains and losses on settlement, current service costs and net interest on net defined benefit liabilities (assets).
For the 2019 financial statements, the amendments in question had no impacts on the Group.

Regulation no. 412 of 14 March 2019 – "Annual Improvements to IFRS Standards 2015-2017 Cycle – Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23"
The objective of the annual improvements is to provide certain clarifications aimed at resolving some inconsistencies in the standards in question or specifications of a terminological nature.
For the 2019 financial statements, the amendments in question had no impacts on the Group.

IAS/IFRS accounting standards and SIC/IFRIC interpretations approved for which the Group availed of early application for the 2019 financial statements

Regulation no. 34 of 15 January 2020 – "Interest Rate Benchmark Reform"
The Regulation in question approved the amendments to the accounting standards IFRS 9, IAS 39 and IFRS 7 issued by the IASB on 26 September 2019 as part of the "Interest Rate Benchmark Reform" project.
The amendment in question completed the first phase of the IASB project, aimed at searching for solutions to reduce the effects of the interest rate reform on financial statements, specifically regarding the potential impacts prior to the replacement of existing benchmarks. In particular, the IASB set out several exemptions from accounting for hedging relationships, for the purpose of avoiding discontinuing effects attributable to the mere situation of uncertainty regarding interest rate reform. In particular, to assess the economic relationship, the amendments introduced require that the entity assume that the interest rate benchmark for the hedged instrument and the hedging instrument is not altered as a result of the interest rate reform.
The amendments in question, in force as of 5 February 2020, are mandatorily applicable as of 1 January 2020, save for early application, which the Group implemented from drawing up the financial statements as at 31 December 2019, with the objective of ruling out any elements of uncertainty in measuring the effectiveness of the hedging relationships linked to the replacement of the benchmark interest rates (Eonia, IBOR).

In that regard, the notional value of the derivative instruments designated as hedges and index-linked to underlyings that will be replaced by the interest rate reform amount to 6,513.9 million euro, entirely referring to the Parent Company. More specifically:

- the notional value of hedging derivatives index-linked to the "3-month USD LIBOR (London Interbank Offered Rate)" amounts to USD 1,455 million (equal to 1,321.9 million euro);
- the notional value of hedging derivatives index-linked to the Eonia rate (Euro OverNight Index Average) amount to 5,192 million euro.

Specifically, these are interest rate swaps designated as specific fair value hedges of government bonds classified in the portfolio "Financial assets at amortised cost" for a nominal value of 4,617.5 million euro and in the portfolio "Financial assets at fair value through other comprehensive income" for a nominal value of 1,896.4 million euro.
The remaining interest rate risk hedging derivatives are index-linked to the Euribor interest rate.

IAS/IFRS accounting standards and SIC/IFRIC interpretations approved, the application of which takes effect after 31 December 2019

Regulation no. 2075 of 29 November 2019 – "IFRS Conceptual Framework - Amendments"
The revised version of the Framework incorporates several amendments to the existing references of the previous framework in several standards and interpretations, to update them to the new Conceptual Framework.
Those amendments shall be applicable as of 1 January 2020.

Regulation no. 2104 of 29 November 2019 – "Definition of Material - Amendments to IAS 1 and IAS 8"
The Regulation clarifies the definition of "Material" in order to assist companies in expressing judgements on that concept and improve the significance of the disclosure set out in the notes to the financial statements. The amendments will apply as of 1 January 2020.

Accounting standards IAS/IFRS and SIC/IFRIC interpretations issued by the IASB/IFRIC, awaiting endorsement

For the purpose of completeness, it is noted that on 22 October 2018 the IASB published several amendments to IFRS 3 "Definition of a business", with the goal of clarifying whether a transaction represents an acquisition of a business, based on the definitions set out in IFRS 3. The application of those amendments, insignificant for the balance sheet and the income statement of Banco BPM Group, will be subordinate to their endorsement by the European Commission.
Lastly, it is noted that on 18 May 2017 the IASB issued the new accounting standard IFRS 17 governing policies issued by insurance companies, which was expected to be applied from 1 January 2021. On 15 November 2018 the IASB itself proposed deferment of the entry into force of the standard to 1 January 2022, proposing at the same time to extend until 2022 the temporary exemption from the application of IFRS 9 granted to insurance companies, so that IFRS 9 and IFRS 17 could be applied at the same moment. Direct impacts on the Group's operations are not expected, as it does not carry out insurance activities.

Changes in 2019 in the accounting standards applied by the Group

This section illustrates the impacts of the transition to the new accounting standard IFRS 16, as well as the impacts of the change in the measurement criterion for real estate assets and works of art of the Group.

Disclosure on the first-time adoption of the accounting standard IFRS 16 – "Leases"

Regulation no. 1986 of 31 October 2017 approved the new international accounting standard IFRS 16 "Leases", which defines, from the point of view of both the lessor and the lessee, the principles on recording, assessment, submission and disclosure of lease contracts, replacing the previous standards/interpretations (IAS 17, IFRIC 4, SIC 15 and SIC 27).

For Banco BPM Group, the application of IFRS 16 (hereinafter, also "First-Time Adoption" or FTA) mandatorily start from 1 January 2019.

Significant aspects of the new accounting standard IFRS 16

The accounting standard IFRS 16 defines a lease as a contract, or part of a contract, under which the lessor grants to the lessee the right to use an identified asset (ROU, Right Of Use) for a certain period of time in exchange for a fixed fee. The key elements for defining whether a contract, or part of it, comes under the definition of a lease are the fact that the asset is identified, and that the lessee has the right to control the use of the same and to receive substantially all its economic benefits.
On the basis of this definition, the scope of application of IFRS 16 includes all contracts envisaging a right of use of an asset, regardless of its legal qualification, and therefore including rental, hire, lease or commodatum contracts that were previously not classified as leases. Considering the requirements laid down by IFRS 16 and the clarifications provided by IFRIC in September 2018, the intangible assets represented by software, acquired through user's licences or on the basis of cloud computing agreements, are excluded from the scope of application of IFRS 16, as they must be subject to the regulations of standard IAS 38 where conditions are met.
The main change regards the presentation of lease contracts, as defined above, from the point of view of the lessee, because the standard eliminates the distinction between operating leases and finance leases of IAS 17, introducing a single accounting model on the basis of which the lessee must recognise in its balance sheet a liability on the basis of the present value of future instalments to be paid for the contractual term as a balancing entry to recognising, among assets, the right to use the asset covered by the lease contract. After initial recognition:

- the right-of-use asset will be measured at cost on the basis of IAS 16 and subject to depreciation along the term of the contract or the useful life of the asset;
- the liability will be gradually reduced as a result of the payment of the instalments and the interest due to be charged to the income statement will be recognised on it.

The lessee may however choose not to apply the new requirements if the contracts are short-term, that is they have a term of not more than twelve months, or if the assets underlying the lease contract have a unit value when new of a

modest amount (value identified by the IASB as around 5,000 dollars per contract, as indicated in the Basis for Conclusion of IFRS 16, paragraph BC100).
As regards the lessor the rules on accounting for lease contracts of IAS 17 remain instead substantially unchanged. For finance leases, therefore, the lessor will continue to recognise in the balance sheet a credit for the present value of future lease rentals.

Project for the transition to IFRS 16 for Banco BPM Group

During 2019 the project dedicated to the transition to IFRS 16, started in the second half of 2018, was completed. In detail, the project pursued the following objectives:

- recognition of the scope of material lease contracts, considering that the Group did not avail itself of the practical expedient, permitted by IFRS 16 on first application, of limiting the application only to contracts identified as leases under the terms of the previous standard IAS 17 (the so-called "grandfather assessment");
- definition of and obtaining the information set needed to calculate the right of use and lease liabilities;
- formalisation of the operating methods for managing the expenditure process (purchasing cycle), capable of guaranteeing, from the contracting date, the complete identification of lease contracts and correct management of material information for calculating the right of use and liabilities;
- implementation of the IT procedure for recording leases in the accounts, represented by an engine for calculating the right of use and liabilities for future rentals.

The impacts of the application of the new standard IFRS 16 were definitively quantified for the purposes of the Consolidated interim report as at 30 June 2019, also following the completion of the related checks.

Scope and choices of application of IFRS 16 for Banco BPM Group

The IFRS 16 scope of Banco BPM Group includes the lease contracts on the property units mainly intended for commercial activities (branches), which account for more than 99% of impacts consequent to the application of the new standard. The impacts relating to the rest of the scope, comprising the company car hire contracts and a limited number of contracts containing a right of use of identified technological appliances.

On first-time adoption of IFRS 16, the Group decided to avail of the Modified Retrospective Approach, permitted by the transitory provisions contained in paragraphs C5(b), C8(b)(ii) of the aforementioned standard. In accordance with this approach, the right of use is set as equal to the lease liability and the comparative information need not be redetermined for the 2018 financial statements. It follows that:

- as at the transition date, no impacts have been recorded on the shareholders' equity booked for Banco BPM Group;
- the data relating to 2019 is not comparable with that of 2018 with reference to the right of use, lease liabilities or related economic impacts.

From the economic point of view, starting from 1 January 2019, rental instalments of contracts under IFRS 16 are no longer recognised as they accrue among administrative expenses as provided for when the previous accounting standard IAS 17 was in force. This recognition is replaced, in fact, on the one hand, by recognition of the depreciation of the right of use and, on the other, by recognition of the interest that has accrued on the lease liability. Even though at the end of the lease contract the total economic effect recorded will be equal to the amount of the lease instalments effectively paid to the lessor, the new accounting method entails a different division of the aforesaid impact along the term of the contract.
In more detail, the negative economic impact charged to the income statement is reasonably higher at the start of the contract and decreases gradually from year to year as a result of the gradual reduction of the lease liability following payment of the instalments.

Please also note that the Group has availed of the practical expedient, both during FTA and definitively, not to apply the regulations of IFRS 16 to contracts with a term of less than 12 months (i.e. due before 31 December 2019 for the FTA) or with underlying assets of modest new value (threshold value being identified at 5,000 euro).
Additionally, in order to determine the impairment of the right of use, the Group relied on assessments performed for the 2018 financial statements relative to the existence of onerous contracts that entailed the need to record a provision for risks and charges in accordance with IAS 37. In particular, these are provisions established against

lease contracts for closed branches, for which the costs necessary to fulfil the contract exceeded the expected benefits.

In order to calculate the lease liability and related right of use, Banco BPM Group has discounted the future charges attributable to the lease component, net of VAT, to be paid for the expected contract term.
With reference to the lease duration, in addition to the period that cannot be cancelled, during which the Group cannot avoid paying charges, extension options were considered if their exercise by the Group was held to be reasonably certain, considering all facts and circumstances. More specifically, with reference to contracts envisaging the faculty of the lessor to renew the lease at the end of the first period, during FTA and definitively, the Group considers the initial term of the rental contract (e.g. 12 years for 6 + 6 year rental contracts) and, once this term has ended, the following first renewal period (e.g. next 6 years), where there is no reasonable evidence that may lead to another renewal period or, vice versa, the end of the contract.
In regard to the discounting of future charges, the discounting rate used is equal to the incremental borrowing rate as at the date on which the contract is stipulated. This rate was identified as the rate used for managerial purposes which expresses the average cost of Group funding, both secured and unsecured, considering in the time bracket in which the contract expires. For the purpose of the transition and in line with the transitional provisions of the standard, this rate corresponds to the ITR (internal transfer rate) of deposits on a Group level, used for managerial purposes on 1 January 2019.

Accounting impacts following the application of IFRS 16 for Banco BPM Group

The tables below show:
- the quantitative impacts related to first-time adoption of IFRS 16 (table 1);
- the statements of reconciliation between the formats of the balance sheet assets and liabilities as at 31 December 2018 on the basis of the previous standard IAS 17 and those redetermined to take into account IFRS 16 (table 2 and table 3);
- the statement of reconciliation between the commitments for operating lease instalments under IAS 17 at 31 December 2018, to be paid in relation to the non-cancellable period of the contract, and the lease liability determined on the basis of the provisions of IFRS 16 at 1 January 2019 (table 4).

Table 1: Summary of the financial impacts of first-time adoption of IFRS 16 for balance sheet items

On the basis of what is explained above, the first-time adoption of IFRS 16 entailed the recording of higher property, plant and equipment amounts following the booking of rights of use acquired through leases, of 835.6 million euro, almost entirely represented by property rental contracts, and corresponding liabilities mainly in regard to non-banking counterparties. Considering the reclassification of provisions for risks and charges for onerous contracts of closed branches, of 34.4 million euro, the impact on the assets was 801.2 million euro, as shown in summary form in the table below.

For the purpose of measuring the lease liability at the date of first time adoption the average interest rate of marginal financing, weighted on the basis of the lease liability, is 1.27%.

Balance sheet items	**Financial impacts of FTA of IFRS 16 and reclassification** ***(thousands of euro)***	**Impact of FTA**	**Reclassification from Impairment**	**IFRS 16 01/01/2019**
90. Property, plant and equipment	Recognition:			
	Rights of use of property, plant and equipment (before impairment)	835,594	-	835,594
	Impairment (provisions for risks and charges for onerous contracts)	-	(34,411)	(34,411)
	Rights of use of property, plant and equipment acquired through lease	**835,594**	**(34,411)**	**801,183**
Total impact on assets (A)				**801,183**
100. Provisions for risks and charges	Reclassification of provisions of liabilities (impairment of rights of use):			
	Provisions for risks and charges for onerous charges	**-**	**(34,411)**	**(34,411)**
10. Financial liabilities at amortised cost	Recognition:			
	Lease payables (customers)	827,689	-	827,689
	Lease payables (banks)	7,905	-	7,905
	Payables for lease contract charges	**835,594**	**-**	**835,594**
Total impact on liabilities (B)				**801,183**
150. Reserves	Impact on consolidated shareholders' equity (A)-(B)	**-**	**-**	**-**
Total impact on consolidated shareholders' equity				**-**

Table 2: Statement of reconciliation between total assets as at 31 December 2018 (IAS 17) and total assets as at 1 January 2019 (IFRS 16)

Asset items ***(thousands of euro)***	**31/12/2018 (IAS 17)**	**Impact of FTA IFRS 16**	**Reclassifications**	**01/01/2019 (IFRS 16)**
10. Cash and cash equivalents	922,017			922,017
20. Financial assets at fair value through profit and loss	5,738,595			5,738,595
a) financial assets held for trading	4,522,529			4,522,529
c) other financial assets mandatorily at fair value	1,216,066			1,216,066
30. Financial assets at fair value through other comprehensive income	15,351,561			15,351,561
40. Financial assets at amortised cost	123,840,007			123,840,007
a) due from banks	4,377,526			4,377,526
b) loans to customers	119,462,481			119,462,481
50. Hedging derivatives	130,511			130,511
60. Fair value change of financial assets in macro fair value hedge portfolios (+/-)	42,173			42,173
70. Equity investments	1,434,163			1,434,163
90. Property, plant and equipment	2,775,885	835,594	38,297	3,649,776
100. Intangible assets	1,277,941			1,277,941
of which: goodwill	76,389			76,389
110. Tax assets	5,012,477			5,012,477
a) current	330,436			330,436
b) deferred	4,682,041			4,682,041
120. Non-current assets and asset disposal groups held for sale	1,592,782			1,592,782
130. Other assets	2,346,679		(72,708)	2,273,971
Total assets	**160,464,791**	**835,594**	**(34,411)**	**161,265,974**

As at 1 January 2019 item 90 “Property, plant and equipment” increased by 873.9 million euro as a result of:

- the recognition of rights of use, as illustrated in table 1 above;
- reclassifications:
    - o provisions for risks and charges (34.4 million euro) as illustrated in table 1 above;

- expenses for improvement incurred on rented third-party assets (72.7 million euro), allocated together with rights of use. These are, in fact, expenses incurred for extraordinary work on rented third-party properties which generated the right of use. In the financial statements as at 31 December 2018 these expenses were included in the item "130. Other assets".

Table 3: Statement of reconciliation between total liabilities and shareholders' equity as at 31 December 2018 (IAS 17) and total liabilities and shareholders' equity as at 1 January 2019 (IFRS 16)

Liability and shareholders' equity items ***(thousands of euro)***	**31/12/2018 (IAS 17)**	**Impact of FTA IFRS 16**	**Reclassifications**	**01/01/2019 (IFRS 16)**
10. Financial liabilities at amortised cost	136,160,342	835,594		136,995,936
a) due to banks	31,633,541	7,905		31,641,446
b) due to customers	90,197,859	827,689		91,025,548
c) debt securities issued	14,328,942			14,328,942
20. Financial liabilities held for trading	6,502,522			6,502,522
30. Financial liabilities at fair value	692,890			692,890
40. Hedging derivatives	726,307			726,307
50. Fair value change of financial liabilities in macro fair value hedge portfolios (+/-)	49,756			49,756
60. Tax liabilities	505,402			505,402
a) current	11,181			11,181
b) deferred	494,221			494,221
70. Liabilities associated with asset disposal groups held for sale	3,043			3,043
80. Other liabilities	3,814,589			3,814,589
90. Employee termination indemnities	377,498			377,498
100. Provisions for risks and charges	1,327,368		(34,411)	1,292,957
a) commitments and guarantees given	123,814			123,814
b) retirement benefits and similar commitments	150,676			150,676
c) other provisions for risks and charges	1,052,878		(34,411)	1,018,467
120. Valuation reserves	(346,438)			(346,438)
150. Reserves	3,577,955			3,577,955
170. Share capital	7,100,000			7,100,000
180. Treasury shares (-)	(12,610)			(12,610)
190. Minority interests (+/-)	45,599			45,599
200. Income/Loss for the year	(59,432)			(59,432)
Total liabilities and shareholders' equity	**160,464,791**	**835,594**	**(34,411)**	**161,265,974**

Table 4: Reconciliation between commitments for IAS 17 operating leases as at 31 December 2018 and IFRS 16 lease liabilities as at 1 January 2019

The table of reconciliation between the instalment payment commitments referred to the non-cancellable period of the rental contract of properties as at 31 December 2018, on the basis of the rules of IAS 17, and the lease liabilities as at 1 January 2019, on the basis of IFRS 16 is presented below:

Reconciliation of lease payables *(thousands of euro)*		**Total**	**Real Estate**	**Other**
(a)	**Lease commitments for property rental contracts under the terms of IAS 17 as at 31 December 2018 (in relation to the non-cancellable period)**	**453,776**	**453,776**	**-**
(b)	Instalment payment commitments beyond the non-cancellable period under the terms of IFRS 16	457,741	453,949	3,792
(c)	Exception to the recognition of IFRS 16:	(16,265)	(14,026)	(2,239)
	- short-term leases	*(16,249)*	*(14,026)*	*(2,223)*
	- low-value leases	*(16)*		*(16)*
(d)=(a)+(b)+(c)	**Non-discounted lease payables as at 1 January 2019**	**895,252**	**893,699**	**1,553**
(e)	Effect of discounting commitments	(59,658)	(59,644)	(14)
(f)=(d)+(e)	**Operating lease payables as at 1 January 2019**	**835,594**	**834,055**	**1,539**
(g)	**Finance lease payables pursuant to IAS 17 as at 1 January 2019**	-		-
(h)=(f)+(g)	**Total IFRS 16 lease payables as at 1 January 2019**	**835,594**	**834,055**	**1,539**

Impacts on own funds following application of IFRS 16 for Banco BPM Group

With reference to the impact on own funds, the application of IFRS 16 entailed a reduction of approximately 15 bps with respect to the IFRS 9 phase-in CET1 ratio as at 1 January 2019. In line with that explained by the Basel Committee on 6 April 2017 "FAQs on the treatment of the ROU Asset", this effect derives from the inclusion of the right of use on property, plant and equipment in calculating the risk-weighted assets (RWAs) subject to 100% weighting in line with the treatment applied to owned tangible assets. The impact on the IFRS 9 fully phased CET1 ratio was 12 bps.

Impacts on financial statement disclosure

With regard to the disclosure on IFRS 16 lease contracts, in line with the provisions introduced in the 6th update to the Bank of Italy Circular of 30 November 2018, it is required that:

- evidence of the "rights of use" be provided in the tables of the breakdown of and changes to "Property, plant and equipment" included in Part B – Assets of these Notes;
- evidence of "lease payables" be provided in the tables regarding "Financial liabilities at amortised cost" included in Part B – Liabilities of these Notes;
- evidence of "interest income on leases" and "interest expense relating to lease payables" be provided in the table on "Interest and similar income" and the table on "Interest and similar expense", respectively, in Part C of these Notes;
- evidence of the disclosure on short-term lease rentals and leases on low value assets be provided as comments to the item "Other administrative expenses" in Part C of these Notes;
- evidence of the net losses/recoveries on rights of use be provided in the table "Net adjustments to/recoveries on property, plant and equipment" included in Part C of these Notes.

A specific Part M is also provided for, divided into two sections, which comprises the disclosure on leases required by the international accounting standards that is not included in other parts of the Notes.
The first section, regarding the lessee, includes the qualitative information requested by IFRS 16, as well as quantitative information not included in Part B "Information on the balance sheet" or Part C "Information on the income statement" of the Notes.
In the second section, regarding the lessor, in addition to the qualitative information, the classification of payments to be received by time band is requested. Moreover, only for finance leases, the statement of reconciliation of payments to be received with loans for leases has been introduced.

Change in the measurement criterion for property and valuable works of art

In December 2019 Banco BPM Group decided to change the accounting criterion for measuring real estate assets and valuable works of art. In detail, this change resulted in:

- for property, plant and equipment used in operations, represented by property and valuable works of art: the change from the cost model to the revaluation model, based on the provisions of accounting standard IAS 16 "Property, plant and equipment";
- for property held for investment purposes: the change from the cost model to the fair value model, based on the provisions of accounting standard IAS 40 "Investment Property".

More specifically, the Group's real estate assets are represented by:

- property used in operations, i.e. property used to carry out business operations. This is comprised of several top level buildings in the centres of the main Italian cities, inherited from the banks that contributed to forming the current Banco BPM Group through the various business combinations, as well as a significant number of buildings used as traditional branches;
- property held for investment purposes, mainly comprised of property acquired through *datio in solutum* (acceptance in lieu) in relation to loans that have become non-performing, and, to a lesser extent, of several units that are no longer used for business operations.

It must be noted that in 2019 the Group began a process of rationalisation and promotion of those assets, focused, on one hand, on optimising the spaces used for commercial activities and for headquarters, also following the process of rationalisation of the sales network and, on the other hand, on disposing of the real estate assets not used for administrative purposes of the Group. These latter properties are not the result of a deliberate investment strategy, but the result of the aforementioned optimisation as well as initiatives aimed at maximising the possibility of recovery of credit exposures that have become non-performing through the acquisition of the underlying collateral, represented by properties.

With regard to works of art, inherited from the banks involved in the numerous mergers that resulted in the current company structure, since its creation, Banco BPM has emphasised that it intends to pursue a strategy of conservation and promotion thereof. In particular, during 2019 Banco BPM continued the development and expansion activities that it begun in previous years, also implementing ambitious new projects such as the search for permanent exhibition spaces. In that view, Banco BPM launched a project aimed at the complete survey of its works of art, comprising a total of around 20,000 assets in various categories (paintings, sculptures, drawings, collages, tapestries, coral art, ceramic, books, carpets, furniture, prints, photographs, archaeological finds and other minor categories), in which 1,281 ancient and modern works have been identified that are considered of the highest value, also due to the importance of the regional or local figurative schools of a specific era.

In that context, with the objective of availing of clearer, more reliable information regarding the effects of the above actions, starting from the 2019 financial statements, the Group adopted a measurement model based on the fair value in place of the model based on cost, voluntarily changing the measurement criterion for owned property and valuable works of art, in line with the provisions of the accounting standard IAS 8. That standard states that a voluntary change in an accounting policy may occur where such change is able to provide reliable, more significant information on the equity, financial and economic situation of the entity. In light of that illustrated to this point, the Group deems that the adoption of the fair value model/revaluation model is more significant than the cost model, as it provides a better representation of the actual amount of real estate assets and works of art, updated based on the market conditions existing at the valuation date, and more in line with the management information considered in selecting the future initiatives to promote said assets.
It is also important to note that the adoption of the new measurement criterion will provide a better comparison with the financial statements of our main Italian competitors, which have adopted the fair value/revaluation criterion for the valuation of real estate assets and/or works of art.

Lastly, in relation to said change in accounting standard, it must be noted that:

- the Group decided to continue to measure rights of use of property used in operations, recognised under property, plant and equipment based on IFRS 16 (paragraphs 30 and 35), using the cost method, not availing of the option to use the revaluation model, an option which is permitted where the lessor applies this criterion to owned property;

- for rights of use that satisfy the definition of real estate investment, the application of the IAS 40 fair value criterion for the measurement of owned property held for investment purposes implies the use of the same criterion also for the rights of use (IFRS 16, paragraph 34). Nonetheless, in that regard, it must be noted that this case is not applicable to the Group, as there are no rights of use acquired with the leases classified under property, plant and equipment held for investment purposes, as shown in the table breaking down property, plant and equipment shown in "Section 9 - Property, plant and equipment" of Part B of these Notes.

With regard to the cases of changes in the accounting standard, to which the change of the measurement basis in question is attributable, as a general rule, IAS 8 provides for retrospective representation, restating the comparative disclosure as if the accounting standard had always been applied, or restating the comparative balances starting from the year in which it would be feasible. However, that general rule does provide for an exception: for the assets governed by IAS 16, the change from the cost criterion to the revaluation criterion must be applied on a forward basis, as if it were a new restatement of the previous book values, in line with the treatment requested, once fully operational, for the subsequent revaluations. As a result, for the latter assets, the change to the revaluation model does not give rise to any adjustments to the opening balances for the year or the previous years, or to the balances recognised up to the date of said change, based on the previous cost criterion.

In light of that illustrated above, for property used in operations and valuable works of art the change from the cost to the revaluation model by Banco BPM Group was applied on a forward basis starting from 31 December 2019. For those assets, the negative effects resulting from a lower fair value than the book value were recognised in the income statement. The positive effects resulting from a higher fair value than book value were, instead, recorded in a specific positive valuation reserve in shareholders' equity, unless these were recoveries of previous write-downs to be booked to the income statement. In that regard, it is noted that the unit of measure used to determine the above impacts is the individual property, considering the component of land and that of the building as they cannot be sold separately. The breakdown of the value of the property into its two components - land and building - is, instead, important for disclosure purposes and to calculate depreciation, based on the different useful life of the two components.
In line with the application on a forward basis, starting in 2020, the restated value of the assets in question will represent the new depreciable value, to be divided on a straight-line basis over the expected economic life. For 2019, instead, it was not necessary to recalculate the depreciation calculated based on the previous cost criterion. In that regard, it is specified that neither the component of the property represented by land nor works or art are subject to any depreciation, either for 2019 or for future years, due to the reasons illustrated in "Part A.2 – Key financial statement items" below.

For property held for investment purposes, the retrospective application, instead, resulted in a restatement of the opening balances as at 1 January 2019, i.e., starting from the first date on which the Group deemed it could reliably determine a fair value, considering not only the market conditions, but also the information on the actual state of the single property, whose reliability decreases the longer the time horizon referred to for the related measurement.
At that date, the positive or negative effects were recognised as a change to the opening balances of shareholders' equity reserves. Those effects were determined at the level of individual property by comparing the fair value with the related book value, where the Group deemed that the bases existed to change the measurement (fair value instead of cost), also in relation to the assessments made in the 2018 financial statements for the purpose of determining the recoverable value. Where a previous write-down has been made, any positive difference was recognised in the income statement, up to the amount of the write-down charged to the income statement.
The changes occurred during 2019 following the update of the fair value as at 31 December 2019 compared to the restated initial value, as described above, were recognised in the income statement, as they are attributable to the change in the accounting estimate.
Considering that the fair value measurement does not require any depreciation or impairment processes, as at 31 December 2019 it was necessary to reverse the depreciation charges accrued as well as the write-downs recorded up to 31 December 2019, based on the previous cost criterion.

The fair value of property and valuable works of art was determined using specific appraisals issued by qualified, independent companies. For more information in this regard, refer to that set out in Part A.4 "Fair value disclosure" below.

Accounting effects related to the new measurement criterion for property and valuable works of art

As at 31 December 2019 the market value of the real estate assets - measured based on a specific appraisal by the leading certified company RICS, also considering the negative effects of the sale negotiations under way - amounted to a total of 2,729 million euro. More specifically, those properties were recognised:

- under the Balance sheet item "90. Property, plant and equipment" for 2,695.4 million euro (of which 1,379.6 million euro referring to property used in operations and 1,315.8 million euro for property for investment purposes);
- under the Balance sheet item "120. Non-current assets and asset disposal groups held for sale" for 33.6 million euro, in relation to the plans launched for their disposal.

The application of the new measurement criteria resulted in an overall positive impact on shareholders' equity of 95.2 million euro, after taxes (154.9 million euro before taxes). In detail, the income statement showed an overall decrease of 113.7 million euro, while shareholders' equity reserves showed an overall increase of 208.9 million euro, after taxes.

As at 31 December 2019, the market value of works of art, measured based on the appraisal drawn up by a leading expert, amounted to 52.1 million euro. The application of the new measurement criteria resulted in an overall positive impact on shareholders' equity of 27.6 million euro, after taxes (+41.2 million euro before taxes). In detail, taking account of the related taxes, the income statement showed a decrease of 1.3 million euro, while shareholders' equity reserves showed an increase of 28.9 million euro.

The table below shows a breakdown of said impacts by type of asset (property used in operations, investment property and works of art) and by financial statement item.

Figures in millions of euro		Consolidated impacts before tax			Consolidated impacts after tax		
		Income statement	Reserves	Total	Income statement	Reserves	Total
Property used in operations - IAS 16	A	(47.1)	323.9	276.8	(32.4)	220.8	188.4
Property for investment purposes - IAS 40	B	(109.5)	(12.4)	(121.9)	(81.3)	(11.9)	(93.2)
Real Estate Assets - IAS 16 and IAS 40	**C=A+B**	**(156.6)**	**311.5**	**154.9**	**(113.7)**	**208.9**	**95.2**
Works of art – IAS 16	**D**	**(1.9)**	**43.1**	**41.2**	**(1.3)**	**28.9**	**27.6**
Total consolidated impacts	**E=C+D**	**(158.5)**	**354.6**	**196.1**	**(115.0)**	**237.8**	**122.8**
Impacts represented in the following income statement and shareholders' equity items:							
Item "260. Profits (losses) from the fair value designation of property, plant and equipment and intangible assets"		(158.5)			(158.5)		
Item "300. Taxes on income from continuing operations"					43.5		
Item "120. Valuation reserves"			367.0			249.7	
Item "150. Reserves"			(9.2)			(9.4)	
Item "190. Minority interests"			(3.2)			(2.5)	

With regard to property used in operations, the impact of the restatement of values was positive overall for 188.4 million euro (276.8 million euro before taxes). Said impact was recognised:

- in a specific valuation reserve "120. Valuation reserves" for 220.8 million euro, net of taxes;
- in a balancing entry of the income statement item "260. Profits (losses) from the fair value designation of property, plant and equipment and intangible assets" for 47.1 million euro. Considering the related taxes, the net impact on the income statement was negative overall for 32.4 million euro.

As illustrated above, the change in the measurement criterion did not have any impact on the depreciation charges for 2019, which amounted to 31.2 million euro.

As regards property for investment purposes, the impact of the fair value measurement was negative overall for 93.2 million euro, after taxes (-121.9 million euro, before taxes). Said impact is the result of:

- changes in fair value in relation to cost, recognised as a balancing entry to a change in the opening balances of shareholders' equity as at 1 January 2019, which were negative overall for 11.9 million euro (12.4 million euro before taxes). That impact is represented under item "150. Reserves" for the impacts pertaining to the Group (-9.4 million euro) and under item "190. Minority interests" for the share attributable to minority interests (-2.5 million euro);
- changes in fair value, negative overall for 109.5 million euro, recognised under income statement item "260. Profits (losses) from the fair value designation of property, plant and equipment and intangible assets" as they are attributable to a type of change in accounting estimates. Considering the related taxes, the impact of said changes on the income statement was negative for 81.3 million euro.

In addition to the impacts illustrated above, note that the application of the fair value criterion resulted in the non-recognition of depreciation which, for 2019, would have amounted to 27.2 million euro (20 million euro after taxes).

Lastly, it must be specified that the move to the new measurement criteria for properties, differentiated based on their use, was preceded by a detailed survey of the real estate assets used in operations and held for investment, based on the actual purpose. In greater detail, in the presence of both properties used in operations and for investment purposes, the units used for administrative purposes were separated from those used for different purposes (rent or appreciation of invested capital), with the resulting classification under property used in operations and property for investment purposes, respectively. That survey resulted in the need to carry out, as of 1 January 2019, several transfers from the operations segment to the investment segment and vice versa, as illustrated in greater detail in the table of changes in property, plant and equipment, contained in "Section 9 – Property, plant and equipment" of Part B in these Notes, to which reference is made for further details.

Other significant aspects relating to Group accounting policies

Below is an illustration of several transactions or events occurring during 2019, deemed significant for defining the related accounting treatment and/or impacts on the balance sheet or income statement.

ACE Project – sale of a portfolio of bad loans to a securitisation SPE pursuant to Law 130/99

As indicated in the section "Significant events during the year" of the Group Report on Operations, in the first quarter of 2019, the ACE project was completed, for the purpose of derisking a portfolio of bad loans, achieved through the disposal of the loans to a securitisation SPE established pursuant to Law 130/99, by obtaining a state guarantee for senior securities (the Guarantee for Securitisation of Bad Loans, pursuant to Decree Law no. 18 of 14 February 2016, hereinafter, "GACS").
In that regard, it must be specified that on 10 December 2018 the Parent Company approved the binding offer received from the funds managed by Elliott Management ("Elliott") and Credito Fondiario, which provided for, *inter alia:*

- the sale to the SPE Leviticus SPV S.r.l. of a portfolio of bad exposures originating from the Group with the aim of carrying out a securitisation transaction, illustrated in greater detail below;
- establishment of a platform for the recovery of non-performing loans, in partnership with Credito Fondiario, through an SPE, controlled by the latter company, following the transfer by Banco BPM of the business unit devoted to the activity of recovering bad loans.

Thus, on 28 December 2018, Banco BPM carried out, pursuant to art. 58 of Legislative Decree 385/1993 and articles 1 and 4 of Law 130/1999 on Securitisation, the sale without recourse, against payment, *en bloc* to Leviticus SPV S.r.l. of a portfolio of bad loans with a gross book value of 6.2 billion euro. In the financial statements as at 31 December 2018, these loans were included among assets held for sale (item 120 of the balance sheet assets) and measured on the basis of the flows considered recoverable at the end of the derisking process (1,330 million euro).
The state guarantee on senior securities, pursuant to Decree Law 18/2016, was issued by the Ministry for the Economy and Finance on 5 March 2019. The guarantee took effect on 26 March 2019, as per the communication from CONSAP of 15 May 2019.

The payment of the purchase price by the SPE was financed on 6 February 2019, through the issue of three classes of notes, which were initially fully subscribed by Banco BPM for a total nominal value of 1,910.4 million euro, broken down as follows:

- Senior (Class A) notes for 1,440.0 million euro. Those securities hold an investment grade rating (DBRS: BBB; Scope: BBB (SF)) and their yield is equal to the 6-month Euribor plus an annual spread of 0.6%; Those securities are backed by a state guarantee, as stated above;
- Mezzanine (Class B) notes for 221.5 million euro. These unrated securities provide for a yield equal to 6-month Euribor plus an annual spread of 8%;
- Junior (Class J) notes amounting to 248.8 million euro. These unrated securities provide for a possible remuneration of 10% plus any extra yield of the transaction.

On 26 March 2019, as part of the agreements entered into with Elliot, the sale to third parties of 95% of the Mezzanine tranches and 95% of the Junior tranches was completed. Specifically, these were shares that support the first loss and benefit from the excess spread of the transaction, if any. In compliance with the retention rule set out in the supervisory regulations, Banco BPM retained ownership of 5% of those securities. Banco BPM also retained ownership of 100% of the senior securities.
Following this sale, on 26 March 2019, in accordance with the provisions of the accounting standard IFRS 9, the conditions were fulfilled for derecognition of the bad loan portfolio sold, because the risks and benefits of the aforementioned portfolio have substantially been transferred.
Regarding the receivables transferred, it is noted that the Group has no power — either *de facto* or in law — to manage the relevant activities of the SPE, i.e. the activities aimed at recovering the loans. Also in this case, the recovery of the bad loans sold was assigned to an external servicer (Credito Fondiario S.p.A.), and the Group is no longer involved in any way.
In the light of the above, as at 31 December 2019 the Group held:

- all senior notes classified in the portfolio of "Financial assets at amortised cost: b) Loans to customers". Taking into account the repayments received during the second half of 2019, of 193.2 million euro, and the expected losses recognised on the basis of the IFRS 9 impairment model, the book value, gross of accruals, amounted to 1,247.1 million euro;
- 5% of mezzanine notes and 5% of junior notes classified in the portfolio of "Financial assets at fair value through profit and loss" at the book value of 4.5 million euro. The measurement at fair value (level 3 in the hierarchy) took into account the price of the recent sale transaction.

For the sake of full disclosure, "Financial assets at amortised cost" include a limited recourse loan granted to the SPE amounting to 66.8 million euro, in order to establish a cash reserve equal to 4% of the nominal value of the senior and mezzanine notes. In this regard, it should be noted that this loan does not represent any form of credit support to the securitisation; in the waterfall payments, the repayment of the loan in question is different from the payment of the principal of the senior securities and the payment of the principal and interest of the mezzanine securities.

For more details on sales of portfolios of bad loans to a securitisation SPE pursuant to Law 130/99, refer to "Part E, Section 2, point C. Securitisations" of these Notes.

ACE project – sale of the platform for the recovery of NPLs

As also indicated in the "Significant events during the year" section of the Group Report on Operations, the agreements with the funds managed by Elliott Management and Credito Fondiario, mentioned in the previous paragraph, provided for the establishment of a platform for the recovery of non-performing receivables, in partnership with Credito Fondiario, through an SPE controlled by the latter company. To this end, in December 2018, the company First Servicing S.p.A. was set up by Banco BPM, with the purpose of segregating the functions of servicer of Banco BPM's bad loans and of the portfolio sold in the context of the securitisation transaction illustrated above.
The operation was completed with the contribution on 23 May 2019 by Banco BPM to First Servicing S.p.A. of the business segment made up of the credit recovery activities and with the subsequent sale to Credito Fondiario, on 1 June 2019, of a 70% equity interest in the company First Servicing S.p.A. (renamed CF Liberty Servicing S.p.A. following the extraordinary shareholders' meeting of 31 May 2019).
Overall the operation described above entailed a positive economic effect of 142.7 million euro, before taxes, recognised in the income statement item "280. Profits (losses) on disposal of investments". In more detail, this capital gain comprises:

- 99.9 million euro from the gain made following the sale to Credito Fondiario of a 70% stake in the capital of CF Liberty Servicing S.p.A., for a price of 100 million euro;
- 42.8 million euro from the remeasurement at fair value of the remaining interest of 30% held in CF Liberty Servicing S.p.A., on the basis of the rules provided for in IFRS 10 in the event of loss of control.

Lastly, we can note that the remaining interest in CF Liberty Servicing S.p.A. was classified, on the basis of the accounting standard IAS 28, among associates carried at equity.

ACE Leasing Project – sale of a portfolio of bad loans

As indicated in the section "Significant events during the year" in the Group Report on Operations, following the approval by Banco BPM of the binding offer received from Illimity Bank S.p.A. for the sale of a lease portfolio of bad loans, on 28 June 2019 the sale agreements were signed for the loans and the related assets and legal relationships. In particular, the sale refers to a portfolio of loans equal to around 650 million euro in nominal value at the measurement date established by the contract (the cut-off date is contractually established as at 30 June 2018). That portfolio is primarily composed of loans deriving from receivable and payable legal relationships attributable to lease contracts classified as bad loans, along with the underlying immoveable or moveable assets and contracts.
The closing of the operation is subject to the conditions precedent typical of this kind of transaction, including notarial certification for the transferability of the assets and, subordinately to the fulfilment of the said conditions precedent, will be divided into several stages, starting from 1 July 2019 (date of transfer of the first tranche of receivables, assets and legal relationships) up to 30 June 2020.
Starting on 30 June 2019 the portfolio of loans in question was not represented in the financial statement item relating to loans to customers (item 40 b) under balance sheet assets, but, pursuant to the accounting standard IFRS 5, was represented under non-current assets and asset disposal groups held for sale (item 120 of balance sheet assets). Taking account of the sales finalised in the second half of 2019, the residual book value as at 31 December 2019 of loans held for sale amounted to 93.7 million euro (gross book value of 313 million euro), as illustrated in Part B – Information on the consolidated balance sheet in these Notes.
As these are not discontinued operations, under the terms of IFRS 5, the reclassification among assets held for sale regards only the balance sheet balances and not those of the income statement.
Taking into account that the aforementioned derisking strategy was included in the sales targets considered for the 2018 financial statements for the purpose of quantifying the expected losses on the basis of the IFRS 9 multi-scenario sale model, the alignment to the selling prices of the portfolio in question did not entail overall significant impacts on the cost of credit for 2019.

Sales of multi-originator loans with assignment of mutual fund units

For the accounting treatment of these transactions, refer to the disclosure in "Part E – Section 2 – D. Sale transactions – Financial assets sold and fully derecognised".

Reorganisation of the consumer credit segment related to the subsidiary ProFamily

As indicated in the section "Significant events during the year " in the Group Report on Operations, in the context of the agreements signed at the end of 2018 by Banco BPM, Crédit Agricole, Crédit Agricole Consumer Finance and Agos Ducato on the reorganisation of consumer credit, on 28 June 2019 the transaction for the sale of the subsidiary ProFamily S.p.A. to Agos Ducato S.p.A. (hereinafter also "Agos"), of which Banco BPM holds 39% of the share capital and Crédit Agricole Consumer Finance 61%, was completed.
In detail, Banco BPM sold to Agos Ducato, for a price of 310 million euro, 100% of the share capital of ProFamily S.p.A., from which the non-captive assets were separated in advance through a demerger operation to the benefit of a newly-incorporated company 100% controlled by Banco BPM. The company involved in the sale, which will manage the captive assets, was renamed ProAgos S.p.A. and was incorporated into Agos; the beneficiary company of the demerger of the non-captive unit, that is of the assets attributable to the disbursement of loans through channels other than bank branches, will continue to operate with the name ProFamily S.p.A.
The economic impact of the sale, recognised in the consolidated income statement item "280. Profits (losses) on disposal of investments", amounted to 189.5 million euro, before taxes.
For the purpose of determining the aforesaid impact, the total capital gain of the sale to Agos was reversed for a portion of 39%, corresponding to the interest held in Agos, that is in the associate in relation to which the sale

transaction was completed. For the case in question the Group applied that set out in the accounting standard IAS 28 with reference to transactions with associates (“downstream transactions”).
With regard to the newly-incorporated company, 100%-owned by Banco BPM and involving the assignment of the business segment related to consumer credit activity performed through the “non-captive network” (monomandatory agents and own branches), it is noted that as at 30 June 2019 the shareholding was classified as assets held for sale, pursuant to IFRS 5, as a result of the start of a program aimed at recovering the investment through sale.
In December 2019 the Board of Directors of Banco BPM decided not to move forward with the plan to sell ProFamily. For the consolidated financial statements as at 31 December 2019, the net assets of equity investments are represented on a “line-by-line” basis, as the conditions for applying accounting standard IFRS 5 no longer apply. As regards the income statement, the exit from the scope of IFRS 5 did not result in changes compared to the representation in the first half, which was “line-by-line”, as the conditions to consider the equity investment as a discontinued operation were not fulfilled.

Issue of Additional Tier 1 instruments

As indicated in the “Significant events during the year” section of the Group Report on Operations, on 11 April 2019, Banco BPM issued Additional Tier 1 instruments for an amount of 300 million euro. These were, in particular, subordinated instruments classified in Additional Tier 1 capital, under the terms of Regulation no. 575 of 2013 (CRR).
The securities are perpetual and may be called by the issuer from 18 June 2024, subject to authorisation by the competent Authority. If they are not called, the call may be exercised every 5 years.
The six-monthly coupon, non-cumulative, was set at 8.75%. If the option of early redemption envisaged, for 18 June 2024, is not exercised, a new fixed-rate coupon will be determined adding the original spread to the mid-swap rate in euro at 5 years to be recorded at the moment of the recalculation date. This new coupon will remain fixed for 5 years (until the next recalculation date).
In line with the provisions of the CRR for AT1 instruments the issuer has full discretion in not paying the coupons, for any reason and for an unlimited period of time. Cancellation is instead obligatory if certain conditions occur, including the occurrence of the trigger event illustrated in the next paragraph. Note that the interest is not cumulative: any amount that the issuer decides not to pay (or would be obliged not to pay) will not be accumulated or payable at a later date.
In addition, the regulation of the loan in question states that on the occurrence of a trigger event, that is if Banco BPM’s Common Equity Tier 1 (CET1) (or the consolidated CET1) should be lower than the level of 5.125%, there would be – irrevocably and obligatorily - a cancellation of the capital (a write-down) of an amount necessary to bring the CET1 (of Banco BPM or of the Group) back to 5.125%. On fulfilment of certain conditions, and at the issuer’s complete discretion, the capital previously written down could be reinstated (“write-up”). In this regard we can note that the reinstatement of the capital previously written down would be voluntary also in the case of early redemption by the issuer.
For accounting purposes, the issue in question was considered as an “equity instrument”, pursuant to the regulations set out in accounting standard IAS 32. In the financial statements as at 31 December 2019, the price received from the issue - after deducting the directly attributable transaction costs net of taxes, which amounted to 1.9 million euro - is presented in the shareholders' equity item “140. Equity instruments”, for an amount of 298.1 million euro.
In keeping with the nature of the instrument, the coupons are recognised as a reduction of shareholders’ equity (shareholders' equity item “150. Reserves”), if and for the amount at which they were paid. As at 31 December 2019 the shareholders' equity decreased by 12.7 million euro, as a result of the payment of coupons in 2019 (17.5 million euro), net of the related taxes.

Investments in the Voluntary Scheme of the Interbank Deposit Guarantee Fund

As the Banks of Banco BPM Group participate in the Voluntary Scheme of the Interbank Deposit Guarantee Fund, in 2018 they approved the proposed measures to support Banca Carige, which took the form of the Voluntary Scheme subscribing Tier 2 subordinated bonds issued by Banca Carige for a total of 318.2 million euro. In detail, those subordinated bonds were subscribed by requesting that the participating banks pay into the Scheme, in proportion to their respective stakes, a total amount of 313.2 million euro and using resources still available for the remaining amount.
Considering that the total stake of the Group in the Voluntary Scheme was 8.9%, the indirect exposure held by the Group in those subordinated bonds amounted to 28.3 million euro. That exposure, classified under accounting

adjustments to "Financial assets at fair value through profit and loss: other financial assets mandatorily at fair value", was almost fully written down in the 2018 financial statements.
On 20 December 2019 the share capital increase of Banca Carige was finalised, as part of which the Voluntary Scheme subscribed ordinary shares for a total value of 313.2 million euro, by converting at par the subordinated bonds previously held. Following the assignment of 10 million euro in new shares to retail shareholders that participated in the Shareholders' Meeting of Banca Carige that resolved the share capital increase, as at 31 December 2019 the Voluntary Scheme held ordinary shares of Banca Carige in a total amount of 303.2 million euro, in addition to Tier 2 subordinated bonds, not converted into shares, for an amount of 5 million euro.

Through the Voluntary Scheme, in addition to the exposure indirectly held in Banca Carige, as illustrated above, Banco BPM Group indirectly holds mezzanine and junior securities of the SPE Berenice relating to the securitisation of loans of Cassa di Risparmio di Cesena, Cassa di Risparmio di Imola and Cassa di Risparmio di San Miniato. On 14 January 2020 the Voluntary Scheme of the Interbank Deposit Guarantee Fund provided an update to the estimate of the fair value of those securities.

As a result of the update to the measurement of the total exposure held in the Voluntary Scheme, write-downs were recorded in the income statement for 1.1 million euro. As at 31 December 2019 the remaining book value of the exposure in question came to 1 million euro, fully attributable to the mezzanine securities of the Berenice securitisation. In that regard, it is specified that the nil measurement of the indirect investment in Banca Carige is justified by the uncertainties existing at the date of preparation of this annual report on the outcome of the process of recovery of Banca Carige.

Hold to Collect Business Model – sales

During 2019, sales regarding performing exposures classified in the portfolio of "Financial assets at amortised cost" amounted to a total of 1,369 million euro in nominal value, almost fully attributable to the Parent Company.
In greater detail, in March and November 2019 Banco BPM finalised a limited number of sale transactions of securities issued by the Italian government for a nominal value of 1,360 million euro, equal to around 8% of the nominal value of the portfolio of securities classified at amortised cost at the beginning of the year.
As these are exposures classified under "Financial assets at amortised cost", i.e. in the portfolio held for the purpose of collecting the contractual cash flows (known as the "Hold to Collect" Business Model), based on the accounting standard IFRS 9, their sale must take place in compliance with specific materiality or frequency thresholds, near maturity, in the presence of an increase in credit risk or the occurrence of exceptional circumstances. In that regard, it is noted that the sales carried out by the Group during 2019 occurred in compliance with the materiality and frequency thresholds, outlined in the Group's accounting policies. For the illustration of said thresholds, along with the other indicators/limits of eligibility of the sales, refer to Part "A.2. Key financial statement items", paragraph "3-Financial assets at amortised cost", below, specifying that during 2019 and up to the date of preparation of this report, there were no changes in the criteria for eligibility of HTC sales.

The economic result of the sales in question was positive overall for 117.4 million euro and was recognised in the "Profits (losses) on disposal or repurchase of: a) financial assets at amortised cost".

A.2 - Key financial statement items

The accounting standards adopted to prepare the consolidated financial statements as at 31 December 2019 are described below by financial statement item, with reference to the phases of classification, recognition, measurement and derecognition of the various asset and liability items, as well as the methods for recognising revenue and costs.

1 - Financial assets at fair value through profit and loss

Classification criteria

This category comprised financial assets other than those classified under "Financial assets at fair value through other comprehensive income" and "Financial assets at amortised cost". These include:

- the debt securities or loans to which an "Other" Business Model is associated, i.e. a method of managing financial assets not aimed at collecting the contractual cash flows (Hold to Collect Business Model) or at collecting the contractual cash flows and selling the financial assets (Hold to Collect and Sell Business Model);
- debt securities, loans and UCIT units whose contractual terms do not solely provide for repayment of principal and payments of interest on the amount of principal to be repaid (i.e., that do not pass the "SPPI test");
- equity instruments that cannot be classified as investments in subsidiaries, associates or entities under joint control or held for trading, or for which, on initial recognition, the option to classify them among "Financial assets at fair value through other comprehensive income" was not used.

More detailed information is provided below on the three sub-items that comprise the category in question, represented by: "a) Financial assets held for trading", "b) Financial assets designated at fair value" and "c) Other financial assets mandatorily at fair value".

a) *Financial assets held for trading*

A financial asset (debt securities, equity instruments, loans, UCIT units) is classified as held for trading if it is managed with a view to collecting cash flows through sale, i.e. if it is associated with the "Other" business model, as:

- it is acquired for the purpose of being sold in the near future;
- it is part of a portfolio of financial instruments that are jointly managed and for which there is a proven strategy for short-term profit.

This also includes derivative contracts with a positive fair value, not designated as part of a hedging relationship. Derivative contracts include those embedded in structured financial instruments, in which the host contract is a financial liability, that have been recognised separately because:

- their economic characteristics and risks are not closely related to those of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of derivative;
- the hybrid instruments to which they belong are not designated at fair value with the related changes recorded in the income statement.

A derivative is considered to be a financial instrument or other contract that has the following characteristics:

- its value changes in response to changes in an interest rate, in the price of a financial instrument, in a commodity price, in the exchange rate in foreign currency, in a price or interest rate index, in a credit rating or in a credit index or in another pre-established variable (the underlying) provided that, in the case of a non-financial variable, the underlying is not specific to a party to the contract;
- it does not require an initial net investment or requires a lower initial net investment than would be required for other types of contracts that would be expected to respond similarly to changes in market factors;
- it is settled at a future date.

b) *Financial assets designated at fair value*

A financial asset (debt securities and loans) may be designated at fair value on initial recognition, with the measurement results recognised in the income statement, only when such designation makes it possible to provide better disclosure, as it eliminates or considerably reduces the inconsistency in valuation, that would otherwise be caused by measuring assets or liabilities or recognising the associated gains and losses on different bases (accounting mismatch)

c) *Other financial assets mandatorily at fair value*

Other financial assets mandatorily at fair value represent a residual category and are made up of financial instruments that do not meet the business model or cash flow requirements to be classified as financial assets at amortised cost or at fair value through other comprehensive income. More specifically, these include:

- debt securities or loans whose contractual terms do not solely provide for repayment of principal and payments of interest on the amount of principal to be repaid (i.e., that do not pass the "SPPI test");
- UCIT units;

- equity instruments not held for trading, for which the option of classifying them among the financial assets at fair value through other comprehensive income was not used.

Recognition criteria

Financial assets are initially recognised on the settlement date in case of debt securities, equity instruments and UCIT units, on the disbursement date for loans and on the subscription date for derivative contracts.
Upon their initial recognition, financial assets at fair value through profit and loss are designated at fair value, which generally corresponds to the price paid, excluding transaction costs or revenues that are directly attributable to the financial instruments, that are recognised in the income statement.

Income item measurement and recognition criteria

Subsequent to initial recognition, financial assets at fair value through profit and loss are designated at fair value, with recognition of changes as a balancing entry to the income statement. For derivative instruments, if the fair value of a financial asset becomes negative, that item is accounted for as a financial liability held for trading.

To determine the fair value of financial instruments listed on an active market, market listings at the reporting date are used. In the absence of an active market, estimate methods and valuation models are used that take into account all the risk factors associated with the instruments and that are based on market inputs, such as: methods based on the valuation of other listed instruments that are substantially the same, discounted cash flow analysis, option pricing models, and values recognised in recent comparable transactions. In the event that no reliable estimate of the fair value is possible for equity instruments and related derivatives, the cost criterion is used as an estimate of the fair value only on a residual basis and limited to a few cases (non-applicability of the above methods or in the presence of a range of possible fair value valuations, of which cost represents the most significant estimate).
Please refer to “Part A.4 – Fair value disclosure” for details on how fair value is determined.

Trading profits or losses and gains or losses as a result of the valuation of the trading book, including derivatives connected with financial assets/liabilities at fair value, are recognised in the income statement in the item “80. Profits (losses) on trading”. The same economic effects related to financial assets designated at fair value and to those mandatorily at fair value are recognised in item “110. Profits (losses) on other financial assets and liabilities measured at fair value through profit and loss.”

Derecognition criteria

Financial assets are derecognised when the contractual rights to receive the cash flows generated by the assets have expired, or when the financial assets are disposed of, and all risks and rewards of ownership of the assets have been substantially transferred. In the presence of renegotiations, the above requirements exist if the changes to the contractual conditions are considered substantial, as illustrated in paragraph “16 – Other information – Renegotiations” below, to which reference is therefore made.

In the event that the substantial transfer of risks and rewards cannot be verified, the financial assets are derecognised from the financial statements if control of the loans has been relinquished.
Lastly, assets sold are derecognised if the contractual right to receive the cash flows of the assets is maintained, but at the same time a contractual obligation is assumed to pay these flows to a third party without delay and only up to the amount of those received.

Reclassification criteria

Financial assets at fair value through profit and loss, other than equity instruments, can be reclassified into the accounting categories of “Financial assets at fair value through other comprehensive income” and “Financial assets at amortised cost”. This reclassification can occur in the very rare circumstance that an entity decides to modify its business model for managing financial assets. The transfer value is represented by the fair value on the date of its reclassification and prospectively from that date. In this instance, the effective interest rate of the reclassified financial asset is determined on the basis of its fair value on the date of reclassification, which is the date of initial recognition for the allocation of the various stages of credit risk (stage assignment) for the purpose of impairment.

2 - Financial assets at fair value through other comprehensive income

Classification criteria

This category includes financial assets (debt securities and loans) when both of the following conditions are met:

- the purpose of holding them is represented by both the collection of contractual cash flows and their sale ("Hold to Collect and Sell" Business Model);
- the related contractual flows consist solely of payments of principal and interest on the capital to be repaid (i.e. they are expected to pass the SPPI test - Solely Payment of Principal and Interest test).

This category also includes equity instruments not held for trading and not qualifying as investments in subsidiaries, associates or entities under joint control, for which the option of classifying them among financial assets at fair value through other comprehensive income is applied. This option may be exercised on initial recognition of the individual financial instrument and is irrevocable.

Recognition criteria

Financial assets are initially recognised on the settlement date in case of debt securities and equity instruments, and on the disbursement date for loans.
Upon their initial recognition, assets are designated at fair value, which generally corresponds to the price paid, including transaction costs or revenues that are directly attributable to the instruments.

Income item measurement and recognition criteria

Subsequent to initial recognition, financial assets at fair value through other comprehensive income, consisting of debt securities and loans, continue to be measured at fair value, with recognition of the portion of interest in the income statement on the basis of the effective interest rate criterion, exchange rate revaluation effects and expected losses (impairment) Gains and losses deriving from the measurement at fair value are instead recorded in a specific shareholders' equity reserve, which will be recycled to the income statement when the financial asset is derecognised.
Specifically, at each annual or interim reporting date, the aforementioned assets are subject to impairment in order to estimate the expected losses in value relating to credit risk (Expected Credit Losses), based on the impairment model also established for "Financial assets at amortised cost". Said adjustments are recognised in the income statement in item "130. Net losses/recoveries on credit risk", as a balancing entry to a specific shareholders' equity valuation reserve ("120. Valuation reserves"). The same applies to recoveries of part or all of the write-downs from previous financial years. For more information on the impairment model, please see the information set forth in the following paragraph "16 - Other information, Methods for determining impairment losses on financial assets".

Equity instruments that have been classified in this category are designated at fair value; profits and losses from measurement at fair value are recognised with a balancing entry in a specific equity reserve ("120. Valuation reserves"). These reserves will never be recycled to the income statement, even if realised through the sale of the asset. In this instance, it will be necessary to reclassify them under another shareholders' equity item ("150. Reserves"). Additionally, no write-down is recognised in the income statement for these assets, as they are not subject to any impairment process. Dividends collected are actually the only component recognised in the income statement.

For information on how fair value is determined, please refer to the criteria previously illustrated for "Financial assets at fair value through profit and loss" and "Part A.4 – Fair value disclosure", below.

Derecognition criteria

Financial assets are derecognised when the contractual rights to receive the cash flows generated by the assets have expired, or when the financial assets are disposed of, and all risks and rewards of ownership of the assets have been substantially transferred. In the presence of renegotiations, the above requirements exist if the changes to the contractual conditions are considered substantial, as illustrated in paragraph "16 – Other information – Renegotiations" below, to which reference is therefore made.

In the event that the substantial transfer of risks and rewards cannot be verified, the financial assets are derecognised from the financial statements if control of the loans has been relinquished.
Lastly, assets sold are derecognised if the contractual right to receive the cash flows of the assets is maintained, but at the same time a contractual obligation is assumed to pay these flows to a third party without delay and only up to the amount of those received.

Reclassification criteria

Financial assets at fair value through other comprehensive income, other than equity instruments, can be reclassified into the accounting categories of "Financial assets at fair value through profit and loss" and "Financial assets at amortised cost". This reclassification can occur in the very rare circumstance that an entity decides to modify its business model for managing financial assets. The transfer value is represented by the fair value on the date of its reclassification and prospectively from that date.
In the event of a reclassification to "Financial assets at amortised cost", the cumulative gain or loss in the valuation reserve is eliminated as a balancing entry to an adjustment to the fair value of the financial asset at the reclassification date.
In the event of reclassification under "Financial assets at fair value through profit and loss", the cumulative gain or loss in the valuation reserve is reclassified from shareholders' equity to the income statement.

3 - Financial assets at amortised cost

Classification criteria

This category includes financial assets (loans and debt securities) when both of the following conditions are met:

- the purpose of holding them is represented by the collection of contractual cash flows ("Hold to Collect" Business Model);
- the related contractual flows consist solely of payments of principal and interest on the capital to be repaid (i.e. they are expected to pass the SPPI test).

Specifically, this includes loans granted to customers and banks—in any form—and debt securities that meet the requirements described above.
Loans originated through finance leases are also included in this item and, in line with IFRS 16, they are recognised as receivable as they transfer the risks and rewards to the lessee, including assets waiting to be granted under finance lease, including real estate under construction.
Also included are "repurchase agreements" with the obligation to sell securities at a future date and "securities lending" transactions with a cash guarantee deposit which is fully available to the lender, for the spot amount paid, if the characteristics of these transactions do not entail recognition in the proprietary portfolio of the security being carried over or lent, since no risk or reward has been acquired from them.
Lastly, the category in question includes operating receivables connected with the provision of financial services as defined in the Consolidated Banking Law and in the Consolidated Finance Law.

Recognition criteria

Financial assets are initially recognised on the settlement date in case of debt securities and on the disbursement date for loans. Upon their initial recognition, financial assets classified in this category are designated at fair value, which generally corresponds to the price paid, including any transaction costs or revenues that are directly attributable to the instrument.

Specifically, loans are initially recognised on the disbursement date based on the fair value of the financial instrument. The recognition is usually equal to the amount disbursed, or the subscription price, including costs/income directly associated to the individual loan and that can be determined from the start of the transaction, although settled later on. Costs are excluded, that, although carrying the above characteristics, are repaid by the borrowing counterparty or fall under normal internal administrative costs.

If the date on which the credit contract is signed and the date on which the funds agreed are disbursed are not the same, a commitment to disburse funds is recognised, which will be closed out when the loan is effectively disbursed.

Income item measurement and recognition criteria

Following initial recognition, the financial assets in question are designated at amortised cost, equal to the initial recognition value decreased by repayments of principal, decreased/increased by the amortisation - calculated according to the effective interest rate method - of the difference between the amount disbursed and the amount repayable at maturity, typically comparable to the costs/income directly associated with the individual loan.
The effective interest rate is determined by calculating the rate that is equivalent to the asset’s present value of future principal and interest cash flows, to the amount disbursed including costs/income associated with the asset. The estimate of cash flows must take into account all the contractual provisions which could influence the amounts and maturities, without considering the expected loss on the asset. This accounting method, based on financial logic, spreads the economic effect of all transaction costs, commissions, bonuses or discounts considered an integral part of the effective interest rate method throughout the residual life of the asset. The amortised cost method is not used for short-term assets, whose limited life span makes the application of discounting immaterial. Said assets are measured at historical cost and their costs/income, if any, are recognised in the income statement on a straight-line basis throughout the loan contract life. The same measurement criterion is used for assets without a defined maturity or demand loans.

The book value of financial assets at amortised cost is adjusted to account for any provisions on expected losses. At each annual or interim reporting date, the aforementioned assets are subject to impairment for the purpose of estimating the expected losses in value relating to credit risk (ECL - Expected Credit Losses) Said losses are recognised in the income statement in item “130. Net losses/recoveries on credit risk”. If it is found that no reasonable expectations of recovery exist, the gross exposure is written off: in this case, the gross exposure is reduced by the amount considered not recoverable, as a balancing entry to the reversal of provisions covering the expected losses and the impairment in the income statement, for the part not covered by the provisions. For more information on the accounting treatment of write-offs please refer to the content of the paragraph on “derecognition criteria” below.

More specifically, the impairment model provides for the classification of assets into three distinct “Stages” (Stages 1, 2, and 3), based on changes to the debtor's creditworthiness, corresponding to different criteria for measuring expected losses:

- Stage 1: includes performing financial assets for which no significant impairment of credit risk has been observed with respect to the date of initial recognition or for which the credit risk is considered low. Impairment is based on an estimate of the expected loss over one year (expected loss resulting from possible default on the financial asset within one year from the reference date);
- Stage 2: includes performing financial assets that have undergone significant impairment of credit risk with respect to initial recognition. Impairment is proportional to the estimate of expected loss over the entire residual life of the financial asset;
- Stage 3: includes non-performing financial assets (100% probability of default), to be measured by estimating the expected loss over the entire life of the instrument.

For performing assets, expected losses are determined using a collective process based on certain risk parameters, namely the Probability of Default (PD), the Loss Given Default (LGD) and the Exposure at Default (EAD), deriving from internal models for calculating regulatory credit risk that are suitably adjusted to account for the specific requirements set out in accounting regulations.

Non-performing assets, i.e. assets for which, in addition to a significant increase in credit risk, there is objective evidence of impairment, are measured with an analytical or lump-sum measurement process based on uniform risk categories, designed to establish the present value of expected future recoverable cash flows, discounted on the basis of the original effective interest rate or a reasonable approximation if the original rate is not directly available.

Non-performing assets include exposures to which the status of bad loan, unlikely to pay or past-due for more than ninety days has been attributed in accordance with the definitions established by the supervisory provisions in force (Bank of Italy Circular no. 272 “Matrix of accounts”) and referred to by Bank of Italy Circular no. 262, as they are considered to be consistent with the accounting regulations set out in IFRS 9 for objective evidence of impairment
In the presence of sales scenarios, the determination of the cash flows is based on the forecast of flows recoverable through the internal management activity as well as on the basis of the flows obtainable from any sale on the market,

according to the multi-scenario approach described in paragraph "16 - Other information, Methods for determining impairment losses on financial assets" below.

Expected cash flows also consider expected recovery times and the estimated net realisable value of any guarantees.

For fixed rate positions, the original effective rate used to discount the expected recovery flows, determined as illustrated above, remains unchanged over time, even if there is a change in the contractual rate due to financial difficulties of the debtor.
For positions with floating interest rates, the rate used for the discounting of cash flows is updated in relation to the indexation parameters (i.e. Euribor), while keeping the originally established spread constant.

The original value of financial assets is reinstated in subsequent years, due to an improvement in the credit quality of the exposure compared to that which had led to the previous write-down. Recoveries are recognised in the income statement under the same item and, in any case cannot exceed the asset's amortised cost had no adjustments been carried out in the past.
For more information on the impairment model, please see the information set forth in the following paragraph "16 - Other information, Methods for determining impairment losses on financial assets".

For non-performing loans classified in stage 3, accrued interest is calculated on the basis of amortised cost, that is on the basis of the exposure - determined using the effective interest rate - adjusted for expected losses. For non-performing loans that do not accrue contractual interest, such as bad loans, this interest corresponds to the reversals of the impairment losses related to discounting the recovery forecasts due to the simple passing of time.

Derecognition criteria

Financial assets are derecognised when the contractual rights to receive the cash flows generated by the assets have expired, or when the financial assets are disposed of, and all risks and rewards of ownership of the assets have been substantially transferred. In the presence of renegotiations, the above requirements exist if the changes to the contractual conditions are considered substantial, as illustrated in paragraph "16 – Other information – Renegotiations" below, to which reference is therefore made.
In the event that the substantial transfer of risks and rewards cannot be verified, the financial assets are derecognised from the financial statements if control of the loans has been relinquished.
Lastly, assets sold are derecognised if the contractual right to receive the cash flows of the assets is maintained, but at the same time a contractual obligation is assumed to pay these flows to a third party without delay and only up to the amount of those received.

The derecognition of non-performing financial assets may occur upon recognising that the exposure is irrecoverable and the consequently concluding the recovery process (final derecognition) and involves a reduction in the nominal and gross book values of the loan. This is the case where settlement agreements with the debtor result in a reduced loan amount (in full and final settlement) or in specific situations, for example:

- the final judgement declaring that part or all of the loan has been extinguished;
- the conclusion of insolvency or enforcement proceedings against the main debtor and the guarantors;
- the conclusion of all possible in- and out-of-court actions for recovering the debt;
- the completion of a mortgage foreclosure on an asset as collateral, with the consequent derecognition of the credit guaranteed by the foreclosed mortgage, in the absence of additional specific guarantees or other actions that may be taken to recover the exposure.

These specific situations may lead to the total or partial derecognition of the exposure, yet do not necessarily entail waiving the legal right to recover the debt.

In addition, non-performing financial assets may be derecognised by writing them off after acknowledging that no reasonable expectations of their recovery exist, even while continuing with actions aimed at their recovery. That write-off is made during the financial year in which the debt or part of it is deemed irrecoverable—even while legal proceedings are underway—and may occur before the legal debt recovery proceedings against the debtor and the guarantors have come to a close. This does not imply a waiver of the legal right to recover the loan and is carried out when the credit documentation contains reasonable financial information indicating that the debtor is unable to repay the debt. In that case, the nominal gross value of the loan remains unchanged, but the gross book value is reduced by an amount equal to the amount written off, which may be related to the entire exposure or to a portion thereof. The amount written off cannot be subject to subsequent recoveries in impairment losses, following an improvement in the recovery forecasts, but only after the amount is actually collected.

Derecognition may occur following sale of the financial assets. In line with the "Hold to Collect" Business Model that characterises financial assets at amortised cost, based on the accounting standard IFRS 9, the sale is permitted where specific circumstances occur. An illustration of the circumstances on whose occurrence the Group deems it permissible to carry out the sale of the assets in question is provided below.

Increase in credit risk

The Group deems that an increase in credit risk occurs where events that result in the following occur:

- the classification of financial assets that were previously classified in Stage 1 in Stage 2;
- the classification of financial assets which were previously classified in Stage 1 or 2 among non-performing assets (i.e. in Stage 3).

Where these cases arise, sales are permitted, irrespective of any threshold of frequency or materiality. This occurs, for example, for the sale of non-performing loans.

Instrument nearing maturity

The Group deems that, irrespective of any frequency or materiality thresholds, sales are compatible with the "HTC" Business Model where:

- the time remaining to maturity is less than 3 months; and
- the difference between the amount received from sale and the residual contractual cash flows does not exceed the threshold of 5% in absolute value.

Frequency and materiality below specific thresholds

Sales with the following characteristics are permitted:

- a frequency threshold of less than 12 sale transactions per year. An individual sale transaction must be understood as the set of sale transactions relating to one or more securities, which are finalised in a time frame of 10 working days starting from the day on which the first sale transaction was carried out;

or

- a materiality threshold of less than 10%, determined based on the ratio of the nominal value of sales during the year to the nominal value of the instruments in the portfolio of financial assets at amortised cost at the beginning of the year.

The two thresholds must be considered separately. As a result, sales made for an amount exceeding 10% of the opening balances are not permitted, even if infrequent.
Said thresholds are applied at the level of individual legal entity belonging to the Group, and separately for the portfolio of debt securities with respect to the portfolio of loans, as those portfolios are held with different management objectives and managed by autonomous business functions.

Exceptional circumstances

Examples of exceptional circumstances in which sales are considered permissible may be:

- significant business combinations/restructurings whose pursuit requires a reorganisation of Group assets and liabilities;
- sales made to handle liquidity crises, where the event could not have been reasonably foreseen (stress scenarios).

Reclassification criteria

Financial assets at amortised cost can be reclassified into the accounting categories of "Financial assets at fair value through other comprehensive income" and "Financial assets at fair value through profit and loss". This reclassification can occur in the very rare circumstance that an entity decides to modify its business model for managing financial assets. The transfer value is represented by the fair value on the date of its reclassification and prospectively from that date. Gains or losses resulting from the difference between the amortised cost of the financial asset and its fair value are recognised:

- in the income statement, in the event of reclassification under "Financial assets at fair value through profit and loss";
- in shareholders' equity to a specific valuation reserve, in the event of reclassification to "Financial assets at fair value through other comprehensive income";

4- Hedging transactions

It should be noted that Banco BPM Group avails of the IFRS 9 option to continue to fully apply the hedge accounting rules set forth by IAS 39, in the version endorsed by the European Commission (the carved out version).

Classification criteria

Asset and liability items include financial hedging derivatives, which at the date of the financial statements or interim report showed a positive and negative fair value, respectively.

Hedges seek to neutralise potential losses recognisable on a given financial instrument or a group of financial instruments, attributable to a specific risk, by offsetting them with the gains recognisable on a different financial instrument or group of financial instruments in the event that said risk should actually materialise.
The following types of hedges are provided for:

- fair value hedges, which seek to hedge exposure to changes in the fair value of a financial statement asset or liability, attributable to a specific risk. It is also possible to activate macro fair value hedging, with the goal of reducing fair value fluctuations attributable to the interest rate risk, of monetary amounts deriving from a portfolio of financial assets and liabilities (including "core deposits"). Net amounts deriving from the mismatch of assets and liabilities cannot be subject to macro hedging;
- cash flow hedges, which seek to hedge the exposure to changes in future cash flows attributable to specific particular risks associated with financial statement items or a highly likely expected transaction;
- hedges of foreign currency transactions, which seek to hedge the risks of investment in a foreign company expressed in foreign currency other than the Group's reference currency (euro).

At the level of the consolidated financial statements, only derivatives entered into with an external counterparty to the Group may be designated as hedging instruments. The results associated with internal transactions carried out between various Group entities are eliminated.

Derivatives can be designated as hedges provided that the hedging relationship between the hedged instrument and the hedging instruments is formally documented, and it is effective at the time of origination of the hedge and prospectively throughout its entire life. The hedge effectiveness depends on the extent to which the changes in the fair value or in the expected cash flows of the hedged instrument are actually offset by those of the hedging instrument. Therefore, effectiveness is measured by comparing said changes, while considering the aim pursued by the entity when the hedge was established.
A hedge is effective (within the limits established as a range of 80% to 125%) when changes in the fair value (or in the cash flows) of the hedging instrument neutralise almost completely the changes in the hedged instrument attributable to the hedged risk. Hedging effectiveness is assessed at each balance sheet date or interim reporting date, using:

- prospective tests, that justify the application of hedging accounting in that they demonstrate its expected effectiveness;
- retrospective tests, demonstrating the hedge's actual effectiveness achieved over the period being examined. In other words, these tests measure how far the actual results deviate from perfect hedging.

Recognition criteria

Hedging derivative financial instruments are recognised at fair value, at the date on which the relative contracts are entered into.

Income item measurement and recognition criteria

Subsequent to initial recognition, hedging derivatives continue to be designated at fair value. In particular:

- for fair value hedges, the changes in fair value of the hedged element are offset by the changes in fair value of the hedging instrument. Said offset is recognised by charging the changes in value to the income statement, in item "90. Fair value adjustments in hedge accounting", referring both to the hedged element (referring to the changes generated by the underlying risk factor), as well as to the hedging instrument. Any resulting difference, which represents the partial ineffectiveness of the hedge, represents the net effect on the income statement. If the hedging relationship ends, the hedged instrument reacquires the measurement approach of the class to which it originally belonged; for instruments designated at amortised cost, the cumulative revaluations/write-downs recognised as a result of changes in fair value of the hedged risk are recognised in the income statement under interest income and expense throughout the residual life of the hedged item, on the basis of the effective interest rate. If the hedged item is sold or repaid, the share of fair value not yet amortised is recognised immediately in the income statement;
- for cash flow hedges, the portion of changes in the fair value of the derivative that are determined to be an effective hedge is recognised directly at equity (item "120. Valuation reserves"), while it is recognised in the income statement only when changes in cash flows to be offset arise in the hedged item. The portion of gains or losses of the hedging instrument that is considered ineffective is charged to the income statement (item "90. Fair value adjustments in hedge accounting"). Said portion is equal to any difference between the cumulative fair value of the hedging instrument and the cumulative fair value of the hedged instrument. In any event, the fluctuations in fair value of the hedged item and the related hedge must lie within the 80%-125% range. If the cash flow hedge is no longer considered effective or the hedging relationship is terminated, the total amount of profits or losses on the hedging instrument, previously recognised in "Valuation reserves", is recognised in the income statement only when the hedged transaction will take place or when it is no longer deemed possible that the transaction will take place. In this last circumstance, the profits or losses are transferred from the shareholders' equity item to the income statement item "90. Fair value adjustments in hedge accounting";
- hedges of investments in foreign currency are accounted for using the same method as for cash flow hedges.

Derecognition criteria

Should the above tests fail to confirm the effectiveness of the hedging, both retrospectively and prospectively, hedge accounting, as described above, is discontinued. In that situation, the hedging derivative contract is reclassified under "Financial assets at fair value through profit and loss" and, specifically, under Financial assets held for trading.
In addition, the hedging relationship stops when:

- the derivative expires, is discharged or exercised;
- the hedged item is sold, expires or is repaid;
- it is no longer highly likely that the future hedged transaction will be carried out.

5 - Equity investments

Classification criteria

This item includes investments in associates or companies subject to joint control, which are carried at equity.
Associates are companies which are not subsidiaries, on which the Group has a significant influence. The company exercises a significant influence in all cases where it holds 20% or more of voting rights in the investee, and, irrespective of the shareholding percentage, whenever it has the power to participate in business and financial decisions of the investees, by virtue of specific legal relations, such as shareholders' agreements, the purpose of which is to ensure that the members of the agreement are represented in the management bodies and to safeguard a consistent management approach, without, however, controlling the same.
Companies subject to joint control are enterprises where the joint control is based on a contract or other agreement whereby it is necessary to obtain the unanimous consensus of all the parties sharing the control to make strategic financial and operating decisions. This takes place when the voting rights and control over the economic activity of the investee are shared jointly by Banco BPM and another party. Furthermore, an equity investment is qualified as

under joint control when, even though voting rights are not shared jointly, the unanimous consent of all parties sharing control is required to take decisions regarding significant activities.

Recognition criteria

Financial assets are initially recognised on the settlement date. Upon their initial recognition, financial assets classified in this category are carried at cost, including any goodwill paid for at the time of acquisition, which, therefore, is not independently, separately recorded.

Income item measurement and recognition criteria

The book value is subsequently increased or decreased to reflect the share of profit or loss of the investees attributable to the Group generated after the acquisition date, as a balancing entry to the consolidated income statement item "250. Profits (losses) on investments in associates and companies subject to joint control". Dividends received from investees are deducted from the book value of the investees.
Should it be necessary to carry out adjustments due to changes in shareholders' equity of the investee that have not been recognised in the investee's income statement (for ex. as a result of the designation at fair value of "Financial assets at fair value through other comprehensive income", as a result of the valuation of actuarial gains/losses on defined benefit plans), the share of the above changes attributable to the Group is recognised directly in the shareholders' equity item "120. Valuation reserves".
When applying the equity method, the most recent available financial statements of the associated company or company subject to joint control are used, suitably adjusted to take into account any significant events or transactions that have taken place between the last available financial statements of the investee company and the reference date of the consolidated financial statements. If the investee company adopts accounting standards that are different to those of the Group, changes are made to the financial statements of the investee.
After applying the equity method, investments in associates or jointly controlled entities are tested for impairment when there is objective evidence of impairment that could have an impact on the investee's cash flows and consequently on the recoverability of the book value of the investment.
The process of recognising any impairment, therefore, involves checking for possible indicators that are considered to show objective evidence of impairment, such as:

- significant financial difficulties of the investee company (for example, significant negative changes in the book value of shareholders' equity, reduction or interruption of the distribution of dividends, achievement of operating results below a physiological threshold, compared to the objectives of the budget or the long-term plan or down compared to previous years or compared to the situation that existed on the acquisition date of the investment);
- breach of contract, for example a default or failure to make payment by the investee;
- the extension of allowances for economic or legal reasons relating to the financial difficulties of the investee, which otherwise would not have been taken into consideration;
- the announcement or notice of a financial restructuring plan or the existence of a high probability that the investee may announce restructuring operations or may be declared bankrupt;
- the disappearance of an active market relating to the investment held due to the financial difficulties of the investee;
- significant changes that adversely affect the investment in the technological, market, economic or legal environment in which the investee operates;
- a significant or prolonged decrease in fair value below its cost. The Group considers a decrease in fair value of more than 30% below the purchase cost to be a significant decrease. The Group considers a continuous decrease in fair value for an uninterrupted period of more than 24 months to be a prolonged decrease.

If there is evidence that the value of an investment may be impaired, the recoverable value of the investment is estimated, which is the higher of the fair value, net of costs to sell, and the value in use. The value in use is calculated by discounting the future cash flows that the investment could generate, including the final disposal value of the investment. An impairment loss is recognised to the income statement if the book value, including goodwill, is lower than the recoverable value. If the reasons for an impairment loss are no longer valid due to an event occurring after the impairment was recognised, write-backs are recognised in the income statement, up to the amount of the impairment previously recognised.

Derecognition criteria

Equity investments are derecognised when there is a disposal in which all of the associated risks and rewards have been substantially transferred.
If there is a situation resulting in the loss of significant influence or joint control, any remaining equity investment is reclassified to the portfolios of financial assets set out in IFRS 9, normally that of "Financial assets at fair value through other comprehensive income", on the basis of the relative fair value. Derecognition from the item "Equity investments" may also take place if there are circumstances causing control to be obtained ("step acquisitions"). For more information please refer to paragraph 16 below entitled "Other information, Business combinations, goodwill and changes in interest holdings".

6- Property, plant and equipment

Classification criteria

Property, plant and equipment items include land, operating property, real estate investments, works of art, technical plants, furniture, fittings and equipment of any type that is planned to be used for a timeframe of more than one year. More specifically:

- assets held for use in the production or supply of goods and services are classified as "property, plant and equipment used in operations" and recognised in accordance with IAS 16;
- property held for rental to third parties or for capital appreciation through sale is classified as "property, plant and equipment held for investment" and follows the rules set out in IAS 40;
- property held to enhance the value of the investment through renovation or requalification for its subsequent sale is classified as inventories and follows the rules of IAS 2.

Also recognised in this item are rights of use (ROU) of property, plant and equipment acquired with lease contracts, as lessee, irrespective of the legal classification of the same.

The item includes finally the improvement and incremental costs on third party assets; these are costs to renovate rented property, incurred to render them suitable for their intended use. In detail, improvement expenses which:

- represent identifiable and separable property, plant and equipment items, are classified in the specific category to which they refer (e.g. technical plant, equipment);
- are not identifiable and separable from the property (for example walls) are booked as an increase in rights of use, recognised on the basis of the provisions of IFRS 16.

Recognition criteria

Property, plant and equipment items are initially carried at cost, which includes the purchase price and all accessory charges directly attributable to the acquisition of the asset and bringing it to working conditions. Extraordinary maintenance costs which entail an increase in future economic benefits are included in the asset's book value, while other ordinary maintenance costs are charged to the income statement.

For property posted under property, plant and equipment held for investment purposes, following the closure of the original credit position (known as "*datio in solutum*" - transfer in lieu of payment) the initial recognition value is equal to the fair value, taken from a specific appraisal.
The difference between the initial recognition value of the property and the book value of the previous credit exposure, subject to derecognition, is recognised under "Net losses/recoveries on credit risk" up to the amount of the gross receivable existing at the date of recognition. Taking account of the criterion of fair value measurement of real estate investments, as described below, in the situation where the fair value on initial recognition exceeds the value of the gross receivable, the excess value is recognised to the income statement under "Profits (losses) from the fair value designation of property, plant and equipment and intangible assets".
Where, at the time of finalising the transaction, the competent corporate bodies have made the decision to sell the property within a short time, the book value of the property shall be equal to its "immediate sale value", also deriving from a specific appraisal, unless negotiations are under way that give rise to the assumption of a higher recoverable amount.

In any event, if, on the date of recognition of the property, concrete negotiations for sale are under way, demonstrated by commitments undertaken by the interested parties and resolved by the competent corporate bodies, the initial recognition value must take account of the exit price resolved, net of any costs to sell, where it is lower than the "fair value" deriving from the appraisal.

For property, plant and equipment represented by rights of use, the initial recognition value is equal to the sum of the lease liability (present value of the future instalments to be paid for the contractual term), the lease payments made before or at the date from which the lease runs, the initial direct costs and any costs estimated for dismantling or reinstatement of the asset underlying the lease.

Income item measurement and recognition criteria

Subsequent to initial recognition, property, plant and equipment in ownership or acquired through rights of use is carried at cost, less any depreciation and impairment, excluding:

- property used in operations and valuable works of art, for which the Group has adopted the option permitted by IAS 16, to measure them using the revaluation model;
- real estate investments, for which the Group has adopted the option permitted by IAS 40, to measure them based on their fair value;
- property, plant and equipment that falls within the regulation of IAS 2, which are designated at the lower of the cost and net realisable value, which is the estimated sale price less estimated completion costs and other costs necessary to make the sale.

Property, plant and equipment used in operations: subsequent measurement

Depreciation

Property, plant and equipment used in operations is systematically depreciated throughout their estimated useful life, using the straight-line method, with the exception of:

- land, whether purchased separately or as part of the value of the buildings standing on it, as it has an unlimited life;
- works of art, considering that the useful life of a masterpiece cannot be estimated and its value normally is destined to increase with time.

The depreciation charge must be able to reflect the wear and tear on the assets over time as a result of their use, considering extraordinary maintenance costs which could result in an increase in the value of the assets.
The depreciable value is represented by the cost of the asset - for assets measured at cost - or the revalued amount - for assets measured based on the revaluation method - net of the residual value at the end of the depreciation process, where deemed significant.

"Leasehold improvements" are depreciated:

- if identifiable and separable property, plant and equipment items according to the useful life, as described above;
- if not identifiable and separable from the leased property, according to the shortest period between that in which the improvements and the additional expenses can be used and the residual duration of the lease contract, including the renewal period, if there is evidence in this regard.

Write-downs due to impairment

For assets measured at cost, at each balance sheet or interim reporting date, if there is any indication that an asset may be impaired, the asset's book value is compared with its recoverable amount, that is, equal to the higher of the asset's fair value, net of costs to sell, and its value in use, understood as the present value of future cash flows originated by the asset. Any adjustments are charged to the income statement. Whenever the reasons for the impairment loss are no longer valid, recoveries are recognised, which must not exceed the asset's value had no impairment taken place in the past, net of accrued depreciation.

Owned property used in operations and valuable works of art: revaluation model

For owned real estate assets used in operations and valuable works of art, the Group has adopted the revaluation method as the criterion for measurement.
Based on said method the assets shall be recognised at a revalued amount, equal to their fair value at the revaluation date, net of depreciation and any cumulative impairment losses. Based on that method:

- if the book value of the asset increases following revaluation (i.e. there is a positive difference between the revalued amount and the book value of the asset prior to revaluation), the increase must be recognised in a specific "valuation reserve" (subject to recognition in the statement of other components of comprehensive income without reclassification to the income statement), unless this is a recovery of a write-down previously recorded to the income statement. In this latter case, the recoveries must be recognised as income to the income statement up to the amount of the previous write-downs, and only any remaining amount is included in a valuation reserve;
- if the book value of an asset has decreased following the revaluation (i.e. there is a negative difference between the revalued amount and the book value of the asset prior to revaluation), the decrease in value must be recorded as a balancing entry:
  - o to the income statement as a cost, lacking pre-existing valuation reserves on the asset ("Profits (losses) from the fair value designation of property, plant and equipment and intangible assets");
  - o to shareholders' equity up to the amount of the credit balance of the revaluation reserve for those assets, and the excess to the income statement, as the revaluation of negative valuation reserves is not permitted.

Real estate investments: fair value method

For real estate investments, falling within the scope of application of IAS 40, the Group has adopted fair value measurement. Based on this method, following initial recognition, all real estate investments are measured at fair value.

Based on the fair value method:

- increases in fair value must be recognised in the income statement, as income ("Profits (losses) from the fair value designation of property, plant and equipment and intangible assets");
- decreases in fair value must be recognised in the income statement, as charges ("Profits (losses) from the fair value designation of property, plant and equipment and intangible assets").

In the event of sale, the difference between the consideration for the sale and the book value must be recognised in the income statement, as "Profits (losses) on disposal of investments".

For the methods of determining the fair value and the frequency of revaluation of real estate assets and valuable works of art, please refer to the criteria illustrated in the subsequent "Part A.4 – Fair value disclosure".

Derecognition criteria

Property, plant and equipment is derecognised from the balance sheet at the time of disposal or when the asset is permanently withdrawn from use and no future economic benefits are expected from its disposal.

Capital gains and losses deriving from the liquidation or disposal of property, plant and equipment are calculated as the difference between the net sale consideration and the book value of the asset and are recognised as a balancing entry to:

- the income statement: for assets used in operations designated at cost and for real estate investments (item "Profits (losses) on disposal of investments");
- shareholders' equity: for assets used in operations measured based on the revaluation method. The revaluations of real estate credited to the valuation reserves of shareholders' equity may be transferred to other shareholders' equity reserves (Other profit reserves), where the property is derecognised. Therefore, in the event of sale of the property, the valuation reserves are transferred to another item of shareholders' equity (from "valuation reserves" to "other reserves"), without, however, the possibility of transiting through the income statement.

The rights of use acquired through leases are eliminated from the balance sheet at the end of the lease contract.

7- Intangible assets

Classification criteria

Intangible assets are non-monetary, identifiable and non-physical assets originating from legal or contractual rights, owned to be used on a long-term basis and which are likely to generate future economic benefits. Intangible assets also include goodwill, which is the difference between the price paid for a business combination and the fair value of the net identifiable assets purchased, as illustrated in greater detail in paragraph "16 – Other information, Business combinations, goodwill and changes in interest holdings."

Recognition criteria

Intangible assets are carried at cost, adjusted to account for accessory charges, only if it is likely that the future economic benefits attributable to the asset will be realised, and if the cost of the asset can be reliably determined. Otherwise, the cost of the intangible asset is recognised in the income statement during the year it was incurred.

Income item measurement and recognition criteria

The cost of intangible assets, with definite useful life, is amortised on a straight-line basis over their useful life. If the useful life is undefined, as for goodwill and trademarks, no amortisation is carried out, only periodic assessments of the adequacy of the book value. At each balance sheet date or interim reporting date, if there is evidence of impairment, the asset's recoverable amount is estimated. The amount of the loss, recognised in the income statement, is equal to the difference between the asset's book value and recoverable value.

Intangible assets include software, intangible assets linked to the valuation of client relationships or the valuation of the trademarks recognised during business combinations, and goodwill.

Goodwill is not amortised, but must be regularly tested for impairment to verify the adequacy of its book value. Specifically, goodwill must be tested any time there is evidence of impairment, and in any case at least once a year. To this end, the cash-generating unit to which the goodwill is allocated is identified. This unit represents the lowest level at which goodwill is monitored for internal management purposes and should not be larger than the operating segment determined in compliance with IFRS 8.

The amount of any impairment is determined based on the difference between the book value of the goodwill and its recoverable amount, if lower. Said recoverable amount is equal to the higher of the fair value of the cash-generating unit, net of costs to sell, and its value in use. The value in use is the present value of future cash flows expected from cash-generating units to which goodwill was allocated. The resulting adjustments are charged to the income statement.
No subsequent recoveries can be recognised.

Derecognition criteria

Intangible assets are derecognised from the balance sheet at the time of disposal or when no future economic benefits are expected from it.

8 - Non-current assets and asset disposal groups held for sale

Classification criteria

Non-current assets and liabilities and asset/liabilities disposal groups are classified under the asset item "Non-current assets and asset disposal groups held for sale" - and under the liability item "Liabilities associated with asset disposal groups held for sale" whose book value will presumably be recovered through sale rather than continuous use.

In order to be classified under the above items, the assets or liabilities (or disposal group) must be immediately available for sale, and there must be active and concrete programmes which show that their disposal within one year with respect to the date of classification as assets held for sale is highly probable.

Income item measurement and recognition criteria

After they are classified in the above-mentioned category, these assets are designated at the lower of the book value and their fair value, net of costs to sell, with the exception of certain types of assets - such as all financial instruments falling within the scope of IFRS 9 - for which the standard IFRS 5 states that valuation criteria of the reference accounting standard must continue to be applied.
If the non-current assets held for sale can be amortised/depreciated, the amortisation/depreciation process ceases from the year the assets are classified under non-current assets held for sale and discontinued operations.
Expenses and income attributable to groups of assets and liabilities held for sale, if they are attributable to discontinued operations under the terms of IFRS 5, are recognised in the income statement, net of taxes, under item "320. Profit (loss) from discontinued operations, net of taxes" while those relating to individual non-current assets held for sale are recorded under the most appropriate income statement item.
Discontinued operations shall mean a significant, autonomous unit or geographical area of business, including one that is part of a single coordinated disposal programme, rather than a subsidiary acquired exclusively with a view to its re-sale.

Derecognition criteria

Non-current assets held for sale and asset disposal groups held for sale are derecognised from the balance sheet upon disposal.

9- Current and deferred taxation

These items include current and deferred tax assets, and current and deferred tax liabilities relating to income taxes.
Income taxes, calculated in compliance with current tax regulations, are accounted for based on the accrual principle, consistent with the recognition of the costs and revenues that generated the taxes in the financial statements. Therefore, this represents the tax charge, equal to the balance of current taxes and deferred tax assets and liabilities, relating to the income for the year. Income taxes are charged to the income statement, with the exception of those relating to items charged or credited directly to shareholders' equity, as they as well are consistently recognised directly through shareholders' equity.

In particular, current tax liabilities (assets) for the current and previous years reflect the amount of income taxes that are expected to be paid (recovered) to/from the tax authorities, based on a prudent estimate, applying the tax rates and tax regulations in force at the reporting date (interim reporting). Current tax assets and liabilities are shown as a net balance in the balance sheet, in case the settlement is executed based on the net balance, owing to the existence of a legal right to offsetting.

Deferred tax assets and liabilities are calculated based on temporary differences arising between the tax values of the individual assets and liabilities and their book values, without any time limits.
Deferred tax assets are recognised in the financial statements or the interim reports when it is probable that they can be recovered, which is assessed based on the ability of the company concerned and of the Group, as a result of the "tax consolidation" scheme, to continue to generate positive taxable income in future financial years, also taking account of the tax provisions in force at all times, such as Law no. 214/2011, which permits the transformation of certain deferred tax assets that meet specific conditions, into credits. Deferred tax liabilities are recognised in the financial statements or interim reports, with the sole exceptions of assets recognised in the financial statements at an amount higher than the value recognised for tax purposes and of reserves subject to tax on distribution, where it is reasonable to believe that no operations will be performed deliberately that would trigger taxation.
Recognised deferred tax assets and liabilities are systematically measured to account for any changes in regulations or tax rates, as well as for any changes in the subjective positions of the Group companies.

10- Provisions for risks and charges

Provisions for risks and charges: commitments and guarantees given

The sub-item in question includes provisions for credit risk for commitments to disburse the funds and guarantees given, which are subject to impairment rules pursuant to IFRS 9, as is the case for "Financial assets at amortised cost" and "Financial assets at fair value through other comprehensive income". For more information on the impairment model, please see the information set forth in the following paragraph "16 - Other information, Methods for determining impairment losses on financial assets".

In addition, this sub-item also includes provisions for risks and charges established for other types of commitments and guarantees given that, because of their specific characteristics, do not fall within the scope of impairment pursuant to IFRS 9.

Provisions for risks and charges: retirement benefits and similar commitments

As explained in the paragraph below "16 - Other information, Employee termination indemnities and other employee benefits", the sub-item "Retirement benefits and similar commitments" includes defined-benefit plans, namely pension funds backed by a capital repayment and/or return guarantee in favour of beneficiaries. Benefits to be paid in the future are measured by an external actuary, using the "projected unit credit method", as required by IAS 19.

Actuarial gains and losses, defined as the difference between the book value of the liability and the present value of the commitments at the end of the period, are accounted for in full directly to shareholders' equity under the item "Valuation reserves".

Provisions for risks and charges: other provisions for risks and charges

The sub-item "Other provisions for risks and charges" includes allocations recognised for estimated outlays for legal or implicit obligations deriving from past events. These outlays may be contractual in nature, such as allocations to the personnel incentive system and for early retirement incentives, indemnity required under contractual clauses when specific events take place, or for compensation and/or restitution, such as those against possible losses on lawsuits, including clawback actions, estimated outlays for customer complaints regarding securities brokerage and tax disputes.

Provisions for risks and charges consist of liabilities whose amount or expiry are uncertain, and are recognised in the financial statements only if:

- there is a current obligation (legal or implicit) as a result of a past event;
- it is likely that an outflow of resources will be required to produce economic benefits to settle the obligation;
- the amount of the probable future outflow can be reliably estimated.

The amount of the provision recognised represents the best estimate of the financial outlay required to meet the obligation existing at the reporting date and reflects the risks and uncertainties inherent in the facts and circumstances under examination. Whenever the time factor is significant, provisions are discounted using current market rates. The provision and the effect of discounting are recognised in the income statement in item "200. Net provisions for risks and charges", as is the increase in provisions as a result of the passing of time.

The provisions allocated are re-examined at each date of the financial statements and adjusted to reflect the best current estimate. When the outflow of resources to produce economic benefits to settle the obligation is unlikely, the allocation is reversed.

In addition, each provision must be used to pay for outlays for which the provision itself had been originally set aside.

11 – Financial liabilities at amortised cost

Classification criteria

"Financial liabilities at amortised cost" include the sub-items "Due to banks", "Due to customers" and "Debt securities issued" and consist of various forms of interbank and customer loans and funding carried out through certificates of deposit and bonds outstanding.

These also include loans recorded by lessees as part of leases, as well as funding repurchase agreements and securities lent against collateral in cash, to which the lender has full access. Also included are operating payables connected with the provision of financial services as defined in the Consolidated Banking Law and in the Consolidated Finance Law.

Recognition criteria

These liabilities are initially recognised when the amounts collected are received or the debt securities are issued and are carried out on the basis of their fair value, which is generally equal to the amount received or the issue price, increased by any additional costs/income directly attributable to the individual funding or issue transaction and not paid back by the lending counterparty. Internal administrative costs are excluded.
Repurchase agreements with the obligation to repurchase are recognised as funding transactions for the spot amount paid.
Lease payables are recognised on the basis of the present value of future instalments still to be paid for the contractual term.

Income item measurement and recognition criteria

Subsequent to initial recognition, the financial liabilities that emerged, net of any redemptions and/or repurchase, are designated at amortised cost, using the effective interest rate method. Short-term liabilities are an exception, if the time factor is immaterial. These are stated at their received value, and any incurred costs are charged to the income statement on a straight-line basis over the contractual life of the liability. Moreover, funding instruments under an effective hedge are measured based on the standards established for hedging transactions.

For structured instruments that incorporate an embedded derivative—in accordance with IFRS 9 and illustrated in the previous item "Financial assets held for trading"—the embedded derivative is separated out from the host contract. In that instance:

- the embedded derivative is classified as an asset or liability held for trading and is measured at fair value;
- the host contract is classified under financial liabilities at amortised cost.

Lease payables must be redetermined in the event of modification of the payments due (lease modification); the impact of the redetermination will be recorded as a balancing entry to the right-of-use asset.

Derecognition criteria

Financial liabilities are derecognised from the financial statements or interim reports when expired or cancelled. Derecognition also takes place in the event of repurchases of securities issued. The difference between the book value of liabilities and the purchase price paid is recorded in the income statement. The subsequent placement of own securities following their repurchase is accounted for as a new issue, recognised at the new placement price, with no effects on the income statement.

12- Financial liabilities held for trading

Classification criteria

The item in question includes:

- financial liabilities issued with the intention of repurchasing them in the short term;
- financial liabilities that are part of a portfolio of financial instruments that are jointly managed and for which there is a proven strategy for short-term profit;
- derivative contracts with a negative fair value and not designated as hedging instruments, including those linked to assets or liabilities at fair value through profit and loss and embedded derivatives separated out from financial liabilities at amortised cost.

These also include liabilities arising from technical overdrafts generated by trading in securities and own certificate issues.

Recognition criteria

Financial liabilities held for trading are initially recognised on the settlement date in case of cash liabilities and on the subscription date for derivative contracts.
Initial recognition is based on the fair value of liabilities, that generally corresponds to the collected amount, excluding transaction costs or income directly associated with the instruments, which are directly charged to the income statement.
Please refer to "Part A.4 – Fair value disclosure" for details on how fair value is determined.

Income item measurement and recognition criteria

Financial liabilities held for trading are measured at current fair value, with recognition of the result in the income statement.
Gains and losses from changes in fair value and/or from the sale of trading instruments are recognised in the income statement. For derivative instruments, if the fair value of a financial liability becomes positive, that item is accounted for in item " Financial assets at fair value through profit and loss: a) financial assets held for trading".
Trading profits or losses and gains or losses as a result of the valuation of the trading book are recognised in the income statement in the item "80. Profits (losses) on trading".

Derecognition criteria

Financial liabilities held for trading are derecognised when the contractual rights to the relative cash flows expire or when the financial liabilities are sold, with the substantial transfer of all risks and rewards arising from their ownership.

13 - Financial liabilities at fair value

Classification criteria

On initial recognition, financial liabilities are designated at fair value through profit and loss only if the following circumstances exist:

- this valuation eliminates or considerably reduces the inconsistency in valuation, that would otherwise be caused by measuring assets or liabilities or recognising the associated gains and losses on different bases (accounting mismatch);
- a group of financial assets, financial liabilities, or both is managed and its performance designated at fair value according to a documented risk management or investment strategy, documented internally by executives with strategic responsibilities;
- these are hybrid contracts containing one or more embedded derivatives, and the embedded derivative significantly changes the cash flows that would otherwise be expected from the contract.

The option to designate a liability at fair value is irrevocable, is made for the individual financial instrument and does not require the same application to all instruments with similar characteristics. However, it is not possible to designate at fair value only one part of a financial instrument attributable to a single risk component to which the instrument is subject.
For more details on the scope of Group liabilities under the fair value option and the method used to determine fair value and quantify its creditworthiness, please refer to paragraph "16 – Other information, Financial liabilities at fair value", and the subsequent "Part A.4 - Fair value disclosure".

Recognition criteria

The financial liabilities in question are designated at fair value from initial recognition. Initial income and expenses are immediately charged to the income statement.

Income item measurement and recognition criteria

Subsequent to initial recognition, financial liabilities are measured at their current fair value. The change in fair value is recognised in the income statement, with the exception of the effects resulting from changes in own credit risk, which are recognised in a specific valuation reserve (item "120. Valuation reserves"), unless this treatment creates or amplifies a mismatch in the income (loss). An accounting mismatch is created or amplified when the recognition of the effects of own credit risk in an equity reserve is such so as to entail a more significant disharmony in the income statement than that which would arise from recognising the entire change in fair value of the liability in the income statement. In this last case, the entire change in fair value of the liability, including the effect of the change in own credit risk, must be recognised in the income statement.
The effects correlated with the change in own credit risk are presented in the statement of comprehensive income, net of the related taxes, under other comprehensive income without reclassification to the income statement.
The amount recognised in the specific shareholders' equity reserve (item "120. Valuation reserves") will never be reversed in the income statement, even if the liability should have expired or been extinguished. In this instance, it will be necessary to reclassify the cumulative gain (loss) in the specific valuation reserve to another item of shareholders' equity ("150. Reserves").

Derecognition criteria

Financial liabilities are derecognised from the financial statements or interim reports when expired or cancelled. For financial liabilities represented by securities issued, derecognition is carried out also in case of repurchase: the difference between the book value of the liability and the purchase price is recorded in the income statement, with the exception of profits/losses connected to the change in own credit risk, which are recorded in a shareholders' equity reserve, as described above. The subsequent placement of own securities following their repurchase is considered, for accounting purposes, as a new issue, recognised at the new placement price, with no effects on the income statement.

14 - Foreign currency transactions

Classification criteria

Assets and liabilities in foreign currency include those denominated explicitly in a currency other than the euro as well as those which envisage financial indexing clauses linked to the exchange rate between the euro and a specific currency or a specific basket of currencies.

To determine the conversion procedures to be used, assets and liabilities in foreign currency are broken down between monetary and non-monetary items.

Monetary elements consist of sums in cash and assets and liabilities expressing the right to receive or the obligation to pay fixed or determinable amounts in cash (receivables, debt securities, financial liabilities). Non-monetary elements (such as equity instruments) are assets or liabilities that do not contemplate the right to receive or the obligation to pay fixed or determinable amounts in cash.

Recognition criteria

Upon initial recognition, foreign currency transactions are recorded in the functional currency, and the exchange rate applied to the amount expressed in foreign currency is the one in effect at the date of the transaction.

Income item measurement and recognition criteria

At each balance sheet date or interim reporting date, items expressed in foreign currencies are measured as follows:

- cash items are translated at the exchange rate in effect at the closing date;
- non-cash items carried at their historical cost are translated at the exchange rate in effect at the transaction date;
- non-cash items designated at fair value are translated at the exchange rate in effect at the closing date.

Exchange rate differences originated by the settlement of cash items, or by the translation of cash items at rates other than the initial ones, or by the conversion of the previous financial statements, are charged to the income statement at the time they arise.

When a gain or loss from a non-cash item is carried at equity, the relevant exchange rate difference is also carried at equity. Conversely, when a gain or loss on a non-monetary element is recognised in the income statement, the associated exchange rate difference is also recognised in the income statement.

For information about the conversion of the financial statements of foreign subsidiaries that use a currency other than the reference currency of the Parent Company (euro), please refer to section "Scope of consolidation and methods", contained in "A.1 - General part".

15 - Insurance assets and liabilities

No insurance companies are included in the scope of consolidation.

16- Other information

a) Contents of other financial statement items

Cash and cash equivalents

This item includes legal tender, including foreign banknotes and coins and demand deposits with the Central Bank of the country or countries where the Group operates through its companies or branches, with the exception of the minimum reserve.
The item is recognised at face value. The face value of foreign currencies is translated into Euro at the closing exchange rate at the period-end date.

Fair value change of financial assets and financial liabilities in macro fair value hedge portfolios

These items include, respectively, changes in financial assets or liabilities subject to macro hedging of interest rate risk, based on the respective balance, whether positive or negative.

Other assets

This item includes assets not attributable to the other balance sheet asset items. For example, this item may contain:

- gold, silver and precious metals;
- accrued income other than that capitalised on the related financial assets, including those deriving from contracts with customers pursuant to the IFRS 15 standard;
- receivables associated with providing non-financial goods or services;
- payable tax items other than those recognised in "110. Tax assets".

These may also include any remainders (of the "debtor's balance") of items in transit or suspended not attributed to the specific accounts, because they are of immaterial amounts.

Other liabilities

This item records liabilities not attributable to the other balance sheet liability items.
For example, this item contains:

- payment agreements that under IFRS 2 must be classified as payables;
- payables associated with the payment of non-financial goods or services received;
- accrued liabilities other than those to be capitalised on the related financial liabilities, including those deriving from contracts with customers pursuant to the IFRS 15 standard;
- sundry receivable tax items other than those recognised in "60. Tax liabilities" connected, for example, to withholding agent activities.

Employee termination indemnities and other employee benefits

Pursuant to IAS 19, employee benefits include all types of remuneration envisaged in exchange for the work performed by employees or by virtue of the termination of the employment relationship. Specifically, these are divided into:

- Short-term benefits (other than those for termination of the employment relationship) which are expected to be settled within 12 months from the end of the financial year in which the employees rendered their services;
- Post-employment benefits such as, for example, employee termination indemnities and pension funds;
- Benefits for the termination of employment due to employees following the company's decision to end the employment prior to the date of retirement;
- Long-term benefits (other than those for termination of the employment relationship) which are expected to be settled over a time frame of more than 12 months from the end of the financial year in which the employees rendered their services.

The treatment of "Benefits for the termination of employment" are shown below, as they are the most significant type for the Group.

According to IAS 19, employee termination indemnities represent a "post-employment benefit".
Following the supplementary pension reform, under Italian Legislative Decree no. 252 of 5 December 2005, new regulations were introduced for employee termination indemnities accrued beginning from 1 January 2007, recognised for accounting purposes.
In particular, for companies which had at least 50 employees in 2006, from an accounting perspective, employee termination indemnities accrued from 1 January 2007 are considered a "defined contribution plan"; the charge is limited to the benefits established under the Italian Civil Code, without applying any actuarial methodology.
Otherwise, the provisions for employee termination indemnities accrued up to 31 December 2006 will continue to be accounted for as a "defined benefit plan".
In general terms, the "post-employment plans" - which include, beyond the Provisions for employee severance indemnities, Pension funds - are classified into two categories, "defined benefits" and "defined contributions" on the basis of the relative characteristics.
More specifically, in defined contribution plans, the cost is represented by contributions accrued during the year, since the company only has the obligation to pay the contributions defined by contract to a fund, and has therefore no legal or implicit obligation to pay other amounts in addition to said contributions in the event that the fund does not have sufficient assets to pay all the benefits to employees.
In defined benefit plans, the actuarial and investment risk, namely the risk that contributions are insufficient or that the assets in which contributions are invested do not generate a sufficient return, is borne by the company. The liability is calculated by an external actuary using the "Projected Unit Credit Method". On the basis of the cited method, all future disbursements have to be estimated on the basis of demographic and financial assumptions, and are then discounted to take into account the time that will pass before the actual payment, and to be re-proportioned on the basis of the ratio of the years of service accrued and the theoretical seniority estimated at the time the benefit is disbursed. The actuarial value of the liability calculated in this way must then be adjusted by the fair value of any assets underlying the plan (net liabilities/assets).
The actuarial gains and losses that originate from changes in the previous actuarial assumptions, as a result of the actual experience or as a result of changes to the actuarial assumptions themselves, lead to the re-measurement of the net liability and are recognised as a balancing entry to a shareholders' equity reserve. Said gains and losses are recorded in the "Statement of comprehensive income".
The change in the liability resulting from an amendment or a reduction in the plan is recognised in the income statement as a gain or loss. In detail, an amendment is made when a new plan is introduced, rather than if an existing plan is withdrawn or amended. On the other hand, there is a reduction when there is a significant decrease in the number of employees included in the plan, such as in the case of plans for reduction of redundant personnel (access to the Solidarity Fund).
The "Projected Unit Credit Method" described above, is also used to measure long-term benefits, such as "seniority bonuses" awarded to employees. Unlike that described for "defined benefit plans", actuarial gains and losses relating to the measurement of long-term benefits are recognised immediately in the income statement.

Valuation reserves

This item includes valuation reserves associated with equity instruments designated at fair value through other comprehensive income, financial assets (other than equity instruments) at fair value through other comprehensive income, foreign investment hedges, cash flow hedges and exchange rate differences, as well as individual assets held for sale and discontinued operations, the share of valuation reserves related to equity investments carried at equity, actuarial gains (losses) on defined benefit plans and profit/loss connected to the change in own credit risk relating to fair value option liabilities. It also includes the revaluation reserves recognised in compliance with special revaluation regulations, also if subject to "tax exemption".

Equity instruments

Equity instruments are instruments representing a residual equity investment in the assets of the Group, net of its liabilities. The classification of an instrument that can be classified as an equity instrument requires that there be no contractual obligations to make payments in the form of reimbursement of principal, interest or other types of returns.
Those instruments, different from ordinary shares or savings shares, are classified under item "140. Equity instruments" for an amount equal to the price collected for their issue, less the transaction costs that are directly attributable to the transaction, after taxes.
Any coupons paid, after taxes, are posted as a reduction of item "150. Reserves", if and for the amount at which they were paid.
If such instruments are extinguished or repurchased, the difference between the price paid and the book value of such equity instruments is recognised in shareholders' equity under item "150. Reserves".

Share capital and treasury shares

Share capital includes shares issued by the bank net of any capital already subscribed but not yet paid up at the balance sheet or interim reporting date. This item includes any treasury shares held by the bank. The latter are recognised in the financial statements in their own item as a negative component of shareholders' equity.
The original cost of repurchased treasury shares and the gains or losses originated by their subsequent sale are recognised as changes to shareholders' equity.
Transaction costs relating to operations on share capital, such as share capital increases, are recorded as a decrease in shareholders' equity, net of any related tax benefits.
Dividends on ordinary shares are recognised as a reduction in shareholders' equity in the year in which the Shareholders' meeting approves their distribution. Any advances on dividends disbursed to shareholders are recognised in the balance sheet liability item "Advances on dividends" with a negative sign.

Minority interests

This item shows the portion of consolidated shareholders' equity attributable to shares owned by minority shareholders, calculated based on "equity ratios". The amount is calculated net of any treasury shares repurchased by consolidated companies.

b) Illustration of other significant accounting treatments

Dividends and revenue and cost recognition

Revenue from contracts with customers (IFRS 15)

Revenue is the gross inflow of economic benefits that flow to the entity as payment for its obligation to transfer to the customer a wide range of goods and services that are part of ordinary activities.
Pursuant to IFRS 15, the entity must recognise revenues on the basis of the fee that it expects to receive for the assets or the services provided in the ordinary course of business. In detail, the recognition of revenues must take place on the basis of the following five steps:

- identify the contract, defined as an agreement with commercial substance between two or more parties able to generate rights and obligations;
- identify the performance obligations in the contract;

- determine the transaction price, namely the amount to which an entity expects to be entitled in exchange for the transfer of goods and services;
- allocate the transaction price to each performance obligation on the basis of the stand-alone selling price;
- recognise the revenues allocated to the single performance obligation when the same is satisfied, namely when the customer obtains control of the goods or the services. This recognition takes into account the fact that some services may be rendered at a specific point in time or over a period of time.

Revenues from contractual obligations with customers are recognised in profit or loss when it is probable that the entity will receive the payment to which it is entitled in exchange for the goods or services transferred to the customer. This payment must be allocated to the single obligations covered by the contract and must be recognised as revenue in the income statement based on the timing of fulfilment of the obligation. Specifically, revenue may be recognised in the income statement:

- at a particular point in time, when the entity settles its performance obligation by transferring the promised good or service to the customer, or
- over time, as the entity settles its performance obligation by transferring the promised good or service to the customer.

The performance obligation is considered fulfilled when the customer acquires control of the transferred good or service.
The consideration promised in the contract with the customer may include fixed amounts, variable amounts or both. Specifically, the consideration for the contract may vary as a result of redemptions, discounts, refunds, incentives, performance bonuses or similar items. The variability of the consideration may also depend on whether or not a future event occurs. In the presence of variable consideration, the revenue is recorded in the income statement when it is possible to estimate the revenue reliably and only if it is highly probable that this amount will not subsequently have to be reversed in the income statement, in whole or in a significant part.
If the entity receives a payment from the customer that it expects to reimburse the customer, in whole or in part, for the revenue received, a liability should be recognised for the expected future redemptions. The estimate of this liability is updated at each balance sheet date or interim reporting date and is carried out based on the portion of the amount that the entity expects not to be entitled to.

Costs

Costs associated with obtaining and fulfilling contracts with customers are recognised in the income statement in the periods in which the corresponding revenues are accounted for. Costs that are not directly associated with revenues are immediately charged to the income statement.

Revenues and costs related to financial instruments

With reference to income and charges relating to financial assets/liabilities, it should be noted that:

- interest is recognised *pro-rata temporis* on the basis of the contractual interest rate or the effective interest rate if the amortised cost method is used. In the latter case, any marginal costs and incomes, considered an integral part of the return of the financial instrument, are calculated in the effective interest rate and recognised as interest. The item interest income (or interest expense) also includes the positive (or negative) spreads or margins accrued until the reporting date, relating to financial derivative contracts:
  - hedging financial assets and liabilities that generate interest;
  - classified in the balance sheet in the trading book, but operationally connected with financial assets and/or liabilities designated at fair value (Fair Value Option);
  - operationally connected with assets and liabilities classified in the trading book and which envisage the settlement of spreads or margins at multiple maturities;
- default interest, if provided for by contract, is recorded in the income statement only when actually collected;
- dividends are recognised in the income statement when the legal right to collect them ensues, and, therefore, when their distribution is resolved;
- profits and losses from initial recognition of the fair value of financial instruments are recognised in the income statement at the time of recognition of the transaction, based on the difference between the price paid or collected and the fair value of the instrument, only when the fair value can be determined by

referring to current observable market transactions or using valuation techniques the inputs of which are observable market parameters. Otherwise, these profits and losses are distributed over time, taking the nature and the term of the instrument into account;
- gains and losses deriving from the sale of financial instruments are recognised in the income statement when the sale is completed, with the relative transfer of the risks and rewards, based on the difference between the amount received and the book value of the instruments.

Share-Based Payments

Share-based payments are payments made to employees, as a consideration for work performed, settled with equity-linked instruments, which may, for example, consist of the assignment of:
- stock options;
- rights to receive shares when specific targets are reached.

For accounting purposes, in accordance with IFRS 2, payments based on treasury shares are configured as equity-settled plans, to be recorded on the basis of the fair value of the services received.
Considering how difficult it is to directly estimate the fair value of work received in exchange for the assignment of shares, it is possible to indirectly measure the value of services received, by referring to the fair value of the equity-linked instruments at their assignment date.
Employee incentive plans based on treasury shares are therefore recorded in the income statement (item "190. a) Personnel expenses") as a balancing entry to a corresponding increase in shareholders' equity (item "150. Reserves"), on the basis of the fair value of the financial instruments assigned at the assignment date and on the basis of the accrual basis of the service provided.
In detail, when assigned shares cannot be immediately "used" by the employee but can be used when the employee has completed a given term of service, the company shall pay the cost as a consideration for the service provided throughout the vesting period.
For subsidiaries, incentive plans based on the Parent Company's shares, and not on treasury shares, are cash settled plans. In accordance with IFRS 2, in the respective company financial statements, the cost pertaining to the period is therefore recorded among personnel expenses, as a balancing entry to an increase in the liability item "Provisions for risks and charges". In the context of the consolidated financial statements, these plans, as they are settled through shares of the Parent Company, are instead represented as equity-settled plans on the basis of the treatment described above.

Repurchase agreements, securities lending and forward agreements

Repurchase or forward agreements whereby the Group sells securities to third parties with the obligation to repurchase them upon maturity of the transactions at a predetermined price are recognised in payables to banks or to customers, depending on the counterparty. Likewise, repurchase or forward agreements whereby the Group acquires securities from third parties with the obligation to resell them upon maturity of the transactions at a predetermined price are recognised in receivables from banks or customers (accounting categories of the "Financial assets at amortised cost"), depending on the counterparty. The difference between the spot and forward price of the above-mentioned transactions is recognised as interest (expense or income depending on the case) on an accrual basis throughout the life of the transaction. Securities lending transactions in which the guarantee is represented by cash which is fully available to the lender are recognised in the financial statements like the above-mentioned repurchase agreements.

In the case of securities lending transactions with a guarantee consisting of other securities, or with no guarantee, the lender and the borrower continue to recognise the security subject to the loan and any security provided as a guarantee, respectively, in the balance sheet assets. The remuneration of this transaction is recognised by the lender in item "40. Fee and commission income" and by the borrower in item "50. Fee and commission expense".

Offsetting financial instruments

In accordance with IAS 32, paragraph 42, financial assets and financial liabilities may be offset and the net balance may be reported in the financial statements if the entity:
- has a legally enforceable right to make said offsets, currently exercisable in all circumstances, where they refer to regular business operations or to situations of default, insolvency or bankruptcy of the parties;

- intends either to settle the transactions on a net basis, or to settle the same on a gross basis, the substantial effects of which are equivalent to a settlement on a net basis.

For derivative instruments covered by netting arrangements, which meet the requirements illustrated above, Circular no. 262 envisages that all trading derivatives and all hedging derivatives may be offset. If the imbalance of trading derivatives is the opposite sign of that of the imbalance of all hedging derivatives, said imbalances are to be reported on a net basis: usually, the net balance is allocated to the trading book rather than as hedging derivatives, depending on the prevailing absolute value of the imbalance of trading derivatives compared to that of hedging derivatives.
In accordance with the requirements of accounting standard IFRS 7, further information is provided in the tables contained in Part B - Other information in these notes to the financial statements. In particular, these tables set out:

- the book values of assets and liabilities that meet the requirements set out by IAS 32, paragraph 42, before and after netting in the accounts;
- exposures subject to master netting arrangements that did not give rise to netting, but could activate it as a result of specific circumstances;
- the collateral guarantees connected thereto.

Securitisations - derecognition from financial statements of financial assets transferred

In securitisation transactions put in place by the Group, the transfer of financial assets to an SPE (special purpose entity), even if with recourse entails the derecognition of these assets from the financial statements, only if there is a substantial transfer of the risks and rewards. In the event that the substantial transfer of risks and rewards cannot be verified, the transferred assets are derecognised if the Group relinquishes all control over them. In the event of such circumstances, the difference between the book value of the assets sold and the amount received, including the new assets acquired, is recognised as a gain or loss in the income statement.
Otherwise, there is no derecognition from the financial statements if the Group has maintained the risks and rewards associated with the securitised portfolio, even though it has been sold without recourse, for example via the comprehensive subscription of a tranche of junior securities or securities that bear the risk of the initial losses or through the assumption of similar exposures. Consequently, the transferred receivables must continue to be recognised in the separate financial statements of the originator bank as “Assets sold and not derecognised”, while the consideration collected for the transfer is recognised as a balancing entry to the payable owed to the SPE, net of the securities subscribed by the bank in question. In the consolidated financial statements, the main impact of the consolidation of the SPE and of the related assets of the securitisation, if the requirements of control established by IFRS 10 are fulfilled, is that the securities issued by the SPE and subscribed by entities not belonging to the Group are recorded in the consolidated balance sheet.
For further details, see the information reported in these Notes to the financial statements “Part E - Section 1 - C. Securitisation transactions”.

Leases

IFRS 16 defines a lease as a contract, or part of a contract, on the basis of which the lessor grants to the lessee the right to use an identified asset (ROU, Right Of Use) for a certain period of time in exchange for a certain consideration. The key elements for defining whether a contract, or part of it, comes under the definition of a lease are the fact that the asset is identified, and that the lessee has the right to control the use of the same and to receive substantially all its economic benefits.

Accounting in the lessee’s financial statements

For the lessee, the accounting model provides for recognition in the balance sheet of a liability on the basis of the present value of the future instalments to be paid for the contractual term as a balancing entry to the recognition, among the assets, of the right of use of the asset covered by the lease contract.

In detail, the date of initial recognition of the asset and the liability in the company’s balance sheet corresponds to the start date of the contract, that is the date on which the asset is made available to the lessee.

At this date the lessee recognises:

- among "Property, plant and equipment", the right-of-use asset, determined by the sum of the following amounts:
  - present value of the future payments (amount of the liability recognised);
  - initial direct costs (such as costs for agents);
  - prepaid lease instalments (maxi-instalment);
  - estimate of any costs for removal and reinstatement, recognised in accordance with IAS 37;
  - net of any lease incentives received from the lessor;
- among "Financial liabilities at amortised cost", the financial liability, equal to the present value of the payments due for the lease. The discounting rate used is equal to the incremental borrowing rate as at the date on which the contract is signed. This rate was identified as that used for managerial purposes which expresses the average cost of Group funding, both secured and unsecured, considering in the time bracket in which the contract expires.

In identifying a lease contract, Banco BPM Group avails itself of the option given by IFRS 16 to not consider "short-term" contracts, that is those expiring at less than 12 months, and "low-value" ones, that is those with a value of the assets when new of less than 5,000 euro. For contracts in the above categories, the costs of the instalments are recognised directly in the income statement at the moment that they fall due.

With reference to the lease duration, in addition to the period that cannot be cancelled, during which the Group cannot avoid paying charges, extension options were considered if their exercise by the Group was held to be reasonably certain, considering all facts and circumstances. More specifically, with reference to contracts envisaging the faculty of the lessor to renew the lease at the end of the first period, the Group considers the initial term of the rental contract (e.g. 12 years for 6 + 6 year rental contracts) and, once this term has ended, the following first renewal period (e.g. next 6 years), where there is no reasonable evidence that may lead to another renewal period or, vice versa, the end of the contract. In addition, it is assumed that the lease contract is renewed in the subsequent period if in the 18 months before expiry of the first period or of the subsequent renewal the lessee has not given notice to the lessor.

After recognition:

- the right-of-use asset must be measured at cost on the basis of IAS 16 and subject to depreciation and any impairment along the term of the contract or the useful life of the asset;
- the liability is designated at amortised cost, that is it is increased following the accrual of the interest payable and gradually reduced as a result of payment of the instalments.
  In the event of changes in the payments due for the lease, the liability must be redetermined, as a balancing entry to the right-of-use asset. The change may result in the recognition of a separate lease (if the subject of the contract in force increases) or a change to the existing contract, with the resulting change in the lease liabilities at the effective date of the change. The changes are recognised as balancing entries to the right of use, with the exception of gains and losses deriving from (partial or total) derecognition of the lease, which are included in the income statement.

Accounting in the lessor's financial statements

The lessor must distinguish in its financial statements, the accounting for the assets granted in finance leases from those of assets granted in operating leases.

A lease is classified as finance lease if it transfers substantially all the risks and rewards to the lessee. Finance leases, in practice, are loan contracts with which the lease company purchases an asset, on behalf of the lessee, granting it the right of use.

The accounting in the lessor's financial statements is done with the financial method, through recognition of a loan of an amount equal to the principal of the instalments to be received (plus "up-front" external transaction costs not recovered and minus "up-front" transaction revenues that contribute to the remuneration of the receivable), as if it were a loan operation.

Subsequently, the receivable is designated at amortised cost, equal to the initial recognition value decreased by repayments of principal, decreased/increased by the amortisation - calculated according to the effective interest rate method - of the difference between the amount disbursed and the amount repayable at maturity, typically comparable to the costs/income directly associated with the individual receivable. The receivables are subject to the rules on impairment. For more details of the rules on accounting for receivables designated at amortised cost please see the contents of point “3. Financial assets at amortised cost” of this Part A.2.

Operating leases in the lessor’s financial statements are represented in the balance sheet, leaving the leased assets among “Property, plant and equipment for investment purposes” which are measured at fair value, just as the remaining assets recognised in that category. In the income statement, income deriving from leases is included in “other operating income”.

Off-balance sheet credit exposures - guarantees given and commitments

General off-balance sheet credit exposures are represented by the guarantees issued and by the irrevocable commitments to issue funds at predetermined terms and conditions entailing the assumption of a credit risk and fall within the scope of the impairment provisions of IFRS 9.
The initial recognition value of guarantees given equals the fair value, which normally corresponds to the amount received on issuing the guarantee.
Subsequently, the guarantees given are measured at the higher of the amount recognised on initial recognition, net of any amortisation charge, and the amount estimated to fulfil the obligation.
For the purposes of calculating expected losses, the same allocation methods in the three stages of credit risk described in IFRS 9 and already described in part “3 - Financial assets at amortised cost” and “2 - Financial assets at fair value through other comprehensive income”, as well as in part “16 - Other information, Methods for determining impairment losses on financial assets”, are used.
As indicated in part “10 - Provisions for risks and charges”, the provisions relating to the write-down of guarantees given and commitments to disburse funds are recognised under balance sheet item “100. Provisions for risks and charges: a) commitments and guarantees given”. In accordance with the provisions contained in Circular no. 262 of the Bank of Italy, the balancing entry is the income statement item “200. Net provisions for risks and charges: a) commitments and guarantees given”.

Business combinations, goodwill and changes in interest holdings

A business combination involves the union of businesses or separate business activities in a single entity obliged to draw up financial statements.
A combination may give rise to an investment relationship between the purchasing Parent Company and the subsidiary acquired. In such circumstances, the purchaser applies standard IFRS 3 in the consolidated financial statements while in the separate financial statements the shareholding acquired as an investment in the subsidiary is recorded, applying accounting standard IAS 27 “Separate Financial Statements”.
A combination may also envisage the purchase of the net assets of another entity, including any eventual goodwill, or the acquisition of the capital of another entity (mergers, conferrals, business segment acquisitions). A combination of this type does not translate into an investment relationship similar to that between the parent and subsidiary company and therefore in these cases accounting standard IFRS 3 applies also in the separate financial statements of the purchaser.
Business combinations are recognised using the purchase method, which requires: (i) the identification of the acquirer; (ii) the calculation of the cost of the business combination; (iii) the allocation of the purchase price ("Purchase Price Allocation").

Identification of the acquirer

For all business combinations, IFRS 3 requires the identification of an acquirer, identified as the party that obtains control over another entity, meaning the power to establish the financial and operational policies of that entity in order to obtain benefits from its business activities. For business combinations that result in the exchange of shareholdings, the identification of the acquirer must consider factors such as: (i) the number of new ordinary shares with voting rights issued with respect to the total number of ordinary shares with voting rights which will constitute the share capital of the company existing after the combination; (ii) the fair value of the entities that participate in the combination; (iii) the composition of the new corporate bodies; (iv) the entity that issues the new shares.

Calculation of the cost of the business combination

The price transferred in a business combination equates to the fair value, as of the acquisition date, of the assets transferred, the liabilities incurred and the equity instruments issued by the purchaser in exchange for obtaining control over the entity acquired. The price which the purchaser transfers in exchange for the entity acquired includes any asset or liability emerging from an agreement on the potential price, to be recorded as of the acquisition date on the basis of the fair value. Changes to the transferred price are possible if they derive from additional information on events or circumstances which existed as of the acquisition date and are recognisable within the business combination measuring period (or rather within twelve months of the date of acquisition, as will be specified further on). Any other change which derives from events or circumstances subsequent to the acquisition, such as for example that acknowledged to the seller linked to achievement of specific income-related performances, must be recognised in the income statement.
The costs relating to the acquisition, which include brokerage commission, advisory, legal, accounting and professional costs, general administrative expenses, are recorded in the income statement at the time they are incurred, with the exception of the costs for issuing shares and debt securities which are recorded on the basis of the matters laid down by IAS 32.

Purchase Price Allocation (PPA)

On the basis of the acquisition method, at the acquisition date, the acquirer must allocate the cost of the business combination (the "purchase price allocation" or PPA) to the identifiable assets acquired and the liabilities assumed measured at the relative fair values at that date, also recognising the value of the minority interests of the acquired entity. Exceptions to the application of this principle include the recognition:

- of income taxes;
- of liabilities relating to employee benefits;
- of assets deriving from indemnities;
- of rights reacquired;
- of transactions with share-based payments;
- of assets held for sale

to which the respective reference principles shall apply.
Therefore, it is necessary to draw up a balance sheet of the acquired company at the acquisition date, calculating at fair value the identifiable assets acquired (including any intangible assets not previously recognised by the acquired entity) and the identifiable liabilities assumed (including contingent).
With regard to each business combination, the minority interests can be recorded at fair value or in proportion to the portion held in the identifiable net assets of the company acquired.
In addition, if control is achieved by means of subsequent acquisitions (business combinations carried out in several phases), the shareholding previously held is measured at fair value as of the acquisition date and the difference with respect to the previous book value must be recorded in the income statement.
At the acquisition date, the acquirer therefore must determine the difference between:

- the sum of:
  - the cost of the business combination;
  - the amount of any minority interests as described above;
  - the fair value of any interest holdings previously held by the acquirer;
- the fair value of the net identifiable assets acquired, including contingent liabilities.

Any positive difference must be recognised as goodwill; otherwise, any negative difference must be recognised in the income statement of the entity resulting from the business combination as profit deriving from a bargain purchase (negative goodwill or badwill), after making a new measurement to ascertain the proper process for identifying all assets acquired and liabilities assumed.
Identification of the fair value of the assets and liabilities must be finalised definitively within a maximum period of twelve months as from the acquisition date (measuring period).

Once control has been obtained and the acquisition method previously described applied, any further increase or decrease in the shareholding in a subsidiary company which continues to be controlling is recorded as a transaction between shareholders. Therefore, the book value of the group and minority shareholders' equity must be adjusted to reflect the changes in the holding in the subsidiary. Any difference between the value for which the minority interests are adjusted and the fair value of the price received or paid must be recorded directly in the group shareholders' equity.

In the presence of an event that results in a loss of control, the effect to be recognised in the income statement is equal to the difference between (i) the sum of the fair value of the price received and of the fair value of the residual shareholding held and (ii) the prior book value of the assets (including goodwill), of the liabilities of the subsidiary, and any minority shareholder's equity. The amounts previously recognised in the statement of comprehensive income (such as the valuation reserves of financial assets at fair value through other comprehensive income) must be recorded in the same way as required in the event that the parent company has directly disposed of the assets and the related liabilities (by means of reclassification in the income statement or shareholders' equity).
The fair value of any shareholding held in the former controlling investment must be considered equal to the fair value at the time of initial recognition of a financial asset on the basis of IFRS 9 or, if appropriate, equal to the cost at the time of initial recognition in an associated company or a jointly-controlled entity.

Transactions achieved for reorganisation purposes, between two or more businesses or corporate assets forming part of the Group, are not considered to be business combinations. These transactions (business combinations under common control) are excluded from the scope of application of IFRS 3 and, in the absence of a reference standard, are accounted for with reference to Assirevi's preliminary interpretative documents/guidelines, or in continuity of the values of the entity acquired in the financial statements of the purchaser, if they do not have a significant influence on future cash flows. In particular, the values adopted are those resulting from the Group's consolidated financial statements at the date of transfer of the assets. This is in compliance with the matters established by IAS 8 paragraph 10, which requires, in the absence of a specific standard, the use of one's own judgement when applying an accounting standard for the purpose of providing relevant, reliable, prudent disclosure which reflects the economic essence of the transaction.

Methods for determining impairment losses on IFRS 9 Financial Instruments

At each balance sheet or interim reporting date, loans and debt securities classified under "Financial assets at amortised cost" and "Financial assets at fair value through other comprehensive income" - as well as off-balance sheet exposures represented by commitments to disburse funds and the guarantees given - must be subject to impairment in order to estimate expected losses in value due to credit risk (ECL - Expected Credit Losses).

General features of the impairment model

According to the Expected Credit Losses calculation model, losses must be recorded not only with reference to objective evidence of impairment losses that had already occurred at the valuation date, but also on the basis of expectations of future impairment that has not yet occurred.
In particular, the ECL model states that the aforementioned instruments must be classified into three distinct stages, according to their absolute or relative credit quality or compared to the initial disbursement, to which different criteria correspond for measuring the expected losses. More specifically:

- Stage 1 includes both originated and acquired performing financial assets that display no significant deterioration in credit risk (SICR - Significant Increase in Credit Risk) with respect to the initial recognition date;
- Stage 2 includes performing financial assets with significant deterioration in credit risk on the valuation date compared to the initial recognition, albeit not impaired;
- Stage 3 includes all exposures for which one or more events capable of negatively impacting cash flows are found (evidence of impairment), namely exposures that are considered non-performing.

For Stage 1 exposures, the expected loss is accounted for, on the date of initial recognition and on each subsequent reporting date, for up to one year; for Stage 2 and 3 exposures, expected losses are recognised over the entire residual lifetime of the instrument.
An exception to the foregoing is represented by financial assets that are considered non-performing from the time of their acquisition or origin (POCI - Purchased or Originated Credit Impaired). Please refer to the paragraph "Acquired or originated impaired financial assets" for more information on this.

For Banco BPM Group, the scope of the exposures classified in Stage 3 corresponds to that of non-performing loans, identified in accordance with the definitions established by the supervisory provisions in force (Bank of Italy Circular no. 272 "Matrix of accounts") and referred to by Bank of Italy Circular no. 262 "Bank financial statements: layouts and rules for preparation", insofar as retained consistent with IAS/IFRS standards in terms of objective evidence of impairment. Based on the above-mentioned circulars, the scope of non-performing loans corresponds to the "Non-Performing Exposure" aggregate defined by Regulation (EU) 2015/227, which incorporated the EBA's "Implementing Technical Standards (ITS) on Supervisory reporting on Forbearance and Non-Performing exposure" (EBA/ITS/2013/03/rev1 24/7/2014). Specifically, the circulars identify the following categories of non-performing assets:

- Bad Loans: these represent the set of cash and "off-balance sheet" exposures with respect to a party in a state of insolvency (even if not ascertained in court) or in substantially equivalent situations, irrespective of any loss forecasts developed by the bank;
- Unlikely to Pay: these represent cash and off-balance sheet exposures for which the conditions are not met for the classification of the borrower under bad loans and for which it is deemed unlikely that the borrower will meet its credit obligations (for principal and/or interest) in full without recourse to actions such as the enforcement of guarantees. This assessment is carried out irrespective of the presence of any amounts (or instalments) past due and unpaid. Classification as unlikely to pay is not necessarily linked to the explicit presence of anomalies, such as non-repayment, but it is linked to the existence of elements indicative of a situation of risk of default by the borrower (for example, a crisis in the industrial sector in which the borrower operates);
- Past due and/or non-performing overdue exposures: cash exposures, other than those classified as bad or unlikely to pay loans which, at the reference date, have a past due and/or overdue position for more than 90 days, in accordance with the thresholds of significance provided for by law. For Banco BPM Group, past due and/or non-performing overdue exposures are determined by making reference to the position of the individual borrower.

In addition, in line with EBA standards, Bank of Italy regulations have introduced the definition of "forborne exposures". In particular, these are exposures benefiting from forbearance measures, which consist of concessions, in terms of changes to and/or the refinancing of an existing loan, granted only to customers in financial difficulty, or to prevent the financial difficulty of the same, which could have a negative effect on his ability to fulfil his original contractual obligations. They are not granted to a borrower with the same risk profile but who is not in financial difficulty. These tolerance measures must be identified in terms of individual credit lines and may regard the exposures of debtors classified both as performing and non-performing.
For exposures with forbearance measures classified as unlikely to pay, the return to performing exposures, and in particular in Stage 2 exposures, can occur only after one year has elapsed since it was granted (the probation period) and all the other conditions laid out in paragraph 157 of the EBA's ITS are met.
In any event, renegotiated exposures must not be considered forborne when the debtor is not in a situation of financial difficulty: these are renegotiations granted for commercial reasons.

Impairment losses on performing financial instruments

Regarding performing financial assets, i.e. those assets not considered non-performing, as defined above, it is necessary to assess, at each reporting date and at the individual relationship level, the existence of a significant increase in credit risk (SICR – "Significant Increase in Credit Risk") by comparing the credit risk associated with the financial instrument at the time of valuation and at the time of initial disbursement or acquisition. This comparison is made on the basis of quantitative and qualitative criteria. More specifically, in order to identify the existence of a significant deterioration in credit quality and the subsequent transfer of the financial instrument from Stage 1 to Stage 2, Banco BPM Group has identified the following criteria (Stage Assignment):

- relative quantitative criteria, based on statistical observations, considered an indication of a significant increase of credit risk over time;
- absolute qualitative criteria, represented by the identification of trigger events or by the surpassing of absolute thresholds as part of the credit monitoring process;
- backstop indicators, namely credit delinquency factors, the emergence of which leads to the assumption that there has been a significant increase of credit risk, unless there is evidence to the contrary.

Once the allocation to the various stages of credit risk has been defined, the expected losses (ECL) are determined by assigning the following risk parameters to each individual transaction or tranche:

- PD (Probability of Default): represents the probability that a performing exposure can move to impaired status over the course of one year. This factor is quantified using internal exposure rating models or on the basis of average segment/portfolio data;
- LGD (Loss Given Default): the percentage of loss in the event of default, quantified on the basis of historical experience of recoveries discounted on the basis of impaired accounts;
- EAD (Exposure at Default): the exposure at the moment of default.

Value adjustments for expected losses are then quantified as a product of PD, LGD and EAD.
The models used to estimate these parameters employ the same parameters used for regulatory purposes, making specific adjustments to account for the different requirements and purposes between accounting and prudential regulations. In keeping with the impairment model of IFRS 9, the main adjustments aim to:

- remove the margins of conservatism required solely for prudential purposes;
- account for the conditions of the current economic cycle (PiT - Point-in-Time) instead of the measurement of the parameters through the economic cycle (TTC - Through the cycle), which is required for regulatory purposes;
- introduce forecast information regarding future trends in macroeconomic factors (forward-looking) considered potentially capable of influencing the debtor's situation;
- extend risk parameters to a long-term perspective, accounting for the lifetime of the credit exposure to be assessed.

Specifically, the PDs calculated over the lifetime of the instrument are obtained on the basis of the regulatory PDs, which account for the entire TTC economic cycle, appropriately calibrated, by means of satellite models to reflect the default rates based on current (PiT) and prospective (forward-looking) conditions.
LGD values are assumed to be equal to the regulatory recovery rates calculated through the economic cycle (TTC) and suitably adjusted in order to remove some of the conservativism margins present in the regulatory models, which are represented by indirect costs and the component associated with the adverse economic cycle (the down turn component), as well as to reflect the most current recovery rates (PiT) and expectations concerning future (forward-looking) trends.
To calculate the EAD lifetime, the exposure at each future payment date is represented by the residual debt, based on the amortisation plan, increased by any instalments due/past due. For off-balance-sheet exposures (commitments to disburse funds and guarantees given), the EAD is equal to the nominal value weighted by a specific Credit Conversion Factor (CCF).
Forecasts for forward-looking macroeconomic indicators are quantified based on three possible future scenarios which are assigned the respective probability of occurrence determined internally by the Group. In greater detail, alongside the baseline scenario, which is deemed more likely, a scenario of improvement and a scenario of worsening have been prepared.

Lastly, for the estimate of expected losses over the lifetime of the instrument, the reference time period is represented by the contractual maturity date. For instruments without maturity, the estimate of expected losses refers to a time frame of one year from the reporting date.

For more details on the model for determining expected losses on performing exposures, with specific reference to the criteria of stage assignment, the methods for determining forecast macroeconomic scenarios and the related probabilities of occurrence, refer to that illustrated in Part E of these Notes, in the section dedicated to credit risk.

Impairment losses on non-performing financial instruments

As illustrated above, for non-performing financial assets, to which a 100% probability of default is associated, the amount of adjustments for expected losses relating to each loan is equal to the difference between its book value (interim situation) at the time of valuation (amortised cost) and the present value of expected future cash flows, calculated by using the original effective interest rate or a reasonable approximation if the original rate is not directly available). Cash flows are estimated on the basis of expected recovery over the entire lifetime of the asset, taking into account the estimated net realisable value of any guarantees.

To estimate the expected cash flows collected and the related time frames, the receivables in question undergo an analytical evaluation process. For some similar categories of non-performing loans, the assessment processes establish that the loss forecasts are based on a "lump-sum" calculation method", to be applied analytically to each individual position. The scope of exposures subject to lump-sum valuation is represented by:

- bad loans and unlikely to pay with exposures below or equal to an established threshold of 1 million euro;
- the total number of non-performing past due exposures, regardless of the relevant exposure threshold. In particular, these are loans which show uninterrupted overdrafts or late payments, automatically identified by the Group's IT procedures, based on the cited rules of the Supervisory Authority.

The "lump-sum" calculation method entails valuation approaches that are differentiated based on the counterparty's stage of risk at the time of quantification (Bad Loans, Unlikely to Pay, Past Due), the type of exposure (secured or unsecured), and the presence of guarantees other than mortgages (sureties, pledges, *confidi* - consortium guarantees). In detail, for secured expositions the measurement is based on the valuation of the underlying assets (collateral), while for unsecured exposures, the expected loss is defined as a complement of the recovery curves based on the observation of internal time series, considering any mitigating elements deriving from the presence of other guarantees. In addition, for the purposes of estimating losses, the time value is considered, i.e. the estimated time required to recover the receivable, as well as the probability of exposures classified as Unlikely to Pay changing to bad loan status (danger rate).

Depending on the non-performing status and type of exposure, the recovery value is determined using a going concern approach rather than a gone concern approach.
The going concern approach is implemented if it is considered that the debtor's operating activity may continue to generate, in the foreseeable future, cash flows to be used for the payment of financial debts to all creditors, based on expected repayment schedules. The approach in question establishes, as a source of repayment, the profitability available deriving from the customer's operating activity or from other financial sources, as well as the estimated amount deriving from the enforcement of any collateral or personal guarantees (for the portion not covered by the available profitability). The available profitability assessment must be carried out prudentially using different analyses, depending on the type of customer and the data acquired by it.
The gone concern approach is used when the customer's operating activity is found or is expected to cease and the main source of repayment is the amount deriving from the enforcement of collateral (pledge or mortgage), as is the case for all exposures classified as non-performing. In addition, possible repayment flows from seizable assets owned by the debtor or any guarantor must be evaluated.

In line with the sale targets established in each case by the Board of Directors, only for Group exposures classified as bad loans, the quantification of expected losses includes forward-looking elements, via the introduction of specific sales scenarios, where the Group's NPL strategy establishes that the aforementioned loans may be recovered through sale on the market, with a view to pursuing a de-risking strategy aimed at reducing the NPL ratio, i.e. the percentage of non-performing loans compared to total loans.
Consequently, the estimate of the expected losses of these positions reflects not only the recovery through ordinary operations (work out), but also the presence, appropriately calibrated, of the sales scenario and therefore, of the relevant cash flows.
As expressly provided for by the ITG[1] of the IASB, it is possible to consider the flows recoverable through sale when determining the expected losses, to the extent that it is possible to develop expectations and assumptions inferred on the basis of reasonable and demonstrable information (please see the following document: "*Meeting Summary – 11 December 2015 - Inclusion of cash flows expected from the sale on default of a loan in the measurement of expected credit losses*").
In line with the target transfers as defined from time to time by the Board of Directors, the Group's non-performing exposures are designated by configuring two different estimates of expected cash flows:

- the first is determined assuming recovery from the debtor based on internal activity, according to the ordinary valuation guidelines followed by the Group as illustrated above (work out scenario);
- the second is determined assuming recovery by assigning the receivable (sale scenario), whose estimate is taken from the amount defined for internal recovery.

The estimate of recoverable flows is therefore equal to the weighted average of the probabilities assigned to the two scenarios of the estimated cash flows that the Group expects to receive in exchange for them. Expected losses are

[1] This is the IFRS Transition Resource Group for impairment of financial instruments, a working group established to support the implementation of certain issues relating to the new IFRS 9 impairment model.

therefore determined on the basis of the difference between the gross value of the credit exposure and the estimated lower recoverable flows.
The method of estimating expected losses therefore involves the following steps:

- the segmentation of the portfolio into different clusters considered relevant for the analysis of the non-performing portfolio (e.g.: vintage, amount of exposures, type of product, presence of collateral and type, customer segment);
- the assignment of a different probability of transfer to each cluster, consistent with the achievement of the level of target transfers resolved by the relevant corporate bodies;
- the determination of the recovery flows through sale, based on an internal model of discounting the recoverable cash flows, on the basis of the Discounted Cash Flow technique and some parameters considered representative from the point of view of the potential buyer, with the aim of reaching a price for the hypothetical sale of each cluster, suitably calibrated in order to take into account the comparable transactions observed on the market.

Taking into account that loans likely to be sold cannot be individually identified on the reporting date, the model provides that each loan is associated with a probability of sale.
The expected loss for the loans in question is therefore equal to the weighted average of the probabilities assigned to the two scenarios of the estimated cash flows recoverable in the two scenarios (workout and sale).
Probability is assigned to the various scenarios assuming the segmentation of the Group's total portfolio of bad loans, in accordance with the main characteristics that influence the value attributed by the market to loans of this type (for example: vintage, amount of exposures, type of product, presence of collateral and type, customer segment).

The assignment of the probabilities to the various clusters is guided by the amount of the target transfers approved from time to time by the Board of Directors. In other words, the probabilities have been assigned to the various clusters in such a way that the sum of the total nominal values of each cluster multiplied by the relative probability of transfer (hereinafter also “expected transfer value”) amounts to the aforementioned amount of target disposals approved by the Board of Directors. The probabilities assigned to the various clusters vary over time and can range from a minimum value of 2%, assigned to the cluster that is deemed less economically valuable and therefore less likely to sell, up to a maximum value of 85%, which is assigned to the cluster that includes the loans deemed more likely to sell. The composition of the clusters also varies over time depending on the trend of market appetite for the various types of exposures (e.g. secured vs unsecured) and the consequent assessments of economic value made by the competent bank bodies.

The valuation methodology used to calculate the recovery flows through sale is based on a discounting process for the recoverable cash flows (discounted cash flows), which takes into account the main parameters that are normally considered by potential buyers when defining the purchase price, suitably calibrated in order to take into account the comparable transactions observed on the market. In more detail, the factors considered in the estimation process are: the estimate of the recoverable value in line with the value estimated in the work out scenario; the expenses that the purchaser must incur to recover the loan; the estimate of recovery time, based on market information (e.g. average court time); the rates of return expected by the purchasers and the specific market factors defined also based on the type of sale implemented (sale of portfolios or sales of individual loans).

It is important to specify that the methodology illustrated above is not applicable to any loans which, at the date of preparation of the financial statements, are already identified in detail as held for sale, which satisfy the conditions set out by IFRS 5 to be classified in the portfolio of assets held for sale. Those loans are measured considering only the sale scenarios (probability=100%) and using as reference the sale prices or information contained in the agreements finalised with the counterparties (binding offers).

Acquired or originated impaired financial assets

If at the time of initial recognition, a credit exposure classified under the item “Financial assets at fair value through other comprehensive income” or “Financial assets at amortised cost” is deemed non-performing, it qualifies as “Acquired or originated impaired financial assets” (POCI - Purchased or Originated Credit Impaired).
An asset is deemed non-performing at the time of initial recognition when the credit risk is extremely high and, in the case of acquisition, the price has been paid with significant discounts compared to the residual contractual debt.

Regarding the criteria for initial recognition, measurement and derecognition, please refer to the information given for the asset items under which they can be classified, except as specified below, concerning the methods adopted to measure the amortised cost and impairment.
Specifically, the amortised cost and, consequently, interest income are calculated considering the credit-adjusted effective interest rate. With regard to calculating the credit-adjusted effective interest rate, the credit adjustment consists of considering the estimate of future cash flows, including the credit losses expected over the entire residual lifetime of the asset.
Additionally, the assets in question also entail special treatment with regard to the impairment process, as they are always subject to the calculation of the loss expected over the lifetime of the financial instrument. Therefore, subsequent to initial recognition, the loss or gain deriving from any change in the losses expected throughout the entire lifetime of the credit, compared to initial losses must be recorded in the income statement. Thus, it is not possible for the expected losses to be calculated on the basis of one year.

Given that Banco BPM Group has not acquired or originated impaired exposures, the only case attributable to the POCI is that arising from business combinations, in line with the provisions of Bank of Italy Circular no. 262.
With reference to the non-performing loans acquired as part of the business combination with the former Bipiemme Group, it should be noted that compliance with the accounting treatment described above was achieved substantially through the recognition in interest income, *pro rata temporis*, of the reversal effect of the lower values attributed to the impaired loans at the time of Purchase Price Allocation. This approach is considered a reasonable approximation of the credit-adjusted effective interest rate, since the contractual interest rate is, in fact, supplemented by the higher yield deriving from the lower value attributed to the acquired receivables.

Renegotiations

If a financial asset is renegotiated (i.e. when the original contractual conditions are amended by the parties), it must be verified whether the financial asset should continue to be recorded in the financial statements, or if this is not the case, the original financial asset should be derecognised and a new financial instrument recognised.
To this end, it is necessary to evaluate whether the amendments made to the contractual terms of the renegotiation are substantial.
If the changes are substantial, the entity must derecognise the financial instrument that is subject to change and proceed to recognise a new financial asset on the basis of the new contractual provisions, either where the renegotiation is formalised through the signing of a new contract or where the renegotiation entails amendment to an existing contract. In particular, substantial renegotiations are those which:

- introducing specific objective elements which affect the characteristics and/or cash flows of the financial instrument (such as a change in the currency of denomination, a change in the counterparty not belonging to the same group as the original debtor, the introduction of indexing to equity or commodity parameters, the introduction of the option to convert the receivable into equity instruments/participating financial instruments/other non-financial assets, the provision of "pay if you can" clauses, which allow the debtor the utmost freedom in repaying the loan in terms of timing and amount) considering the significant impact expected on the original cash flows; or
- are carried out for customers that are not in financial difficulty, with the objective of adjusting the cost of the contract to the current market conditions.

In the latter case, it should be noted that if the bank does not agree to the renegotiation of the contractual conditions, the customer would be able to borrow from another intermediary with the consequent loss of the revenue flows provided by the renegotiated contract for the bank. In other words, it is deemed that there is no loss for the bank that must be recognised in the income statement as a result of realigning to the best current market conditions for its customers for commercial renegotiations.
Otherwise, i.e. in the presence of non-substantial changes, the renegotiated exposures will not be derecognised. Non-substantial renegotiations include modifications granted to counterparties with financial difficulties (concessions of forbearance measures) relating to the bank's attempt to maximise the recovery of the original exposure, the risks and rewards of which, however, continue to be retained by the bank. This does not apply to modifications that introduce substantial objective elements into the contract that could result in the derecognition of the financial asset, as described above.
As far as financial assets at amortised cost and classified as unlikely to pay, in the event of non-substantial renegotiations, the gross value is restated by calculating the present value of the cash flows resulting from the renegotiation, based on the original rate of exposure existing before the renegotiation. The difference between this

gross value, as determined above, and the greatest gross book value prior to the change is recognised in the income statement as a (Item 140 "Profit/loss from contractual changes without derecognition", known as modification accounting). Any renegotiation measures represented by write-offs of the gross exposure are recognised in the income statement item "130. Net losses/recoveries on credit risk".

Financial liabilities at fair value

To obtain funding, the Group issues different types of bonds, both at a fixed rate and structured types (index-linked to share components, to exchange rates, to interest rate structures, inflation rates or similar indices). The risks resulting from said issues are hedged by the Group, as part of its overall market risk management, also by means of entering into derivative contracts.

From an accounting perspective, some of these contracts are designated as hedges according to the rules of Hedge Accounting, and in particular of the "fair value hedge", as illustrated in paragraph "4. Hedging transactions".
Conversely, for other contracts, whose hedging is not qualified according to hedge accounting rules, asymmetric accounting would be created, between the financial liability and the hedging transaction, resulting from the different measurement criteria applied to the bond issue - valued at amortised cost - and to the operational hedge derivative instrument, measured at fair value. The Group overcomes this asymmetry by designating bond issues subject to operational hedging at fair value ("Fair Value Option"). In addition to simplifying the administrative and accounting management of hedges, with specific reference to structured issues, the adoption of the Fair Value Option instead of Hedge Accounting is closely linked to the actual methods the Group uses to carry out its hedging policies, by managing its market exposure globally and not through a discrete relation with the issued bond.
Unlike hedge accounting, whose accounting rules require that only fair value changes attributable to the hedged risk be recognised on hedged instruments, the fair value option requires the recognition of all fair value changes, irrespective of the hedged risk factor.

For the issues in question, fair value is measured first by making recourse to prices observable in markets considered active, such as regulated markets, electronic trading networks (like Bloomberg) or organised trading systems or equivalent.
Lacking prices observable in active markets, the measurement is based on the prices of recent transactions on the same instrument in non-active markets rather than on valuation techniques based on a cash flow discounting model, which must consider all factors considered significant by market participants in determining a hypothetical trade. In particular, to determine creditworthiness, the spreads implicit in the comparable issues of the same issuer obtained on active markets are used rather than the curve of the credit default swaps in the name of Banco BPM with an equal degree of subordination as the security subject to the assessment. The impact resulting from the change in the Bank's creditworthiness, between the issue date and the valuation date, is quantified by calculating the difference between the fair value obtained, considering all risk factors to which the bond is exposed, including credit risk, and the fair value obtained considering the same factors, with the exclusion of the change in credit risk arising during the period.
For further details on how fair value is determined, please refer to that described in detail in the specific section in "Part A.4 – Fair value disclosure".

With regard to recognition criteria for balance sheet and income statement components, note that:
- derivatives that are associated operationally with financial liabilities at fair value are classified as "Financial assets at fair value through profit and loss: a) Financial assets held for trading" or "Financial liabilities held for trading";
- the spreads and the margins accrued on the derivatives up until the valuation date are recorded, depending on the balance, under "interest income" or "interest expense", consistent with the accrual recorded for the bond issues subject to operational hedges;
- the profits and losses resulting from the disposal or valuation of bonds issued under the fair value option are recognised under the income statement item "110. Profits (losses) on other financial assets and liabilities measured at fair value through profit and loss", with the exception of valuation and realisation effects correlated with the change in own credit risk, which are recognised as a balancing entry to a specific equity reserve (item "120. Valuation reserves"), unless this treatment creates or amplifies a mismatch in the income (loss), as described in more detail in paragraph "13. Financial liabilities at fair value";
- the results of the valuation of derivatives connected with the fair value option loans are recognised in the income statement under the item "80. Profits (losses) on trading".

A.3 – Information on transfers between portfolios of financial assets

At the reporting date, there were no transfers between portfolios of financial assets that required the disclosure set out by IFRS 7.
In this regard, it should be noted that, during the 2019 financial year, as in the previous ones, there was no change in Banco BPM Group's business model, i.e. the way in which the Group manages financial instruments.

A.4 – Fair value disclosure

QUALITATIVE INFORMATION

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market operators, under current market conditions on the valuation date in the main market or in a more advantageous market (exit price). Underlying the fair value measurement is the presumption that the entity is considered a going concern, i.e., that it is in a fully operational situation and it does not therefore intend to liquidate or considerably reduce its operations or undertake transactions under unfavourable conditions. Therefore, the fair value is not the amount that the entity would receive or pay in the case of forced transactions or below-cost sales.

Fair value is a market valuation approach not specifically referring to estimates concerning possible future cash flows developed by the individual company; indeed, fair value must be determined by adopting the assumptions that market participants would use in determining the price of assets and liabilities, presuming that they are acting in their own best economic interest.
To measure the fair value of financial and non-financial assets and liabilities, IFRS 13 establishes a three-tiered fair value hierarchy, based on the source and quality of the inputs used:

- **Level 1**: the inputs are represented by listed (non-adjusted) prices in active markets for identical assets or liabilities;
- **Level 2**: the inputs are represented by:
  - listed prices in active markets for similar assets or liabilities;
  - listed prices in non-active markets for identical or similar assets or liabilities;
  - parameters observable in the market or corroborated by market data (for example, interest rates, credit spreads, implicit volatilities and exchange rates) and used in the valuation technique;
- **Level 3**: the inputs used are not observable in the market.

For financial instruments designated at fair value in the financial statements, the Group has established a "Fair Value Policy", which assigns the maximum priority to the prices listed on active markets (level 1) and lower priority to the use of inputs which cannot be observed (level 3), in that they are more discretionary, in line with the above-described fair value hierarchy. More specifically, this policy defines:

- the rules to identify market data, the selection/hierarchy of information sources and the price configurations needed to measure the value of the financial instruments in active markets, classified as level 1 of the fair value hierarchy ("Mark to Market Policy");
- the valuation techniques and the relative input parameters in all cases in which the Mark to Market Policy cannot be adopted ("Mark to Model Policy").

Mark to Market

To determine fair value, the Group uses information based on market data, whenever available, obtained from independent sources, insofar as this is considered the best evidence of fair value. In this case, the fair value is the market price of the same instrument assessed, meaning without changes in or restructuring of the instrument, which can be taken from the listings expressed by an active market (and classified as level 1 in the fair value hierarchy). A market is considered active when the list prices express actual and regular market transactions and are readily and regularly available through stock markets, brokers, intermediaries, sector companies, listing services or authorised entities.

Mark to Model

When the Mark to Market Policy is not applicable, because there are no prices directly observable on active markets, it is necessary to use valuation techniques that maximise the use of information available on the market, based on the following valuation approaches:

1. Comparable Approach: in this case, the instrument's fair value is derived from the prices observed in recent transactions on similar instruments in active markets, suitably adjusted to take into account differences in the instruments and in the market conditions, rather than from the prices of recent transactions on the same instrument as that subject to valuation not listed in active markets;
2. Valuation Model: in the absence of observable transaction prices for the instrument being measured or similar instruments, it is necessary to apply a valuation model. The model must provide proven reliability in estimating hypothetical "operational" prices and therefore must be generally accepted by market participants.

This was classified in level 2 instead of level 3 as significant inputs used for the purpose of determining the fair value were observed on the market. A financial instrument must be classified in its entirety in a single level. Therefore, when the measurement technique uses input from multiple levels, the entire measurement must be classified in the level of the hierarchy where the lowest level of input is classified, where it is deemed significant for calculating the fair value as a whole.

The following types of investment are normally considered as level 2:

- OTC financial derivatives whose fair value is obtained through pricing models, which may use both observable and non-observable inputs. However, the latter parameters are judged to be insignificant in calculating the overall fair value;
- equity instruments that are not listed on active markets, measured using market multiple techniques, referring to a selected sample of companies that are comparable to the company being valued, rather than measured based on actual transactions executed in a time frame that is reasonably near the reference date;
- third party or own debt securities that are not listed on active markets, whose input, including credit spreads, is taken from market sources;
- hedge funds featuring significant transparency and liquidity, measured based on the NAV provided by the management company/fund administrator;
- Bond Repo contracts where the input of the pricing models used to determine the fair value are observable in the market or, where not observable, are deemed not to significantly influence the determination of fair value.

The following financial instruments are generally considered level 3:

- hedge funds characterised by significant levels of illiquidity, and for which the process to evaluate the equity of the fund requires a considerable amount of assumptions and estimates. The fair value is measured on the basis of the NAV. Said NAV may be suitably corrected to account for the fund's diminished liquidity, i.e., the period of time between the date of the request for redemption and that of the actual redemption, as well as for possible exit commissions relating to the investment;
- real estate funds measured on the basis of the last available NAV;
- private equity, private debt and similar funds measured on the basis of the last available NAV, adjusted if necessary to take into account events that were not recognised in the measurement of the price or to reflect a different valuation of the assets underlying the fund in question;
- illiquid stock for which no recent or comparable transactions have been observed, usually measured on the basis of the equity model;
- debt securities characterised by complex financial structures, for which sources that are not publicly available are typically used. These are non-binding quotations and moreover not corroborated by market data;
- debt securities issued by parties in financial difficulty, for which the management has to use its own judgement to establish the "recovery rate", as no significant prices can be observed on the market;
- OTC derivative financial instruments for which the non-observable input parameters used by the pricing model are deemed significant in order to measure the fair value;

- medium/long-term loans (performing and non-performing) measured on the basis of expected cash flows determined using models that vary according to the status of the counterparty and discounted at an interest rate considered representative from the perspective of the potential buyer.

For information on the fair value of non-financial assets attributable to the property, plant and equipment represented by property and works of art, refer to that set out in the following section.

A.4.1 Fair value levels 2 and 3: valuation techniques and input used

Financial assets and liabilities measured at fair value on a recurring basis

Financial assets and liabilities measured at fair value on a recurring basis are represented by all financial instruments measured at fair value in the financial statements (items 20, 30, 50 of balance sheet assets and items 20, 30, 40 of balance sheet liabilities). For these financial instruments, in the absence of prices directly observable in active markets, the fair value must be determined using the "Comparable Approach" or the "Valuation Model", as described in the previous paragraph. A description is provided below of the main valuation techniques adopted for each type of financial instrument.

Debt securities

These are measured by discounting expected cash flows (Discounted Cash Flow Method), suitably adjusted to account for issuer risk. The sources of information used to determine the spread deemed expressive of issuer risk are, in hierarchical order: i) the cash credit spread curve drawn from the prices of securities of the same issuer, characterised by the same seniority and currency, listed on markets considered active; (ii) the "Credit Default Swap" curve of the issuer with an equal seniority; (iii) the credit spread curve of debt securities listed in active markets relating to comparable issuers; (iv) the rating/sector cash credit spread curves; (v) the sector credit default swap curve.

Loans that do not pass the SPPI test

These are loans that are mandatorily at fair value, since the contractual cash flows do not exclusively envisage repayment of the principal and payment of interest on the principal to be repaid (i.e. they do not pass the SPPI test), either because of clauses originally established in the contract or subsequent amendments.

The techniques used to determine fair value are illustrated below:

- for loans that do not pass the SPPI test due to the presence of contractual clauses originally provided for in the contract, the fair value is determined on the basis of cash flows, suitably adjusted for expected losses, based on PD and LGD parameters. These flows are then discounted using a market interest rate, adjusted to take account of a premium considered to express risks and uncertainties. In the presence of implicit optional components, such as the possibility of changing the interest rate, the fair value also takes into account the valuation of these components;
- for loans that do not pass the SPPI test as a result of contractual changes due to restructuring agreements (these are in the form of forborne exposures), the fair value measurement takes the cash flow forecasts expressed by the operator as its initial reference, in line with the method used to determine the impairment of loans at amortised cost. These flows shall be adjusted to take account of the likelihood or otherwise of the success of the forbearance rate granted to the counterparty and of the legal and management costs considered upfront from the perspective of the potential buyer. The estimated recovery flows are discounted on the basis of interest rates, obtained by relying on those observed on the market considered as consistent as possible with respect to the assets to be valued.

Unlisted equity instruments

These are measured by referring to direct transactions of the same security or similar securities observed over a suitable time frame as compared to the valuation date, using the market multiples method of comparable companies, and, as an alternative, using financial, income and equity valuation methods.

Investments in UCITs, other than open-ended harmonised UCITs

These are generally measured on the basis of the NAV made available by the fund administrator or the management company, unless it is deemed that said NAV does not represent fair value in the eyes of a market operator. These investments typically include private equity, private debt and similar funds, real estate funds and hedge funds.

Bond Repo Contracts

The fair value is obtained by discounting the forward contractual flows expected, determined based on the characteristics of the contract, based on the interest rate curve differentiated based on the issuer of the security underlying the contract (government securities and corporate securities).

Over The Counter (OTC) Derivatives

These are measured on the basis of multiple models, depending on the type of instrument and input factors (interest rate risk, volatility, exchange rate risk, price risk, etc.) which affect their valuation. For future cash flow discounting purposes, the risk-free interest rate refers to the OIS ("Overnight Indexed Swap") curve.

In detail, for non-option instruments (such as interest rate swaps, forward rate agreements, overnight interest swaps and domestic currency swaps), the valuation techniques adopted belong to the category of "discount cash flow models", based on certain or trend-based cash flow discounting.

For option instruments, models generally accepted in market practice, such as Black & Scholes, Black-like and Hull & White, are used. In particular:

- for plain vanilla options, the methodologies most used fall within the forward risk-neutral framework and are based on analytical black-like formulas, in which volatility depends on maturity and the strike (volatility skew);
- for more complex options (such as exotic options, barrier options and autocallable options), the methodologies most used, again within the risk-neutral sphere, are based on Monte Carlo simulations, according to which the option pay-off is evaluated through simulations for a sufficiently high number of repetitions relating to the evolution over time of the risk factors underlying the option. Such models estimate the likelihood that a specific event will take place by incorporating assumptions such as the volatility of estimates or the price of the underlying instrument. The price of the derivative is therefore obtained as the discounted arithmetic average of the values obtained for each scenario.

For instruments that contain different option and non-option derivative components, the valuation is conducted by applying the appropriate valuation methodology to each instrument component.

In addition, in order to measure the fair value, several fair value adjustments are considered in order to best reflect the sale price of an actually possible market transaction. These adjustments are specifically model risk, liquidity risk and counterparty risk, illustrated here below.

Model risk: this adjustment is made to cover the risk that the pricing models, though validated, may generate fair values not directly observable or not immediately comparable with market prices. In general, this is the case for structured products, whose valuation is highly complex and for which the break down into elementary components which can be "summed" (host instrument and embedded derivative) may generate imprecisions in the valuation, or in the event of pricing algorithms or types of pay-offs that are particularly "exotic", which do not have a suitable degree of dissemination on the market, or in the presence of models that are highly sensitive to variables that are difficult to observe on the market.

Liquidity risk: this adjustment is made to take account of the size of the "bid/ask spread", i.e., the actual cost of unfreezing positions in OTC derivatives in markets with low efficiency. The effect of the liquidity risk adjustment is greater the more the product is structured, due to the related hedging/unfreezing costs, where the valuation model is not sufficiently confirmed and disseminated among operators, because this makes the valuations more random.

Counterparty risk: adjustments to the market value of OTC derivative instruments, classified as performing, are made in order to reflect:

- the risk of possible default by the counterparty; in this case, the adjustment is called Credit Valuation Adjustment (CVA);
- the risk of non-fulfilment of one's own contractual obligations (own credit risk), in order to calculate the Debt Valuation Adjustment (DVA).

The consideration of own credit risk in the designation of a financial liability at fair value is consistent with the valuation made for an entity that holds the same instrument as a financial asset and is expressly envisaged by IFRS 13 (non-performance risk).

CVA and DVA are determined for each separate legal entity belonging to the Group, on the basis of the expected future exposure of the derivative instruments, the probability of default (PD) of the parties, and the relative losses (LGD). More specifically, the calculation of expected exposure takes into account the effects resulting from the existence of netting and collateral agreements, which are able to mitigate counterparty risk. Specifically, the "Credit Support Annex" (CSA) contracts negotiated with counterparties for derivative transactions govern the procedures for settling financial collateral, based on mark-to-market trends.

When estimating PD, maximum use of market parameters is made, referring to Credit Default Swap quotations, where available, against internal parameters.

The table below summarises the main types of derivatives existing in the Group, indicating the related valuation models and the main inputs.

Derivative category	Product	Valuation models	Main input of the model
Financial derivatives on interest rates	Swaps	Discounted cash flow and Libor Convexity adjustment	Interest rate curves, interest rate volatility, interest rate correlation
	Caps - Floors	Bachelier - Analytical	
	European Swaptions	Bachelier - Analytical	
	Bermuda Swaptions	Hull-White one-factor mixture - Trinomial tree	
	CMS Spread Options	Bachelier - Analytical	
	CMS caps/floors/swaps	Bachelier and CMS Convexity adjustment (Hagan)	
	FRA	Discounted Cash Flow – Analytical	
	Interest Rate Futures	Analytical with Hull-White one-factor convexity adjustment	
	Bond Option	Black - Analytical	
	Bond Futures and Bond Repo	Discounted Cash Flow - Analytical	
	Bond Futures options	Binomial tree	
Derivatives on inflation rates	Swaps, Caps - Floors	Lognormal Forward Inflation Model - Analytical	Interest rate and inflation rate curves, interest/inflation rate volatility/correlation, calibrated on market prices
Derivatives on shares/share indices/exchange rates	Single asset plain vanilla options	Black and Scholes - Analytical	Equity/forex volatility, interest rate and exchange rate curves, spot prices of equity indices, dividends, repo rates
	Single asset American options	Black and Scholes – Binomial tree (equity) – trinomial tree (forex)	
	European options on controlled volatility index	Local volatility – Monte Carlo	Equity/forex volatility, interest rate and exchange rate curves, spot prices of equity indices, repo rates
	Controlled volatility index options representative of an investment portfolio	Black and Scholes hybrid, Hull and White with two factors - Monte Carlo with Jumps	Equity/forex/interest rate volatility, correlations, interest rates, exchange rates, spot prices of equity indices, dividends, repo rates, Crash Put market prices
	Exotic options on basket equity	Local volatility – Monte Carlo	Equity/forex/interest rate volatility, correlations, interest rates, exchange rates, spot prices of equity indices, dividends, repo rates, retail credit curve
	American Barrier Options on basket equity	Local volatility – Monte Carlo	
	Autocallable options on equity basket	Hybrid Black and Scholes, two-factor Hull and White – Monte Carlo	
	Autocallable options on exchange rates	Local volatility – Monte Carlo	Forex, interest rate and exchange rate volatility
	American Barrier Options on exchange rates	Trinomial tree	Forex, interest rate and exchange rate volatility
	Dividend Swaps and Total Return Swaps	Discounted Cash Flow - Analytical	Interest rates, exchange rates, dividends, repo rates
Credit derivatives	Credit Default Swaps	Discounted Cash Flow - Analytical	Interest rates, Credit Default Swap curve

The techniques and parameters for determining fair value and the criteria for assignment under the fair value hierarchy are defined and formalised in a specific fair value policy adopted by the Group. The reliability of the fair value measurements is also guaranteed by the verifications carried out by a Risk Management department. This department, which is independent from the Front Office units that hold the positions, periodically reviews the list of pricing models to be used under the Fair Value Policy: these models must represent market standards or best practices and the related calibration techniques must guarantee a result in line with valuations capable of reflecting the "current market conditions". Specifically, to correctly determine the fair value, each product is associated to a pricing model generally accepted by the market and selected based on the characteristics and market variables underlying said product. For highly complex products or in the event that the existing valuation model for the products is deemed lacking or inadequate, an internal process is launched to supplement the current models. Based on this process, the Risk Management department conducts an initial stage of validation of the pricing models, which may be native to the position keeping system or issued by a specific internal department. This is followed by a stage conducted by the same department, to guarantee constant reliability of the previously validated model.

In detail, the validation aims at verifying the theoretical robustness of the model through independent repricing, possible calibration of the parameters and comparison with counterparties' prices. If the validation is successful, the use of the models is still subordinate to approval by specific internal committees of the Group. Following the validation stage, continuous revision is planned in order to confirm the accuracy and adherence to the market of the pricing models used by the Group, through suitable actions, if necessary, on the models and the related underlying theoretical assumptions. In order to cover the risk that the pricing models, though validated, may generate fair values not immediately comparable with market prices, a suitable adjustment will be made for "model risk", as described above.

Non-financial assets measured at fair value on a recurring basis

For Banco BPM Group, non-financial assets measured at fair value on a recurring basis are represented by owned real estate assets and valuable works of art, following the change as at 31 December 2019 from the cost criterion to the revaluation/fair value criterion, as illustrated in Part "A.1 – General Part" of these Notes, above, in paragraph "Changes in 2019 in the accounting standards applied by the Group" to which reference is made for further details.

Fair value of owned real estate assets

The fair value of properties, whether used in operations or for investment purposes, is determined by availing of specific appraisals drawn up by qualified independent companies operating in the specific field, capable of providing property appraisals based on the RICS Valuation standard[1].
Those standards guarantee that:

- the fair value is determined in line with the indications of the international accounting standard IFRS 13, i.e. it represents the estimated amount at which an asset would be sold or liability purchased, at the valuation date, by a seller or a buyer without specific links, both interested in the purchase and sale, at arm's length conditions, following suitable marketing in which the parties acted in an informed and aware manner, without coercion;
- the experts have the professional, ethical and independence requirements in line with the provisions of international and European standards.

In relation to the first-time adoption of the new measurement criteria (revalued value/fair value), at the date of 31 December 2019 the fair value of all property units owned by the Group was measured based on specific appraisals drawn up by a leading qualified, RICS-certified company. In detail, for properties of a significant amount, i.e. for properties with a value exceeding 5 million euro, full appraisals are conducted, i.e. conducted via an inspection of the property, in addition to a detailed analysis of the available documentation. For the remaining properties, a desktop appraisal is possible, i.e. appraisal based on the examination of documentation, without any inspection of the property. The above guidelines will be followed, on full operation, during future revisions of fair value.
With regard to the frequency of update of the appraisals, based on Group policy:

- for property for investment purposes, an annual update is necessary, considering that the measurement criterion for those assets is fair value;
- for property used in operations it is possible to request an update after more than one year, to be defined based on the specific characteristics of the property (such as, by way of example, materiality, location) and the changes in the real estate market, based on a scenario analysis, for the purpose of ensuring that the book value does not differ significantly from that which would have been determined using the fair value at the reporting date.

The methodologies used to determine the fair value can be based on the discounted cash flow method, the market multiples method or the transformation method, based on the characteristics of the property subject to valuation.

[1] Standards set out in the "RICS Valuation – Global Standard 2017" of the Royal Institution of Chartered Surveyors of the United Kingdom (also known as the "Red Book").

Fair value of valuable works of art

The fair value measurement of works of art is determined through specific appraisals issued by qualified, independent companies.
In determining the value of the works, the following elements are considered: the quality of the style, the size (in some cases these are museum-level works), the degree of conservation, origin, presence of a notification of restriction by the state, and the art history notes proposed in the sheets drawn up by the assigned researchers. More specifically, the reference value for measurement in the financial statements is the "commercial or market value", i.e. the estimated minimum revenues expected on the sale of the work in a short period of time, assumed as a few months. For the purposes of measurement in the financial statements, thus, the "insured value", which is normally higher than the commercial value by a range of 20%-30%, was not considered, as that value configuration refers to the hypothetical opportunity to repurchase on the market a work equivalent to the one lost, at a significantly higher cost than the sale cost.
In relation to the first-time adoption of the new measurement criterion (revalued value), as at 31 December 2019 the market value of valuable works of art was measured based on a specific appraisal drawn up by a leading qualified company.
On full operation, the Group policy stats that the appraisal may be updated with a frequency of more than one year, to be defined based on the characteristics of the work of art and the performance of the market, taking account of the objective of ensuring that the book value is a reasonable approximation of the fair market value.

Fair value hierarchy of real estate assets and works of art

The fair value of property and works of art is classified in level 3 of the fair value hierarchy set out by the accounting standard IFRS 13, as it significantly depends on the estimates made by the management, which feature elements of judgment and subjectivity, in relation to the unique, distinctive characteristics of the object to be evaluated.
In particular, the selection of relevant inputs (income flows, discount rates, value per square meter, prices of similar transactions) for measuring the fair value of properties is influenced by their specific characteristics, such as, by way of example, their geographical and commercial position, accessibility and infrastructure, the urban context, the state of conservation, the size, any easements, the state of outdoor/indoor facilities. In addition, in the presence of situations where marketing and sale is difficult, further adjustments may be necessary based on the sales policy that the company management intends to pursue.
Theoretically, there could be circumstances deemed absolutely exceptional, in which the fair value of property could be considered in level 2, i.e., determined based on parameters considered observable in active markets. In that case, there must be a sufficient volume of transactions that have taken place in a recent period of time with respect to the valuation date and no significant adjustments can be made, due to the high similarity between the unit to be valued and the units involved in the said transactions (e.g. residential units that are part of a building/area with a sufficient number of comparable units or offices located in a business district with several similar buildings featuring comparable offices).
In that regard, it must be noted that, at the reporting date, the fair value of real estate assets and works of art is fully classified in level 3.

Financial assets and liabilities at amortised cost in the financial statements

For financial assets and liabilities recognised in the financial statements based on amortised cost, classified in the accounting categories of "Financial assets at amortised cost" (due from banks and customers) and "Financial liabilities at amortised cost" (due from banks and customers and debt securities issued), the determination of fair value is important only for reporting purposes, in line with the provisions of the reference accounting standard IFRS 7. In particular:

- for performing medium/long-term loans (mostly mortgage loans and leases), fair value is determined on the basis of cash flows, suitably adjusted for expected losses, on the basis of PD and LGD parameters. These flows are discounted using a market interest rate adjusted to take account of a premium considered to express risks and uncertainties;
- fair value for non-performing loans (bad loans, unlikely to pay and past due) is typically recorded as net book value. In this regard, it should be noted that, during the year, the Italian market for NPLs (non-performing loans) saw the completion of significant transactions for the sale of non-performing loans. However, the prices of the above transactions were affected by the specific characteristics of the assigned receivables and the variability of the returns requested by the purchasing counterparties. The fair value

determined on the basis of the above transactions would therefore be characterised by a high dispersion of values, such as to render the identification of a reference value to be used for the purposes of information in the financial statements non-objective. For this reason, the fair value of non-performing loans has been traditionally set at the book value;

- for debt securities classified in the portfolio of "Due from banks or customers" or "Debt securities issued", the fair value is measured by using prices obtained on active markets or valuation models, as described in the previous paragraph "Assets and liabilities measured at fair value on a recurring basis".

For demand or short-term receivables and payables, the book value is considered a good approximation of fair value, as permitted by IFRS 7.

With regard to medium-long term performing and non-performing loans, note that the methods and the assumptions used to estimate fair value are based on subjective valuations. For this reason, the fair value shown in the financial statements for reporting purposes only, could be significantly different to the values calculated for different purposes, just as it may not be comparable to those provided by other financial institutions.

A.4.2 Processes and sensitivity of valuations

For an examination of the techniques, inputs and valuation processes adopted by the Group for the instruments classified in level 3 of the fair value hierarchy, please refer to the previous paragraph.
Exposures in level 3 financial instruments totalled 1,352.5 million euro and around 63.1% of them are equity instruments and UCIT units. For the sensitivity analysis of UCIT units purchased during 2019 following without recourse sales of loans, refer to that illustrated in "Section 2 – D. Sale transactions – Financial assets sold and fully derecognised" contained in Part E of these Notes. For the remaining exposures, no quantitative sensitivity analysis of the fair value was conducted, with respect to the change in non-observable inputs, insofar as the fair value was acquired from external sources or was generated by a model with specific inputs (for example, the company's capital values) and for which the necessary information for a sensitivity analysis is not available;
Level 3 financial instruments also include loans to customers which, as they do not pass the SPPI test, are classified in the portfolio of assets mandatorily at fair value (385.6 million euro). The fair value of those loans is significantly influenced by the forecasts of recovery of contractual cash flows and, to a lesser extent, by the financial component linked to the selection of discount rates. In particular, for both performing and non-performing loans that do not pass the SPPI test following restructuring agreements (127.1 million euro), a reduction of 10% in the cash flows on those used to measure the fair value, largely based on the plans certified and approved, would result in a decrease of around 10% on the book value. An increase in the discount rate of 1% would result in a reduction in the fair value of around 1.6% on the book value.

A.4.3 Fair value hierarchy

For the purpose of preparing the disclosure on transfers between levels set out in paragraphs A.4.5.1, A.4.5.2 and A.4.5.3, it is noted that, for securities in the hierarchy as at 31 December 2019 which had a different level of fair value than as at 1 January 2019, it was assumed that the transfer between levels occurred with regard to the balances at the beginning of the reference period.

A.4.4 Other information

It must be specified that the Group did not use the option of measuring the fair value at overall net level, in order to fully calculate the counterparty risk associated with positions in derivative contracts grouped in the same Netting, as described in the paragraph above entitled "A.4.1 Fair value levels 2 and 3: valuation techniques and input used". In the presence of collateral agreements (CSA), the exposure associated with the individual derivative is determined in relation to its marginal contribution to the expected net exposure generated by all the contracts stipulated with a given counterparty within the same CSA.

QUANTITATIVE INFORMATION

A.4.5 Fair value hierarchy

A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: distribution by fair value hierarchy

Given the above, the table below provides a breakdown of the assets and liabilities measured at fair value on a recurring basis, in the fair value hierarchy. As established by the previously cited standard IFRS 13, recurring valuations refer to those assets or liabilities measured at fair value in the balance sheet, on the basis of that envisaged or permitted by the relevant international accounting standards.

Assets/liabilities measured at fair value	31/12/2019			31/12/2018		
	L1	L2	L3	L1	L2	L3
1. Financial assets at fair value through profit and loss	3,284,928	2,804,401	1,092,148	3,046,528	1,786,460	905,607
a) Financial assets held for trading	3,049,043	2,668,271	9,500	2,870,969	1,646,475	5,085
b) Financial assets designated at fair value	-	-	-	-	-	-
c) Other financial assets mandatorily at fair value	235,885	136,130	1,082,648	175,559	139,985	900,522
2. Financial assets at fair value through other comprehensive income	12,052,829	213,602	260,341	14,820,629	317,177	213,755
3. Hedging derivatives	-	103,614	-	-	130,511	-
4. Property, plant and equipment	-	-	2,747,477	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	**15,337,757**	**3,121,617**	**4,099,966**	**17,867,157**	**2,234,148**	**1,119,362**
1. Financial liabilities held for trading	1,031,766	9,334,364	538	608,311	5,893,298	913
2. Financial liabilities at fair value	207,489	213,072	-	424,375	268,515	-
3. Hedging derivatives	-	552,761	-	-	726,307	-
Total	**1,239,255**	**10,100,197**	**538**	**1,032,686**	**6,888,120**	**913**

Key:
L1 = Level 1
L2 = Level 2
L3 = Level 3

Financial assets measured at fair value on a recurring basis

At 31 December 2019, financial instruments measured significantly on the basis of non-observable parameters (Level 3) are 80% comprised of instruments classified in the portfolio of "Other financial assets mandatorily at fair value" in the category of "Financial assets at fair value through profit and loss", and 19.2% of instruments classified in the category of "Financial assets at fair value through other comprehensive income". The remainder is classified in "Financial assets held for trading".
More specifically, level 3 financial assets amounted to 1,352.5 million euro and are represented by the following types of investment:

- unlisted equity instruments of 409.9 million euro, mostly valued on the basis of internal equity models and transaction prices, which do not meet the requirements to be assigned to level 2;
- UCIT units of euro 443.9 million, represented by private equity, private debt and similar funds (364.4 million euro), real estate funds (70.2 million euro) and hedge funds (9.3 million euro). These funds are characterised by significant levels of illiquidity, and for which the process to evaluate the equity of the fund requires a considerable amount of assumptions and estimates. For more details on UCIT units held by the Parent Company in relation to sales of multi-originator loans, refer to that illustrated in "Section 2 – D. Sale transactions – Financial assets sold and fully derecognised" contained in Part E of these Notes;
- loans to customers amounting to 385.6 million euro, measured at fair value, for failure to pass the SPPI test, as the related cash flows do not exclusively represent the payment of interest and principal;
- debt securities amounting to 105.7 million euro, of which structured credit securities of 52.9 million euro;

- OTC derivatives of 7.4 million euro for which either the non-observable input parameters used by the pricing model are deemed significant in order to measure the fair value, or third party sources are deemed to be reliable.

Derivative financial instruments held for trading or hedging, excluding the level 3 portion as illustrated above, are classified in levels 1 and 2 of the fair value hierarchy. More specifically:
- level 1 includes listed derivatives (futures and options), measured on the basis of the prices provided by the Clearing Houses, for a total of 133.3 million euro;
- level 2 includes Over The Counter (OTC) derivatives measured on the basis of models that use observable market parameters to a significant extent, or on the basis of prices originating from independent sources, for 1,922.6 million euro.

Financial liabilities measured at fair value on a recurring basis

Level 1 financial liabilities refer to listed trading derivatives for 127.7 million euro, technical overdrafts listed in active markets for 904.1 million euro, as well as several bond issues of the Group designated at fair value, listed on markets considered active, for 207.5 million euro (regulated markets, electronic trading networks, organised trading systems or similar systems).
The remaining financial liabilities are almost all classified in level 2 of the fair value hierarchy. In this regard, it must be noted that the increase in level 2 financial liabilities held for trading, which rose from 5,893.3 million euro as at 31 December 2018 to 9,334.4 million euro as at 31 December 2019, is attributable to the trading in Bond Repos carried out by the Group in 2019.

Transfers between fair value levels (Level 1 and Level 2) of financial assets/liabilities measured at fair value on a recurring basis

During 2019 the transfers in question regarded a limited number of securities classified in the portfolio of "Financial assets at fair value through other comprehensive income". More specifically:
- transfers from level 2 to level 1 amounted to 69.3 million euro (opening value);
- transfers from level 1 to level 2 amounted to 1 million euro (opening value).

Impact of Credit Value Adjustment (CVA) and Debt Value Adjustment (DVA) on the determination of the fair value of derivative financial instruments

Based on the method illustrated in the section above entitled "A.4.1 Fair value levels 2 and 3: valuation techniques and input used", as at 31 December 2019, cumulative adjustments made to the fair value of derivative instruments, to account for counterparty risk "Credit Value Adjustment (CVA) and Debt Value Adjustment (DVA)", were position overall for 0.8 million euro, and composed of:
- adjustments for CVA which resulted in a cumulative loss, in terms of lower assets/liabilities, of 11.9 million euro;
- adjustments for DVA which resulted in a cumulative benefit, in terms of higher assets/liabilities, of 12.7 million euro.

As at 31 December 2018, cumulative fair value adjustments to take account of counterparty risk (CVA/DVA) were positive overall for 12.8 million euro, equal to the imbalance between negative adjustments for CVA (6.9 million euro) and positive adjustments for DVA (19.7 million euro).
The resulting impact on the income statement for 2019 was thus negative for 12 million euro.

Property, plant and equipment measured at fair value on a recurring basis

Property, plant and equipment measured at fair value on a recurring basis, fully classified in level 3, are represented by property and valuable works of art, for which, starting from the 2019 financial statements, the Group adopted a different measurement criterion, changing from cost to the revalued value/fair value criterion, as illustrated in paragraph "Changes in 2019 in the accounting standards applied by the Group" contained in Part "A.1 – General Part", above. Said change in the measurement criteria explains the change in the assets in question compared to the previous year, where the balance was zero.
More specifically, sub-item "4. Property, plant and equipment" includes:

- owned property used in operations and for investment purposes, for a total of 2,695.4 million euro;
- valuable works of art for 52.1 million euro, classified in balance sheet item "90. Property, plant and equipment".

In that regard, it is noted that, in addition to the above property, plant and equipment, the Group also holds property measured at fair value on a recurring basis, for 33.6 million euro (level 3 in the fair value hierarchy), classified in balance sheet item "120. Non-current assets and asset disposal groups held for sale", in relation to the sales negotiations under way.

A.4.5.2 Annual changes in assets measured at fair value on a recurring basis (level 3)

	Financial assets at fair value through profit and loss				Financial assets at fair value through other comprehensive income	Hedging derivatives	Property, plant and equipment	Intangible assets
	Total	of which: a) financial assets held for trading	of which: b) financial assets designated at fair value	of which: c) other financial assets mandatorily at fair value				
1. Opening balance	**905,607**	**5,085**	**-**	**900,522**	**213,755**	**-**	**1,380,575**	**-**
2. Increases	**462,793**	**23,788**	**-**	**439,005**	**86,417**	**-**	**1,600,752**	**-**
2.1. Purchases	191,083	1,671	-	189,412	84	-	35,294	-
2.2. Profits charged to:	77,989	125	-	77,864	85,923	-	30,103	-
2.2.1. Income statement	77,989	125	-	77,864	6,024	-	30,103	-
- of which capital gains	71,806	121	-	71,685	-	-	27,704	-
2.2.2. Shareholders' equity	-	X	X	X	79,899	-	-	-
2.3. Transfers from other levels	19,271	19,271	-	-	-	-	-	-
2.4. Other increases	174,450	2,721	-	171,729	410	-	1,535,355	-
3. Decreases	**(276,252)**	**(19,373)**	**-**	**(256,879)**	**(39,831)**	**-**	**(233,850)**	**-**
3.1. Sales	(138,364)	(18,680)	-	(119,684)	(23,940)	-	(65,379)	-
3.2. Redemptions	(63,503)	-	-	(63,503)	(3,698)	-	-	-
3.3. Losses charged to:	(55,503)	(693)	-	(54,810)	(8,130)	-	(142,458)	-
3.3.1. Income statement	(55,503)	(693)	-	(54,810)	(3,977)	-	(142,458)	-
- of which capital losses	(50,680)	(15)	-	(50,665)	-	-	(137,207)	-
3.3.2. Shareholders' equity	-	X	X	X	(4,153)	-	-	-
3.4. Transfers to other levels	-	-	-	-	-	-	-	-
3.5. Other decreases	(18,882)	-	-	(18,882)	(4,063)	-	(26,013)	-
4. Closing balance	**1,092,148**	**9,500**	**-**	**1,082,648**	**260,341**	**-**	**2,747,477**	**-**

As at 31 December 2019, property, plant and equipment measured at fair value on a recurring basis is represented by real estate assets (2,695.4 million euro) and valuable works of art (52.1 million euro). More specifically:

- the market value as at 31 December 2019 of property used in operations and works of art, equal to 1,431.7 million euro, is shown in sub-item "2.4 Other increases", taking account of the forward looking representation of the transfer from the cost criterion to the fair value criterion;
- the remaining changes refer to property for investment purposes, in relation to which the change in the measurement criterion resulted in a restatement of the opening balance (1,380.6 million euro), obtained by adjusting the balance as at 31 December 2018 (1,393.0 million euro) for the effects of the change from the cost criterion to the fair value criterion (-12.4 million euro). The changes in fair value recognised in the income statement during 2019 are negative overall for 109.5 million euro (equal to the imbalance of the sub-items "2.2.1 Profits charged to the income statement – of which capital gains" and "3.3.1. Losses charged to the income statement – of which capital losses").

For more details on the change in the accounting standard for the property, plant and equipment in question, refer to that illustrated in the paragraph "Changes in 2019 in the accounting standards applied by the Group" contained in Part "A.1 – General Part", above.

A.4.5.3 Annual changes in liabilities measured at fair value on a recurring basis (level 3)

	Financial liabilities held for trading	Financial liabilities at fair value	Hedging derivatives
1. Opening balance	**913**	**-**	**-**
2. Increases	**-**	**-**	**-**
2.1. Issues	-	-	-
2.2. Losses charged to:	-	-	-
2.2.1. Income statement	-	-	-
- of which capital losses	-	-	-
2.2.2. Shareholders' equity	X	-	-
2.3. Transfers from other levels	-	-	-
2.4. Other increases	-	-	-
3. Decreases	**(375)**	**-**	**-**
3.1. Redemptions	-	-	-
3.2. Buy-backs	-	-	-
3.3. Profits charged to:	(375)	-	-
3.3.1. Income statement	(375)	-	-
- of which capital gains	(375)	-	-
3.3.2. Shareholders' equity	X	-	-
3.4. Transfers to other levels	-	-	-
3.5. Other decreases	-	-	-
4. Closing balance	**538**	**-**	**-**

A.4.5.4 Assets and liabilities not measured at fair value, or measured at fair value on a non-recurring basis: distribution by fair value hierarchy

Assets/Liabilities not measured at fair value, or measured at fair value on a non-recurring basis	31/12/2019				31/12/2018			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets at amortised cost	133,147,117	17,248,071	426,502	121,593,955	123,840,007	14,940,783	467,710	113,080,451
2. Property, plant and equipment held for investment purposes	-	-	-	-	1,392,985	-	-	1,584,567
3. Non-current assets and asset disposal groups held for sale	-	-	-	-	5,408	-	-	5,408
Total	**133,147,117**	**17,248,071**	**426,502**	**121,593,955**	**125,238,400**	**14,940,783**	**467,710**	**114,670,426**
1. Financial liabilities at amortised cost	138,333,959	13,816,992	2,139,139	122,698,802	136,160,342	6,163,016	7,449,951	122,000,062
2. Liabilities associated with asset disposal groups held for sale	-	-	-	-	-	-	-	-
Total	**138,333,959**	**13,816,992**	**2,139,139**	**122,698,802**	**136,160,342**	**6,163,016**	**7,449,951**	**122,000,062**

Assets and liabilities not measured at fair value

Financial assets and liabilities classified in level 1 and level 2 of the fair value hierarchy refer to debt securities/bonds issued by the Bank, for which listed prices available in active markets or valuation techniques whose relevant parameters are observable on the market were used. In greater detail, securities held in assets are mainly represented by government bonds classified in level 1.

The remaining financial assets and liabilities at amortised cost (loans, deposits, current accounts, other payables) are classified in level 3, as:

- fair value was determined on the basis of unobservable parameters, mainly attributable to estimates of expected losses determined on the basis of unobservable market indicators; or
- the fair value was not measured, as it was deemed approximately equal to the book value, as permitted by accounting standard IFRS 7.

For said types of financial instrument, the selection of techniques and parameters used in estimating the fair value to indicate in the financial statements only for disclosure purposes, as well as the appreciation of the significance of the unobservable inputs require significant judgments. It cannot therefore be ruled out that a different approach to said parameters or the use of alternative valuation techniques may lead to significantly different fair values, also depending on the purpose for which the same are being calculated.

For the disclosure on the methods of determining the fair value of financial assets and liabilities at amortised cost, refer to that illustrated in the previous paragraphs "Financial assets and liabilities at amortised cost in the financial statements".

Lastly, it must be noted that as at 31 December 2019 there were no assets recognised in items "2. Property, plant and equipment held for investment purposes". The deviation from the balances as at 31 December 2018 is explained by the change in the measurement criteria adopted by the Group for owned property, starting from 2019.

Assets and liabilities measured at fair value on a non-recurring basis

In line with the provisions of Circular 262, the disclosure on the fair value hierarchy of the assets and liabilities in question (columns "L1", "L2" and "L3") is provided only with regard to items measured in the financial statements based on the fair value criterion.
As at 31 December 2019 there were no amounts to be recognised, as the only assets held for sale measured at fair value were properties, which, however, are measured at fair value on a recurring basis, following the change in the measurement criteria illustrated in the paragraph "Changes in 2019 in the accounting standards applied by the Group" contained in Part "A.1 – General Part", above.
As at 31 December 2018, the item in question included several real estate investments for 5.4 million euro, measured at fair value on a non-recurring basis, following the classification as assets held for sale. Based on the measurement criteria used for the 2018 financial statements, in absence of the reclassification as assets held for sale, they would have been measured at cost.
For non-current assets and disposal groups held for sale and associated liabilities measured at cost, reference should be made to the specific disclosure provided in Section 12 "Non-current assets and asset disposal groups held for sale and associated liabilities" in Part B of these notes.

A.5 Disclosure of "day one profit/loss"

Pursuant to IFRS 7, paragraph 28, in the area of Group financial instruments, note that at the reporting date, there were no impacts deriving from the "Day 1 Profit/Loss", understood as the difference between the fair value at the time of initial recognition (transaction price) and the amount determined at that date using a measurement technique.

PART B – INFORMATION ON THE CONSOLIDATED BALANCE SHEET

ASSETS

Section 1 - Cash and cash equivalents - Item 10

1.1 Cash and cash equivalents: breakdown

	Total 31/12/2019	Total 31/12/2018
a) Cash	912,742	922,017
b) Demand deposits with Central Banks	-	-
Total	**912,742**	**922,017**

Section 2 - Financial assets at fair value through profit and loss – Item 20

2.1 Financial assets held for trading: breakdown by product

Items/Amounts	Total 31/12/2019			Total 31/12/2018		
	L1	L2	L3	L1	L2	L3
A. Cash assets						
1. Debt securities	1,822,525	14,994	1,613	2,138,997	37,387	2
1.1 Structured securities	73,069	10,497	1,613	53,620	34,470	-
1.2 Other debt securities	1,749,456	4,497	-	2,085,377	2,917	2
2. Equity instruments	1,090,054	-	19	607,252	-	17
3. UCIT units	3,132	-	444	137	-	455
4. Loans	-	834,324	-	-	-	-
4.1 Repurchase agreements	-	834,324	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total (A)	**2,915,711**	**849,318**	**2,076**	**2,746,386**	**37,387**	**474**
B. Derivative instruments	-	-	-	-	-	-
1. Financial derivatives	133,332	1,818,953	7,424	124,583	1,608,231	4,611
1.1 held for trading	133,332	1,811,333	7,424	124,583	1,596,042	4,611
1.2 connected with the fair value option	-	7,605	-	-	12,173	-
1.3 other	-	15	-	-	16	-
2. Credit derivatives	-	-	-	-	857	-
2.1 held for trading	-	-	-	-	857	-
2.2 connected with the fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total (B)	**133,332**	**1,818,953**	**7,424**	**124,583**	**1,609,088**	**4,611**
Total (A+B)	**3,049,043**	**2,668,271**	**9,500**	**2,870,969**	**1,646,475**	**5,085**

L1 = Level 1
L2 = Level 2
L3 = Level 3

Sub-item "1.2 Other debt securities" includes subordinated financial assets issued by banks, insurance companies and financial companies for a value in the balance sheet of 55.3 million euro classified as level 1 (the previous year they came to 200.4 million euro).

Item 4. "Loans" is fully represented by trading repurchase agreements, mainly entered into with banking counterparties.

The table below presents the breakdown of UCIT units, almost fully attributable to share funds.

Items/Amounts	31/12/2019	31/12/2018
Share Funds	3,551	532
Real Estate Funds	25	60
Total	**3,576**	**592**

2.2 Financial assets held for trading: breakdown by debtor/issuer/counterparty

Items/Amounts	Total 31/12/2019	Total 31/12/2018
A. Cash assets		
1. Debt securities	**1,839,132**	**2,176,386**
a) Central Banks	-	-
b) Public Administrations	1,630,157	753,572
c) Banks	130,827	910,519
d) Other financial companies	47,424	438,266
of which: insurance companies	10,234	76,270
e) Non-financial companies	30,724	74,029
2. Equity instruments	**1,090,073**	**607,269**
a) Banks	90,215	72,062
b) Other financial companies	125,389	40,847
of which: insurance companies	50,637	5,541
c) Non-financial companies	874,465	494,360
d) Other issuers	4	-
3. UCIT units	**3,576**	**592**
4. Loans	**834,324**	**-**
a) Central Banks	-	-
b) Public Administrations	-	-
c) Banks	658,427	-
d) Other financial companies	175,897	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total (A)	**3,767,105**	**2,784,247**
B. Derivative instruments		
a) Central counterparties	24,314	43,936
b) Other	1,935,395	1,694,346
Total (B)	**1,959,709**	**1,738,282**
Total (A+B)	**5,726,814**	**4,522,529**

2.3 Financial assets designated at fair value: breakdown by product

At 31 December 2019, as in the previous year, the Group had no assets classified in the portfolio in question.

2.4 Financial assets designated at fair value: breakdown by debtor/issuer

At 31 December 2019, as in the previous year, the Group had no assets classified in the portfolio in question.

2.5 Financial assets mandatorily at fair value: breakdown by product

Items/Amounts	Total 31/12/2019			Total 31/12/2018		
	L1	L2	L3	L1	L2	L3
1. Debt securities	42,083	105,622	99,367	46,003	110,008	57,892
1.1 Structured securities	-	-	-	-	-	2,940
1.2 Other debt securities	42,083	105,622	99,367	46,003	110,008	54,952
2. Equity instruments	35,836	30,508	154,227	3,068	29,977	182,884
3. UCIT units	157,966	-	443,427	126,488	-	365,345
4. Loans	-	-	385,627	-	-	294,401
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	385,627	-	-	294,401
Total	**235,885**	**136,130**	**1,082,648**	**175,559**	**139,985**	**900,522**

L1 = Level 1
L2 = Level 2
L3 = Level 3

Exposure to debt securities amounts to a total 247.1 million, represented almost entirely by bonds issued by financial companies and banks.
More specifically, the sub-item 1.2 “Other debt securities” includes:

- the Dexia Credit Local security for an amount of 105.6 million euro (110 million euro in 2018) classified as level 2;
- subordinated securities issued by banks and insurance companies for 40.8 million euro (nominal value of 37.3 million euro) compared to 44.8 million euro in 2018 (nominal value of 45.6 million euro), fully classified under level 1;
- Asset Backed Securities (ABS) for 48.2 million euro (49.4 million euro in 2018), of which 13.9 million euro with subordination clauses, relating to securitisations finalised through the following SPEs: Pharma Finance S.r.l., Bnt Portfolio S.p.V. and Berenice S.p.V. Those securities are classified under level 3. For further details please refer to paragraph “C. Securitisation transactions” in Part E of these Notes.

The item in question includes, with nil value, the investment directly held in Banca Carige through the Voluntary Scheme of the Interbank Deposit Guarantee Fund, as illustrated in “Part A – Accounting policies” of these Notes, to which reference should be made for further details.

Among equity instruments, which amount to a total of 220.6 million euro, the main investment, classified under 3, is represented by the equity investment in the capital of S.I.A. S.p.A. for an amount of 98.2 million euro.

The table below presents the breakdown of UCIT units.

Items/Amounts	31/12/2019	31/12/2018
Share Funds	132,299	104,172
Balanced Funds	534	19,096
Bond Funds	177,758	74,701
Flexible Funds	17,179	68,066
Hedge Funds	9,326	10,179
Real Estate Funds	70,220	82,679
Private Debt and similar funds	194,077	132,940
Total	**601,393**	**491,833**

Private Debt funds refer to the share attributed to the Group as part of the multi-originator sale of non-performing loans, as illustrated in Part E, Section II “Risks of prudential consolidation”, Sub-section D “Sale transactions”, “D.3 Prudential consolidation - financial assets sold and fully derecognised”, to which reference is made for further details.

2.6 Financial assets mandatorily at fair value: breakdown by debtor/issuer

	Total 31/12/2019	Total 31/12/2018
1. Equity instruments	**220,571**	**215,929**
of which: banks	9,288	9,032
of which: other financial companies	52,121	46,516
of which: non-financial companies	159,162	160,381
2. Debt securities	**247,072**	**213,903**
a) Central Banks	-	-
b) Public Administrations	-	-
c) Banks	130,204	138,882
d) Other financial companies	65,719	71,558
of which: insurance companies	17,501	17,129
e) Non-financial companies	51,149	3,463
3. UCIT units	**601,393**	**491,833**
4. Loans	**385,627**	**294,401**
a) Central Banks	-	-
b) Public Administrations	6,666	6,953
c) Banks	-	-
d) Other financial companies	105,815	12,586
of which: insurance companies	-	-
e) Non-financial companies	215,005	209,443
f) Households	58,141	65,419
Total	**1,454,663**	**1,216,066**

Section 3 - Financial assets at fair value through other comprehensive income – Item 30

3.1 Financial assets at fair value through other comprehensive income: breakdown by product

Items/Amounts	Total 31/12/2019			Total 31/12/2018		
	L1	L2	L3	L1	L2	L3
1. Debt securities	11,790,398	100,077	4,698	14,642,675	203,652	8,401
1.1 Structured securities	6,510	-	4,698	-	-	8,401
1.2 Other debt securities	11,783,888	100,077	-	14,642,675	203,652	-
2. Equity instruments	262,431	113,525	255,643	177,954	113,525	205,354
3. Loans	-	-	-	-	-	-
Total	**12,052,829**	**213,602**	**260,341**	**14,820,629**	**317,177**	**213,755**

L1 = Level 1
L2 = Level 2
L3 = Level 3

Exposure in debt securities amounted to a total of 11,895.2 million euro (14,854.7 million euro as at 31 December 2018) and was mainly represented by bonds issued by governments and banks.

Subordinated assets amounted to 177.7 million euro (161 million euro in terms of nominal value) and refer to securities issued by banks, insurance companies and financial companies. In greater detail, said assets are shown under the sub-item "1.2 Other debt securities", under level 1. In the previous year, those assets came to 219.2 million euro (203.8 million euro in terms of nominal value), of which 210.5 million euro classified under level 1 and 8.7 million euro under level 2.

The securities deriving from securitisation transactions amounted to 4.7 million euro and are stated under the sub-item "1.1 Structured securities" under level 3. For more details on exposures to securitisations, please refer to that illustrated in paragraph "C. Securitisation transactions" of Part E of these Notes.

The exposure held in equity instruments amounted to a total of 631.5 million euro (496.8 million euro as at 31 December 2018). More specifically:

- Level 2 equity instruments refer to the stakes held in the share capital of the Bank of Italy (4,541 units), equal to 1.5137% of the entire share capital. The book value of 113.5 million is obtained by applying the value of 25,000 euro to each unit. Note that these shares derive from the capital increase operation carried out by Bank of Italy in 2013 as an effect of Decree Law 133 of 30 November 2013, converted with Law 5 of 29 January 2014, leading to the issuing of new shares, with a value of 25,000 euro per unit.
- level 1 equity instruments include the shares of Anima Holding in the amount of 249.6 million euro.

3.2 Financial assets at fair value through other comprehensive income: breakdown by debtor/issuer

Items/Amounts	Total 31/12/2019	Total 31/12/2018
1. Debt securities	**11,895,173**	**14,854,728**
a) Central Banks	-	-
b) Public Administrations	9,078,233	11,699,929
c) Banks	1,935,062	2,135,277
d) Other financial companies	777,213	991,457
of which: insurance companies	96,327	102,508
e) Non-financial companies	104,665	28,065
2. Equity instruments	**631,599**	**496,833**
a) Banks	194,969	209,013
b) Other issuers:	436,630	287,820
- other financial companies	381,510	243,758
of which: insurance companies	25	24
- non-financial companies	55,120	44,062
- other	-	-
3. Loans	**-**	**-**
a) Central Banks	-	-
b) Public Administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	**12,526,772**	**15,351,561**

3.3 Financial assets at fair value through other comprehensive income: gross value and total value adjustments

	Gross value				Total value adjustments			Total partial write-offs (*)
	First Stage	of which: Instruments with low credit risk	Second Stage	Third stage	First Stage	Second Stage	Third stage	
Debt securities	11,651,216	11,651,216	247,478	-	(2,207)	(1,314)	-	-
Loans	-	-	-	-	-	-	-	-
Total 31/12/2019	**11,651,216**	**11,651,216**	**247,478**	**-**	**(2,207)**	**(1,314)**	**-**	**X**
Total 31/12/2018	**14,654,559**	**14,646,114**	**209,684**	**-**	**(7,529)**	**(1,986)**	**-**	**X**
of which: originated or acquired impaired financial assets	X	X	-	-	X	-	-	-

(*) = Value to be shown for disclosure purposes

Section 4 – Financial assets at amortised cost – Item 40

4.1 Financial assets at amortised cost: breakdown by product for amounts due from banks

Transaction type/Amounts	Total 31/12/2019						Total 31/12/2018					
	Book value			Fair value			Book value			Fair value		
	First and second stage	Third stage	of which: originated or acquired impaired	L1	L2	L3	First and second stage	Third stage	of which: originated or acquired impaired	L1	L2	L3
A. Due from Central Banks	**6,556,632**	**-**	**-**	**-**	**-**	**6,556,632**	**575,536**	**-**	**-**	**-**	**11,677**	**563,859**
1. Fixed-term deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Minimum reserve	6,544,572	-	-	X	X	X	563,859	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	12,060	-	-	X	X	X	11,677	-	-	X	X	X
B. Due from banks	**4,277,823**	**63**	**-**	**623,937**	**184,855**	**3,492,670**	**3,801,926**	**64**	**-**	**-**	**177,389**	**3,630,047**
1. Loans	3,487,732	63	-	-	-	3,492,670	3,617,519	64	-	-	-	3,630,047
1.1 Current accounts and demand deposits	908,802	63	-	X	X	X	1,094,426	64	-	X	X	X
1.2. Fixed-term deposits	134,493	-	-	X	X	X	129,295	-	-	X	X	X
1.3. Other loans:	2,444,437	-	-	X	X	X	2,393,798	-	-	X	X	X
- Reverse repurchase agreements	971,491	-	-	X	X	X	758,169	-	-	X	X	X
- Loans for leases	1,688	-	-	X	X	X	2,058	-	-	X	X	X
- Other	1,471,258	-	-	X	X	X	1,633,571	-	-	X	X	X
2. Debt securities	790,091	-	-	623,937	184,855	-	184,407	-	-	-	177,389	-
2.1 Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt securities	790,091	-	-	623,937	184,855	-	184,407	-	-	-	177,389	-
Total	**10,834,455**	**63**	**-**	**623,937**	**184,855**	**10,049,302**	**4,377,462**	**64**	**-**	**-**	**189,066**	**4,193,906**

B.1.3 "Other loans – other" includes security deposits for "ISMA" and "CSA" contracts for approximately 563 million euro, as well as loans with medium/long-term repayment plans, loans for securities trading transactions not yet settled and receivables for discounts on bills. The item in question also includes operating receivables in the amount of approximately 7 million euro (0.9 million euro in 2018), associated with revenues accruing in 2019 but not yet received as of the end of the year.

For details on non-performing assets, please see "Part E - Information on risks and related hedging policies, Section 1, Credit risk".

4.2 Financial assets at amortised cost: breakdown by product for loans to customers

Transaction type/Amounts	Total 31/12/2019						Total 31/12/2018					
	Book value			Fair value			Book value			Fair value		
	First and second stage	Third stage	of which: originated or acquired impaired	L1	L2	L3	First and second stage	Third stage	of which: originated or acquired impaired	L1	L2	L3
1. Loans	**97,798,968**	**5,544,384**	**533,881**	**-**	**-**	**108,939,965**	**95,859,097**	**6,726,902**	**764,276**	**-**	**-**	**107,401,370**
1.1. Current accounts	10,501,931	844,065	190,742	X	X	X	11,198,951	999,684	195,627	X	X	X
1.2. Reverse repurchase agreements	5,724,258	-	-	X	X	X	6,233,274	-	-	X	X	X
1.3. Mortgage loans	62,514,221	2,827,713	281,330	X	X	X	58,558,496	3,118,910	417,592	X	X	X
1.4. Credit cards, personal loans and salary-backed loans	1,992,109	27,885	91	X	X	X	1,926,258	17,523	1,343	X	X	X
1.5. Loans for leases	951,825	763,583	6,082	X	X	X	1,059,608	1,026,049	6,326	X	X	X
1.6. Factoring	142,082	89	-	X	X	X	87,992	90	-	X	X	X
1.7. Other loans	15,972,542	1,081,049	55,636	X	X	X	16,794,518	1,564,646	143,388	X	X	X
2. Debt securities	**18,969,247**	**-**	**-**	**16,624,134**	**241,647**	**2,604,688**	**16,876,482**	**-**	**-**	**14,940,783**	**278,644**	**1,485,175**
2.1. Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2. Other debt securities	18,969,247	-	-	16,624,134	241,647	2,604,688	16,876,482	-	-	14,940,783	278,644	1,485,175
Total	**116,768,215**	**5,544,384**	**533,881**	**16,624,134**	**241,647**	**111,544,653**	**112,735,579**	**6,726,902**	**764,276**	**14,940,783**	**278,644**	**108,886,545**

Net loans to customers amounted to 122,312.6 million euro (119,462.5 million euro as at 31 December 2018). Excluding debt securities, the analysis of the portfolio by type shows mortgage loans accounting for the largest part, representing over 63% of the total (60% in 2018), followed by current accounts totalling 11,346.0 million euro and accounting for 11%, substantially stable compared to 2018.

Item "1.7. Other loans" mainly includes loans for advances on bills, documents and similar instruments subject to collection, subsidies not settled in the current account and functional receivables associated with the provision of financial services. In particular, functional receivables include 236.7 million euro for fees and commissions accruing in 2019, against ordinary contacts with customers, which will be received during 2020 (mainly relative to securities placement for 110.2 million euro and the distribution of insurance products for third parties for 95.9 million euro). In 2018 these amounted to 184.7 million euro, almost fully collected during 2019. For further details, please refer to that set out at the bottom of Table "2.1 Fee and commission income: breakdown" of Part C – Information on the Consolidated Income Statement.

Non-performing loans (third stage) amounted to 5,544.4 million euro, marking a decrease compared to the previous year (6,726.9 million euro), also due to the completion of the derisking transactions carried out during the year.

For more details about credit quality, please see Part E - Information on risks and related hedging policies, Section 1 - Risks of the consolidated book, Quantitative information, Credit quality and Section 2 - Risks of prudential consolidation, 1.1 Credit risk, Quantitative information, Credit quality.

Item 2. Debt securities, classified under level 3, include securities issued as part of securitisation transactions for 2,531.5 million euro (1,479.1 million euro in 2018) of which:

- 1,255 million euro (1,428.6 million euro in 2018) relating to senior securities issued by the SPE Red Sea S.p.V.;
- 1,247.1 million euro relating to senior securities issued by the SPE Leviticus S.p.V., as part of the ACE transaction described in "Section 5 – Other aspects" in Part A.1 of these Notes to the consolidated financial statements;
- 29.4 million euro relating to the junior securities issued by Italfinance Sec Vehicle 2, deriving from securitisation transactions originated by the former Banca Italease Group, recognised under assets as a result of the "Agreement on securitised loans" entered into with Alba Leasing.

For more details, please see that described in Part E, Section 1, "C. Securitisation transactions".

Securities with subordination clauses issued by financial companies and insurance companies amounted to a total of 56.3 million euro, of which 29.4 million euro attributable to the junior exposure against a securitisation transaction, mentioned above.

4.3 Financial assets at amortised cost: breakdown by debtor/issuer of loans to customers

Transaction type/Amounts	Total 31/12/2019			Total 31/12/2018		
	First and second stage	Third stage	of which: originated or acquired impaired financial assets	First and second stage	Third stage	of which: originated or acquired impaired financial assets
1. Debt securities	**18,969,247**	**-**	**-**	**16,876,482**	**-**	**-**
a) Public Administrations	15,745,361	-	-	15,081,797	-	-
b) Other financial companies	2,993,948	-	-	1,651,696	-	-
of which: insurance companies	26,919	-	-	26,722	-	-
c) Non-financial companies	229,938	-	-	142,989	-	-
2. Loans to:	**97,798,968**	**5,544,384**	**533,881**	**95,859,096**	**6,726,902**	**764,276**
a) Public Administrations	1,828,804	3,341	-	1,624,303	2,325	-
b) Other financial companies	13,773,149	110,825	9,239	13,603,252	159,829	10,871
of which: insurance companies	71,051	-	-	109,297	-	-
c) Non-financial companies	49,786,768	4,506,579	488,503	48,944,330	5,672,768	715,086
d) Households	32,410,247	923,639	36,139	31,687,211	891,980	38,319
Total	**116,768,215**	**5,544,384**	**533,881**	**112,735,578**	**6,726,902**	**764,276**

4.4 Financial assets at amortised cost: gross value and total value adjustments

	Gross value				Total value adjustments			Total partial write-offs (*)
	First Stage	of which: Instruments with low credit risk	Second Stage	Third stage	First Stage	Second Stage	Third stage	
Debt securities	19,626,380	19,535,457	138,306	-	(4,224)	(1,124)	-	-
Loans	102,232,952	-	5,939,941	10,086,886	(122,962)	(206,599)	(4,542,439)	512,582
Total 31/12/2019	**121,859,332**	**19,535,457**	**6,078,247**	**10,086,886**	**(127,186)**	**(207,723)**	**(4,542,439)**	**512,582**
Total 31/12/2018	**109,944,299**	**16,950,847**	**7,548,798**	**11,814,237**	**(126,393)**	**(253,663)**	**(5,087,271)**	**390,120**
of which: originated or acquired impaired financial assets	X	X	-	1,009,136	X	-	(475,255)	75,408

(*) Value to be shown for disclosure purposes.

The amount shown in the column "of which: Instruments with low credit risk" mainly regards Italian and foreign government securities.

Section 5 - Hedging derivatives – Item 50

5.1 Hedging derivatives: breakdown by hedge type and by level

	Fair Value 31/12/2019			NV 31/12/2019	Fair Value 31/12/2018			NV 31/12/2018
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives								
1. Fair Value	-	103,614	-	10,933,503	-	130,511	-	9,652,272
2. Cash flows	-	-	-	-	-	-	-	-
3. Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives								
1. Fair Value	-	-	-	-	-	-	-	-
2. Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**103,614**	**-**	**10,933,503**	**-**	**130,511**	**-**	**9,652,272**

NV = notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3

5.2 Hedging derivatives: breakdown by portfolio hedged and type of hedge

Operations/Hedge type	Fair Value							Cash flows		Foreign investments
	Micro hedging						Macro Hedging	Micro hedging	Macro Hedging	
	debt securities and interest rates	equity instruments and share indices	currencies and gold	credit	commodities	other				
1. Financial assets at fair value through other comprehensive income	-	-	-	-	X	X	X	-	X	X
2. Financial assets at amortised cost	2,844	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	41,336	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	2,844	-	-	-	-	-	41,336	-	-	-
1. Financial liabilities	59,434	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	59,434	-	-	-	-	-	-	-	-	-
1. Expected transactions	X	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	-	X	-	-

Section 6 - Fair value change of financial assets in macro fair value hedge portfolios - Item 60

6.1 - Fair value change of hedged assets: breakdown by hedged portfolios

Fair value change of hedged assets/Amounts	Total 31/12/2019	Total 31/12/2018
1. Increase	**49,379**	**42,425**
1.1 of specific portfolios:	49,379	42,425
a) financial assets at amortised cost	49,379	42,425
b) financial assets at fair value through other comprehensive income	-	-
1.2 total	-	-
2. Decrease	**(20,218)**	**(252)**
2.1 of specific portfolios:	(20,218)	(252)
a) financial assets at amortised cost	(20,218)	(252)
b) financial assets at fair value through other comprehensive income	-	-
2.2 total	-	-
Total	**29,161**	**42,173**

The fair value change in financial assets at amortised cost at 31 December 2019, as well as for the previous year, refers to fair value changes in certain specific portfolios of loans to customers, due to interest rate fluctuations.
Fair value gains and losses relative to hedging derivatives and the portfolio hedged are indicated in item 90 "Fair value adjustments in hedge accounting".

Section 7 - Equity investments – Item 70

At 31 December 2019, the book value of the item "Equity investments" totalled 1,386.1 million euro, relative to:

- significant equity investments of 993.7 million euro (1,101.4 million euro at 31 December 2018), as represented in table 7.2 below, by individual investment;
- non-significant equity investments of 392.4 million euro (332.7 million euro as at 31 December 2018), as shown in table 7.4 below, as a whole.

The scope of "significant equity investments" was determined by considering the materiality of the book value of the investment and the stake held in the investee's assets with respect to the overall amounts indicated in the consolidated financial statements.

7.1 Equity investments: information on investment relationships

Company name	Registered office	Operational headquarters	Type of relationship (a)	Investment relationship		Available % of votes
				Holder	% held	
A. Companies subject to joint control						
N/A						
B. Companies subject to significant influence						
1. Agos Ducato S.p.A. Share capital € 638,655,160.00	Milan	Milan	1	Banco BPM	39.000%	39.000%
2. Alba Leasing S.p.A. Share capital € 357,953,058.13	Milan	Milan	1	Banco BPM	39.189%	39.189%
3. Aosta Factor S.p.A. Share capital € 14,993,000.00	Aosta	Aosta	1	Banco BPM	20.690%	20.690%
4. Arcene Immobili S.r.l. in liquidation Share capital € 12,000.00	Lodi	Lodi	1	Banco BPM	50.000%	50.000%
5. Arcene Infra S.r.l. in liquidation Share capital € 12,000.00	Lodi	Lodi	1	Banco BPM	50.000%	50.000%
6. Bipiemme Vita S.p.A. (*) Share capital € 179,125,000.00	Milan	Milan	1	Banco BPM	19.000%	19.000%
7. Bussentina S.c.a.r.l. in liquidation Share capital € 25,500.00	Rome	Rome	1	Bipielle Real Estate	20.000%	20.000%
8. Calliope Finance S.r.l. in liquidation Share capital € 600,000.00	Milan	Milan	1	Banco BPM	50.000%	50.000%
9. CF Liberty Servicing S.p.A. Share capital € 150,000.00	Rome	Rome	1	Banco BPM	30.000%	30.000%
10. Etica SGR S.p.A. (*) Share capital € 4,500,000.00	Milan	Milan	1	Banco BPM	19.444%	19.444%
11. Factorit S.p.A. Share capital € 85,000,002.00	Milan	Milan	1	Banco BPM	39.500%	39.500%
12. GEMA Magazzini Generali BPV-BSGSP S.p.A. Share capital € 3,000,000.00	Castelnovo Sotto (Reggio Emilia)	Castelnovo Sotto (Reggio Emilia)	1	Banco BPM	33.333%	33.333%
13. HI-MTF SIM S.p.A. Share capital € 5,000,000.00	Milan	Milan	1	Banca Akros	25.000%	25.000%
14. SelmaBipiemme Leasing S.p.A. Share capital € 41,305,000.00	Milan	Milan	1	Banco BPM	40.000%	40.000%
15. S.E.T.A. Società Edilizia Tavazzano S.r.l. in liquidation Share capital € 20,000.00	Milan	Milan	1	Banco BPM	32.500%	32.500%
16. Vera Assicurazioni S.p.A. Share capital € 63,500,000.00	Verona	Verona	1	Banco BPM	35.000%	35.000%
17. Vera Vita S.p.A. Share capital € 219,600,005.00	Verona	Verona	1	Banco BPM	35.000%	35.000%

(a) Type of relationship:
1 = investment in share capital
(*)Companies subject to significant influence based on partnership agreements or shareholders' agreements with other shareholders.

7.2 Significant equity investments: book value, fair value and dividends received

Company name	Book value	Fair value	Dividends received
A. Companies subject to joint control			
N/A			
B. Companies subject to significant influence			
Agos Ducato S.p.A.	607,690	-	106,470
Alba Leasing S.p.A.	158,677	-	-
Vera Vita S.p.A.	227,294	-	-
Total	**993,661**	-	**106,470**

The "Fair value" column does not include any information, given that there are no listed investments, nor any equity investments measured at fair value, considered as the expression of the relative recoverable value after impairment.
Also note that dividends received during the year were recognised as decreasing the book value of the equity investment (as described in "Part A - Accounting Policies" in these Notes), in that the profits which gave rise to them were indicated in the financial statements as at 31 December 2018, as a result of measuring the investment using the equity method.

7.3 Significant equity investments: accounting information

The table below provides data obtained from the draft financial statements at 31 December 2019 approved by the Boards of Directors and provided by associated companies or, when not available, the most recent statements of financial position (relative to 100% of the investment and not the percentage held by the Group, as established under IFRS 12). Note that measurement using the equity method was performed on the basis of this data.

Company name	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenues	Interest margin	Value adjustments and recoveries on property, plant and equipment and intangible assets	Profit (loss) before tax from continuing operations	Profit (loss) after tax from continuing operations	Profit (loss) after tax from discontinued operations	Net income (loss) for the year (1)	Other income components after tax (2)	Comprehensive income (3) = (1) + (2)
A. Companies subject to joint control														
N/A														
B. Companies subject to significant influence														
Agos Ducato S.p.A.	X	14,938,276	2,388,106	15,001,756	432,920	1,452,002	X	X	405,523	260,155	-	260,155	(298)	259,857
Alba Leasing S.p.A.	X	4,979,053	161,485	4,576,123	158,667	158,324	X	X	5,480	3,179	-	3,179	(127)	3,052
Vera Vita S.p.A.	X	8,079,264	248,997	7,884,867	119,880	1,761,805	X	X	33,876	23,008	-	23,008	(2,896)	20,112

Reconciliation of net assets and the book value of the investee in the financial statements

	Net assets (*)	% Investment stake	Net assets held	Adjustments	Book value
A. Companies subject to joint control					
N/A					
B. Companies subject to significant influence					
Agos Ducato S.p.A.	1,891,706	39.000%	737,765	(130,075)	607,690
Alba Leasing S.p.A.	405,748	39.189%	159,009	(332)	158,677
Vera Vita S.p.A.	323,514	35.000%	113,230	114,064	227,294

(*) The amount of net assets, equal to the sum of "Financial assets" and "Non-financial assets", minus "Financial liabilities" and "Non-financial liabilities" indicated in table 7.3, corresponds to the total shareholders' equity of the investee.

Agos Ducato is a financial company controlled by the international Crédit Agricole Group through Crédit Agricole Consumer Finance. The company works in the household loan sector within which it provides loans, mainly for the purchasing of goods and services, as well as personal loans.
Alba Leasing operates in the lease sector and originated from the restructuring of the former Banca Italease Group. The company offers financing in the form of lease contracts, placing its products through the banking channel, including Banco BPM network.
Vera Vita S.p.A. is an insurance company offering life insurance, controlled by the Società Cattolica Assicurazioni Group. Outside of Banco BPM distribution network, it is the sole distributor of its life insurance products.

7.4 Non-significant equity investments: accounting information

The table below provides accounting information, cumulative by type of investment relationship, with reference to non-significant companies subject to significant influence. The information is taken from the most recent financial statements or most recent accounting statement available and calculated with reference to the stake held by the Group, as established under IFRS 12.

	Book value of equity investments	Total assets	Total liabilities	Total revenues	Profit (loss) after tax from continuing operations	Profit (loss) after tax from discontinued operations	Net income (loss) for the year (1)	Other income components after tax (2)	Comprehensive income (3) = (1) + (2)
A. Companies subject to joint control									
N/A									
B. Companies subject to significant influence	**392,418**	**3,470,512**	**3,166,416**	**322,711**	**19,555**	**-**	**19,555**	**15,880**	**35,435**

7.5 Equity investments: annual changes

	31/12/2019	31/12/2018
A. Opening balance	**1,434,163**	**1,349,191**
B. Increases	**182,664**	**1,212,496**
B.1 Acquisitions		803,409
B.2 Recoveries		
B.3 Revaluations		
B.4 Other changes	182,664	409,087
C. Decreases	**(230,748)**	**(1,127,524)**
C.1 Sales	(1)	(809,739)
C.2 Value adjustments		
C.3 Write-downs		
C.4 Other changes	(230,747)	(317,785)
D. Closing balance	**1,386,079**	**1,434,163**
E. Total revaluations	-	-
F. Total adjustments	**(625,921)**	**(625,921)**

The other increases (item B.4) include the portion of profits for the year achieved by the investees pertaining to the Group for a total amount of 132.5 million euro (for details, please see "Section 17 - Profits (losses) on investments in associates and companies subject to joint control" in Part C of these Notes). These also include the effects pertaining to the Group of valuation results and other reserves of associates (+11.5 million euro). As well, these include the recognition at fair value of the shareholding of CF Liberty Servicing S.p.A. (formerly First Servicing S.p.A.) (+42.9 million euro), following the sale of the majority of share capital of the company.

The other decreases include the effects of the reduction (item C.4) in the equity of Agos Ducato (-106.5 million euro), of Vera Assicurazioni (-9.1 million euro), of Bipiemme Vita (-3.8 million euro), and of Etica SGR (-0.6 million euro), following distribution of dividends. These also include the adjustment of the valuation of Agos Ducato due to the elimination of the share of the intercompany capital gain (-113.7 million euro).

7.6 Valuations and significant assumptions to establish the existence of joint control or significant influence

Significant influence exists when the power to participate in the entity's management and financial decisions is held, based on voting rights held or the in the presence of special contractual agreements, as better described in "Part A - Accounting Policies" of these Notes. As at 31 December 2019, the scope of companies subject to significant influence involved companies in which 20% or more of voting rights is held, without, however, holding the right to exclusively direct the entity's significant activities, as can be seen in table 7.1 above.
With regards to Bipiemme Vita S.p.A., although a less than 20% shareholding is held in the company, it is held that significant influence exists based on the shareholders' agreement signed with the other shareholder Covéa (which holds 81% of voting rights), containing corporate governance rules, as well as industrial aspects of the partnership.

As at 31 December 2019 there were no companies under joint control, that is entities for which unanimous consent of all parties sharing control is required to make strategic financial and management decisions.

7.7 Commitments relative to equity investments in companies under joint control

There are no equity investments in companies under joint control.

7.8 Commitments relative to equity investments in companies subject to significant influence

Commitments deriving from agreements with Crédit Agricole for consumer loans

On 28 June 2019, in execution of the agreements signed at the end of 2018 by Banco BPM, Crédit Agricole Consumer Finance SA, Crédit Agricole SA and Agos Ducato, the reorganisation of the Group's consumer credit segment was completed. The reorganisation, which confirms the partnership between Banco BPM Group and Crédit Agricole for the next 15 years:

- (i) formalised, *inter alia*: (a) a new Shareholders' Agreement, (b) a new Distribution Agreement, and (c) a new Funding Agreement;
- (ii) resulted in the transfer of ProFamily to Agos Ducato, through the finalisation of a demerger of ProFamily's non-captive operations in favour of a newly established company, 100%-owned by Banco BPM, which retained the name ProFamily.

Those agreements also provide, in the event that an extraordinary transaction is finalised (understood as: acquisition of control of Banco BPM by a third party operator or several third party operators in concert; merger of Banco BPM with third party operators; acquisition by Banco BPM of another bank or other distribution channels; or acquisition by Banco BPM of a third party operator) the parties shall discuss in good faith, *inter alia,* depending on the case: i) the possible acquisition by Agos Ducato, at market value, of the entity which, due to the extraordinary transaction, works in the consumer credit segment; ii) the extension of the new Distribution Agreement to the third party operator's distribution network; or iii) the inclusion of the additional distribution channel acquired in the distribution network of Banco BPM Group.

Commitments deriving from bancassurance agreements

On 29 March 2018 - following on from the agreement for the establishment of a strategic partnership in life and non-life bancassurance signed on 9 November 2017 between Banco BPM and Società Cattolica di Assicurazione ("Cattolica") - the purchase of 50% + 1 share of Avipop Assicurazioni (Vera Assicurazioni, at the date of this report) and Popolare Vita (Vera Vita, at the date of this report) was finalised, bringing the shareholding of Banco BPM Group in the capital of the two insurance companies to 100%. On the same date, the sale to Cattolica of 65% of the total share capital held by the Group in the two insurance companies was finalised.
The Shareholders' Agreement signed on 29 March 2018 by Banco BPM S.p.A. and Cattolica, subsequently amended on 29 October 2018, envisages, among other things, the granting of a put option to Cattolica and a Call Option to Banco BPM, with regards to the full equity investments held by Cattolica in Vera Vita and Vera Assicurazioni. Specifically, Cattolica can exercise the Put Option if certain exceptional events occur ("triggering events") such as, by way of example:

- a change in control over Banco BPM (meaning the case in which control over Banco BPM is acquired by an Italian insurance company or Italian bank which exercises management and coordination activities and which holds more than 70% of ordinary shares relative to an insurance company which is one of the top five insurance companies in Italy, based on the most recent ANIA data, in terms of premium volumes in both the life and non-life sectors);
- termination of distribution agreements due to breach by Banco BPM;
- expiry of the distribution agreements;
- liquidation or declaration of insolvency/bankruptcy by Banco BPM;
- in the case of levels of product placement of less than 50% of the target volumes defined in the agreements (Extraordinary Underperformance) at the end of the Second and/or Third Reference Periods (31 December 2025 and/or 31 December 2029).

In the case of Extraordinary Underperformance at the end of the First Reference Period (31 December 2021), the insurance companies will be granted, in addition to the penalties, the right to extend (without payment of additional fees to Banco BPM) the distribution agreements for an additional period of 3 years and, therefore, from 1 April 2033 to 31 March 2036, in derogation of the natural expiry of the same.

The exercise price of the option will be determined on the basis of a pre-established mechanism associated with the valuation of the life and non-life businesses.
Banco BPM may exercise the call option if analogous triggering events occur, with the exception of the cases of Extraordinary Underperformance.

Commitments to Covéa

The former Banca Popolare di Milano (now Banco BPM) and Covéa have signed a shareholders' agreement containing corporate governance rules, as well as clauses involving industrial aspects of the partnership which establish *inter alia*, that the company has access to the former BPM Group's distribution network for 10 years, as of the closing date (8 September 2011), with the possibility of renewal at expiry.

The agreements signed on 8 September 2011, subsequently amended on 28 November 2018, involve reciprocal options which the parties can exercise if certain exceptional events occur in relation to one or both of the parties (known as "triggering events") such as, by way of example:

- breach of and/or non-renewal of the partnership agreements (termination due to breach of the shareholders' agreement or the distribution agreements);
- any changes of control over the parties;
- the liquidation or declaration of insolvency/bankruptcy by the parties;
- the occurrence of a decision-making impasse involving the proposal to wind up and liquidate Bipiemme Vita and/or Bipiemme Assicurazioni, revocation of liquidation status or the appointment or revocation of liquidators;
- the expiry of the shareholders' agreement due to non-renewal or the termination of efficacy for the same for any reason;
- the expiry of the distribution agreements due to non-renewal.

Banco BPM or Covéa may, based on the party in relation to which event has occurred, exercise the option to purchase the equity investment held by the other party in Bipiemme Vita's equity, or to sell its equity investment to the other party. The exercise price of the reciprocal options will be determined on the basis of a pre-established mechanism associated with the valuation of the life and non-life businesses.
For the first five years of the strategic partnership, a penalty in favour of the Covéa Group is established in the case the option is exercised in connection to certain types of triggering events originating with Banco BPM (termination due to breach of the shareholders' agreement or the distribution agreements). The amount of this penalty decreases over time, starting from the date the partnership agreements are signed. If, instead, the triggering event occurs during the second five year period of the partnership, no penalty will be due from Banco BPM and the Covéa Group may make use of their right to compensation for damages.

The sales contract includes an increase mechanism in favour of Banco BPM if certain pre-established sales objectives for Bipiemme Vita or Bipiemme Assicurazioni are achieved during the period between financial years ending as at 31 December 2011 and 31 December 2020, respectively referred to as the "*Earn Out Life*" (for a maximum of 11.7 million) and the "*Earn Out Non-Life*" (for a maximum of 2.5 million). Calculation of any price adjustment will occur at the end of the period indicated above, subordinate to renewal of the strategic partnership with the Covéa Group.

7.9 Significant restrictions

For equity investments subject to significant influence, no significant restrictions on the transfer of funds relative to companies in Banco BPM Group were identified, other than those associated with regulatory standards, which may require that a minimum amount of own funds be maintained, or those associated with the provisions of the Italian Civil Code with regards to profits and distributable reserves.

7.10 Other information

The associated company SelmaBipiemme Leasing ended its financial year on 30 June 2019. For the purposes of measuring it using the equity method, the income statement was reconstructed from the second half of the financial year, 1/7/2018 - 30/6/2019, and an income statement approved by the company relative to the half 1/7/2019 - 31/12/2019.

Section 8 - Technical reserves of reinsurers - Item 80

The Group does not have any equity investments in insurance companies.

Section 9 - Property, plant and equipment – Item 90

Property, plant and equipment totalled 3,624.3 million euro as at 31 December 2019, compared with the amount of 2,775.9 million euro the previous year. The figures as at 31 December 2019 were impacted by the first-time adoption of IFRS 16 and the change in the measurement criterion for real estate and valuable works of art, as illustrated in the paragraph "Changes in 2019 in the accounting standards applied by the Group", set out in "Part A – Accounting Policies" of these Notes.

9.1 Property, plant and equipment used in operations: breakdown of assets at cost

Asset/Amounts	Total 31/12/2019	Total 31/12/2018
1. Owned assets	**115,292**	**1,382,646**
a) land	-	451,847
b) buildings	-	789,029
c) furniture	26,142	43,919
d) electronic systems	54,487	51,801
e) other	34,663	46,050
2. Rights of use acquired through leases	**761,543**	**254**
a) land	-	-
b) buildings	760,865	254
c) furniture	55	-
d) electronic systems	-	-
e) other	623	-
Total	**876,835**	**1,382,900**
of which: obtained through enforcement of guarantees received	-	-

In order to ensure correct understanding of the change in the balances, it must be noted that:

- the reduction in the item "owned assets" was impacted by the fact that the balance as at 31 December 2019 of property used in operations and valuable works of art is shown in table 9.3 below, i.e., among revalued assets, following the change in the measurement criterion;
- the increase in the item "rights of use acquired through leases" is attributable to the application of the new accounting standard IFRS 16 starting in 2019.

9.2 Property, plant and equipment held for investment purposes: breakdown of assets at cost

Asset/Amounts	Total 31/12/2019				Total 31/12/2018			
	Book value	Fair value			Book value	Fair value		
		L1	L2	L3		L1	L2	L3
1. Owned assets	**-**	**-**	**-**	**-**	**1,392,985**	**-**	**-**	**1,584,567**
a) land	-	-	-	-	614,287	-	-	626,626
b) buildings	-	-	-	-	778,698	-	-	957,941
2. Rights of use acquired through leases	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**1,392,985**	**-**	**-**	**1,584,567**
of which: obtained through enforcement of guarantees received	-	-	-	-	887,869	-	-	937,661

L1 = Level 1
L2 = Level 2
L3 = Level 3

Following the change in the measurement criterion for property held for investment purposes from cost to fair value, the values as at 31 December 2019 are shown in table 9.4 below.

9.3 Property, plant and equipment used in operations: breakdown of revalued assets

Asset/Amounts	Total 31/12/2019			Total 31/12/2018		
	L1	L2	L3	L1	L2	L3
1. Owned assets	**-**	**-**	**1,431,706**	**-**	**-**	**-**
a) land	-	-	1,043,095	-	-	-
b) buildings	-	-	336,504	-	-	-
c) furniture	-	-	-	-	-	-
d) electronic systems	-	-	-	-	-	-
e) other	-	-	52,107	-	-	-
2. Rights of use acquired through leases	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-
c) furniture	-	-	-	-	-	-
d) electronic systems	-	-	-	-	-	-
e) other	-	-	-	-	-	-
Total	**-**	**-**	**1,431,706**	**-**	**-**	**-**
of which: obtained through enforcement of guarantees received	-	-	-	-	-	-

Revalued owned assets refer to owned properties used for business operations of the Group and the valuable works of art for which the measurement criterion was changed on 31 December 2019, from cost to fair value. The corresponding balances as at 31 December 2018 are thus shown in table 9.1 above.

9.4 Property, plant and equipment held for investment purposes: breakdown of assets at fair value

Asset/Amounts	Total 31/12/2019			Total 31/12/2018		
	L1	L2	L3	L1	L2	L3
1. Owned assets	**-**	**-**	**1,315,771**	**-**	**-**	**-**
a) land	-	-	952,657	-	-	-
b) buildings	-	-	363,114	-	-	-
2. Rights of use acquired through leases	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-
Total	**-**	**-**	**1,315,771**	**-**	**-**	**-**
of which: obtained through enforcement of guarantees received	-	-	736,737	-	-	-

Assets at fair value are represented by owned property not used for business operations of the Group, mainly obtained through recovery actions on non-performing loans. Following the change in the measurement criterion during 2019, the corresponding balances as at 31 December 2018 were stated in table 9.2 above, i.e. among assets at cost.

In that regard, it is specified that the Group does not hold any investment assets represented by the rights of use acquired through leases.

9.5 Inventories of property, plant and equipment governed by IAS 2: breakdown

The Group does not hold any property or equipment classified as inventories pursuant to IAS 2.

9.6 Property, plant and equipment used in operations: annual changes

The changes in property, plant and equipment used in operations in 2019 are shown in the table below. In that regard, it is specified that the values of the opening balances were restated with respect to those as at 31 December 2018, following the first-time adoption of IFRS 16. The effects of that restatement, in terms of gross and net balances, are illustrated in table 9.6 bis below.

	Land	Buildings	Furniture	Electronic systems	Other	Total
A. Gross opening balance	**454,011**	**2,080,535**	**447,742**	**830,709**	**288,455**	**4,101,452**
A.1 Total net impairment	(2,164)	(418,901)	(403,694)	(778,908)	(240,995)	(1,844,662)
A.2 Net opening balance	**451,847**	**1,661,634**	**44,048**	**51,801**	**47,460**	**2,256,790**
B. Increases:	**650,847**	**60,315**	**5,319**	**23,638**	**57,212**	**797,331**
B.1 Acquisitions	-	5,361	5,074	23,307	1,106	34,848
B.2 Capitalised expenses for improvements	-	7,227	-	-	-	7,227
B.3 Recoveries	-	-	-	-	-	-
B.4 Positive changes in fair value recognised to	295,650	31,048	-	-	43,069	369,767
a) shareholders' equity	293,919	29,985	-	-	43,069	366,973
b) income statement	1,731	1,063	-	-	-	2,794
B.5 Exchange gains	-	32	-	-	6	38
B.6 Transfers from property held for investment purposes	3,485	15,662	X	X	X	19,147
B.7 Other changes	351,712	985	245	331	13,031	366,304
C. Decreases:	**(59,599)**	**(624,580)**	**(23,170)**	**(20,952)**	**(17,279)**	**(745,580)**
C.1 Sales	(1,164)	(3,077)	-	-	(87)	(4,328)
C.2 Depreciation	-	(151,698)	(10,012)	(20,926)	(15,016)	(197,652)
C.3 Losses on impairment recognised to	-	-	(11)	-	-	(11)
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	(11)	-	-	(11)
C.4 Negative changes in fair value recognised to	(6,479)	(43,449)	-	-	(1,896)	(51,824)
a) shareholders' equity	-	-	-	-	-	-
b) income statement	(6,479)	(43,449)	-	-	(1,896)	(51,824)
C.5 Exchange losses	-	-	-	-	-	-
C.6 Transfers to:	(51,956)	(75,702)	-	-	-	(127,658)
a) property, plant and equipment held for investment purposes	(51,763)	(75,605)	X	X	X	(127,368)
b) non-current assets and asset disposal groups held for sale	(193)	(97)	-	-	-	(290)
C.7 Other changes	-	(350,654)	(13,147)	(26)	(280)	(364,107)
D. Net closing balance	**1,043,095**	**1,097,369**	**26,197**	**54,487**	**87,393**	**2,308,541**
D.1 Total net impairment	(4,844)	(226,388)	(440,248)	(790,352)	(261,451)	(1,723,283)
D.2 Gross closing balance	**1,047,939**	**1,323,757**	**466,445**	**844,839**	**348,844**	**4,031,824**
E. Measurement at cost	753,924	348,905	-	-	10,935	1,113,764

The changes in assets used in operations is influenced by the change in the measurement criterion for real estate assets (represented by the columns "land" and "buildings") and by valuable works of art (included in the column "other"), whose book value as at 31 December 2019 amounted to 1,431.7 million euro, as illustrated in table 9.2 above. For the purpose of understanding the changes in the assets in question, it must be specified that:

- the sub-items "B.4 Positive changes in fair value" and "C.4 Negative changes in fair value" include the effects of the change from the cost criterion to the fair value criterion. In particular, the positive changes in fair value were credited to a specific shareholders' equity valuation reserve for 367 million euro. The remaining positive changes in fair value, referring to recoveries of real estate subject to impairment in the previous years, along with negative changes, are represented under income statement item "260. "Profits

(losses) from the fair value designation of property, plant and equipment and intangible assets" (-49 million euro);
- the changes indicated in sub-items B.6 and C.6 reflect the transfers between categories of properties used in operations and those held for investment purposes, also due to the accurate survey of the actual use of each single real estate unit;
- the other changes shown in sub-items B.7 and C.7 include the transfers of value between the "building" component and the "land" component of the same property, in relation to the fact that i) the positive revaluation of fair value specifically involved the "land" component and ii) the unit of measurement considered to determine the valuation effects, to be recognised in shareholders' equity or in the income statement depending on the sign, is constituted by the single property. In that regard it must be specified that it is important to split the single property into its two components ("land" and "building") in order to calculate depreciation, based on the different degree of wear and tear they are characterised by. Such split is not important for the purpose of separately determining the valuation effects, considering that the two components of the same property cannot be sold separately;
- the item "E. Measurement at cost", totalling 1,113.8 million euro, comprises the cost relating to only the assets revalued at fair value (properties used in operations and valuable works of art), obtained by sterilising the effects of the measurement at fair value (sub-items B4 and C4).

For further details please refer to the paragraph "Changes in 2019 in the accounting standards applied by the Group", set out in "Part A – Accounting Policies" of these Notes.

9.6 bis Property, plant and equipment used in operations - Rights of use acquired through leases: annual changes

The changes during the year in the rights of use acquired through leases, already included in table 9.6 above, are shown below. In that regard, it must be specified that the initial balances reflect the rights of use recognised on 1 January 2019, following the first-time adoption of IFRS 16, as illustrated in the paragraph "Changes in 2019 in the accounting standards applied by the Group", set out in "Part A – Accounting Policies" of these Notes, to which reference is made for further details.

	Land	Buildings	Furniture	Electronic systems	Other	Total
A. Gross opening balance	**-**	**906,762**	**129**	**-**	**1,410**	**908,301**
A.1 Total net impairment	-	(34,411)	-	-	-	(34,411)
A.2 Net opening balance	**-**	**872,351**	**129**	**-**	**1,410**	**873,890**
B. Increases:	-	**7,150**	**-**	**-**	**318**	**7,468**
B.1 Acquisitions	-	3,033	-	-	309	3,342
B.2 Capitalised expenses for improvements	-	3,885	-	-	-	3,885
B.3 Recoveries	-	-	-	-	-	-
B.4 Positive changes in fair value recognised to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Exchange gains	-	32	-	-	-	32
B.6 Transfers from property held for investment purposes	-	-	X	X	X	-
B.7 Other changes	-	200	-	-	9	209
C. Decreases:	**-**	**(118,636)**	**(74)**	**-**	**(1,105)**	**(119,815)**
C.1 Sales	-	(379)	-	-	(87)	(466)
C.2 Depreciation	-	(118,257)	(74)	-	(984)	(119,315)
C.3 Losses on impairment recognised to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.4 Negative changes in fair value recognised to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) property, plant and equipment held for investment purposes	-	-	X	X	X	-
b) non-current assets and asset disposal groups held for sale	-	-	-	-	-	-
C.7 Other changes	-	-	-	-	(34)	(34)
D. Net closing balance	**-**	**760,865**	**55**	**-**	**623**	**761,543**
D.1 Total net impairment	-	(152,669)	(74)	-	(984)	(153,727)
D.2 Gross closing balance	**-**	**913,534**	**129**	**-**	**1,607**	**915,270**
E. Measurement at cost	-	-	-	-	-	-

9.7 Property, plant and equipment held for investment purposes: annual changes

	Total	
	Land	**Buildings**
A. Opening balance	**920,461**	**460,114**
B. Increases	**166,169**	**110,758**
B.1 Acquisitions	10,233	25,182
- of which business combinations	-	-
B.2 Capitalised expenses for improvements	330	1,239
B.3 Positive changes in fair value	99,321	4,897
B.4 Recoveries	-	-
B.5 Exchange gains	-	-
B.6 Transfers from properties used in operations	51,763	75,605
B.7 Other changes	4,522	3,835
C. Decreases	**(133,973)**	**(207,758)**
C.1 Sales	(46,903)	(24,116)
- of which business combinations	-	-
C.2 Depreciation	-	-
C.3 Negative changes in fair value	(55,242)	(158,479)
C.4 Losses on impairment	(5)	(20)
C.5 Exchange losses	-	-
C.6 Transfers to:	(31,462)	(20,989)
a) properties used in operations	(3,485)	(15,662)
b) non-current assets and asset disposal groups held for sale	(27,977)	(5,327)
C.7 Other changes	(361)	(4,154)
D. Closing balance	**952,657**	**363,114**
E. Measurement at fair value through profit and loss	-	-

As at 31 December 2019 assets held for investment purposes, fully represented by owned properties at fair value, amounted to 1,315.8 million euro.
Following the change from the cost criterion to the fair value criterion:

- the opening balance (1,380.6 million euro) shows a reduction of 12.4 million euro compared to the book value as at 31 December 2018 of properties for investment purposes, which came to 1,393.0 million euro (as shown in table 9.2). That reduction is recognised as a balancing entry to a debit in the opening balances of shareholders' equity reserves, net of taxes, as illustrated in the "Statement of changes in consolidated shareholders' equity";
- the changes attributable to changes in the estimate of fair value, equal to the mismatch between sub-items B.3 and C.3, which totals a negative amount of 109.5 million euro, are recognised under the income statement item "260. Profits (losses) from the fair value designation of property, plant and equipment and intangible assets". In that regard, it is specified that, for the purposes of completing the table in question, the effects of fair value measurement were represented at "open balances" between the "land" component and the "building" component, for each real estate unit. Instead, in the table breaking down income statement item 260, the capital gains and losses are determined by considering each single property as a reference unit;
- the sub-item "E. Measurement at fair value through profit and loss", to be completed for properties for investment purposes measured at cost, is blank as all the properties are measured at fair value. As at 31 December 2019 the book value of property, plant and equipment held for investment purposes (sub-item D) was therefore equal to its fair value.

As regards transfers from property held for investment purposes to property used in operations and vice versa, refer to that illustrated in table 9.6 above.

For further details please refer to the paragraph "Changes in 2019 in the accounting standards applied by the Group", set out in "Part A – Accounting Policies" of these Notes.

9.8 Inventories of property, plant and equipment governed by IAS 2: annual changes

The Group does not hold any property or equipment classified as inventories pursuant to IAS 2.

9.9 Commitments to purchase property, plant and equipment

There are no commitments to purchase property or equipment.

Section 10 - Intangible assets – Item 100

10.1 Intangible assets: breakdown by asset type

Asset/Amounts	Total 31/12/2019		Total 31/12/2018	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	**X**	**76,200**	**X**	**76,389**
A.1.1 attributable to the group	X	76,200	X	76,389
A.1.2 attributable to minority interests	X	-	X	-
A.2 Other intangible assets	**688,888**	**504,272**	**697,280**	**504,272**
A.2.1 Assets at cost:	688,888	504,272	697,280	504,272
a) Internally generated intangible assets	-	-	-	-
b) Other assets	688,888	504,272	697,280	504,272
A.2.2 Assets at fair value through profit and loss:	-	-	-	-
a) Internally generated intangible assets	-	-	-	-
b) Other assets	-	-	-	-
Total	**688,888**	**580,472**	**697,280**	**580,661**

Intangible assets with an indefinite life are represented by goodwill and trademarks, for which an impairment test was performed, as indicated in paragraph 10.1.1 below.
Intangible assets with a finite life include the value of "Client Relationships" acquired as part of the business combination of the BPM Group and the Banca Popolare Italiana Group for a total of 371.9 million euro. The remaining portion mainly refers to software.

10.1.1 Intangible assets with an indefinite life: impairment testing

Pursuant to IAS 36, all intangible assets with an indefinite life must undergo impairment testing at least once a year to verify the recoverability of their value. The Group has decided to verify impairment with reference to 31 December of each year and, in any case, every time indicators of losses are identified.

If it is not possible to directly determine the recoverable value of a specific intangible asset recognised in the balance sheet, it is necessary to determine the recoverable value of the cash generating units to which the asset belongs. Specifically with reference to goodwill, paragraph 80 of the cited accounting standard specifies that, in order to verify a lasting reduction in value, goodwill acquired through a business combination must, as of the acquisition date, be allocated to each cash generating unit of the purchaser, or groups of cash generating units, which can benefit from the synergies created by the business combination, regardless of whether other assets or liabilities of the business acquired are assigned to said units or groups of units.

Each unit or group of units to which goodwill is thereby allocated must:

(a) represent the minimum level within the entity for which goodwill is monitored for the purposes of internal management;

(b) not be larger than an operating segment, as determined by that established in IFRS 8 "Operating Segments".

In order to identify the cash generating units (CGUs) to which the assets undergoing impairment tests are allocated, the potentially identified units must generate incoming cash flow in amounts that are clearly independent from those deriving from other identified units.

As at 31 December 2019, the CGUs identified that express intangible assets with indefinite useful lives that must undergo impairment testing were as follows:

- Retail CGU - comprised of the Private and Business Departments, for testing the trademarks recognised following the business combination with the former Banca Popolare Italiana Group in 2007 and with the former Banca Popolare di Milano Group in 2017;
- Banca Akros CGU - consisting of Banca Akros S.p.A., for testing the corresponding trademark following the business combination with the former Banca Popolare di Milano Group in 2017;
- Bancassurance Life CGU - consisting of the investee Vera Vita S.p.A. for the purposes of the goodwill impairment test relative to this operating segment, following the business combination with the former Banca Popolare Italiana Group in 2007;
- Bancassurance Protection CGU - consisting of the investee Vera Assicurazioni S.p.A. for the purposes of the goodwill impairment test relative to this operating segment, following the business combination with the former Banca Popolare Italiana Group in 2007.

Below we illustrate the methods and assumptions used for the impairment test, which was carried out on the basis of:

- the dictates of international accounting standard IAS 36;
- the recommendations issued in the joint letter signed by Bank of Italy, CONSOB and IVASS on 3 March 2010;
- the main suggestions found in the document issued on 14 June 2012 by the Italian Measurement Body (OIV), entitled "Goodwill impairment test under situations of real and financial crises");
- the recommendations issued by CONSOB in communication 3907 of 19 January 2015.

Also note that, as requested by the cited supervisory bodies, the procedure and parameters for assessing the impairment test for goodwill and other intangible assets with indefinite useful lives were approved by the Board of Directors, independently and in advance with respect to approval of the draft 2019 financial statements.

A. Method for calculating the book value of individual CGUs

In continuity with the previous years' financial statements, for the Retail CGU (which in 2018 was called the Territorial Departments CGU) a method based on operational measurements was used. To that end, the book value was determined as the sum of the following factors:

- Common Equity Tier 1 (CET1) capital, that is the capital required in relation to the risk weighted assets for the CGU, in line with the Basel 3 regulations in effect during the reference period for the cash flows;
- goodwill and other intangible assets with both finite and indefinite useful lives associated with the CGU;
- other assets constituting elements to be deducted when calculating Common Equity Tier 1 capital.

For the Bancassurance CGUs, corresponding to the two legal entities Vera Vita and Vera Assicurazioni, the reference value was specifically identified as the sum of the book values of the balance sheet assets and liabilities of the cited entities and the goodwill allocated to the same.

With regards to the "Banca Akros" trademark, in line with the previous year the methodology used, based on the royalties method, made it possible to directly verify the recoverability of the carrying value of the trademark. Therefore, it was not necessary to determine the recoverable value of the entire CGU to which the said intangible is allocated.

The table below provides the reference values for the CGUs which as of the reporting date have intangible assets with indefinite useful lives, which underwent the impairment test. The allocation criteria are the same as those used when preparing the financial statements for the previous year:

C.G.U.	Reference value	of which: goodwill	of which: trademarks
Retail	2,434	-	486
Banca Akros (*)	19	-	19
Bancassurance Life	252	25	-
Bancassurance Protection	150	51	-
Total	**2,855**	**76**	**504**

(*) The values shown in this table with reference to the Banca Akros CGU should be understood to refer solely to the "Banca Akros" trademark.

These CGU reference values are in line with the methods used to determine the respective recoverable values, as illustrated below.

B. Criteria used to determine the recoverable values of the CGUs

On the basis of the international accounting standards, the amount of any impairment is determined as the difference between the book value of the CGU, determined on the basis of the criteria already described, and its recoverable value, if lower. The recoverable value is defined as the greater of:

- Value in Use, that is the present value of future cash flows expected to originate from continued use of a specific asset or CGU;
- Fair Value, after costs to sell, or the amount which could be obtained by selling an asset, in a free transaction between knowledgeable and willing parties.

The impairment test was performed for the Retail CGU and the Life and Protection Bancassurance CGUs Value in Use as the reference, obtained by applying the Dividend Discount Model (DDM).
According to the Dividend Discount Model, the value of a company is a function of the flow of dividends which is able to generate in the future. In the case at hand, the method used was the Excess Capital variant of the DDM, which assumes that the economic value of a company is equal to the sum of the present value of future cash flows (expected dividends) generated over the pre-selected planning time horizon and distributed to shareholders, while maintaining a level of capitalisation adequate to guarantee future expected development, and the perpetual capitalisation of the dividend normalised for the last forecast year, on the basis of a pay-out ratio, as a function of profitability when fully operational. The application of the DDM involves the use of the following formula:

$$W = \sum_{t=0}^{n} \frac{D_t}{(1+Ke)^t} + TV + SA$$

where:
W = General value of economic capital
Ke = Cost of equity (Ke)
Dt = Dividends distributable during the explicit period, with a level of capitalisation in line with current regulations
n = Number of years in the explicit period
TV = Terminal value, determined as the present value of perpetual income represented by the average sustainable dividend for years following the explicit planning period
SA = Value of any surplus assets.

In analytical terms, the Terminal Value is calculated as follows:

$$\mathrm{TV} = \frac{Dn+1}{Ke-g}\left(1+Ke\right)^{-n}$$

where:
Dn+1 = Average sustainable dividend expected after the explicit planning period
g = Expected long term growth rate for the dividend after the explicit planning period. This rate is placed in relation to the nominal growth rate of the economy over the long term. In fact, it is prudentially assumed over the long term each sector and each company in the sector will converge around a growth rate equal to that of the economy as a whole.
Ke = Cost of own capital.

For the Banca Akros CGU, the methodological approach used to measure the trademark involved valuing the intangible asset on the basis of the royalties which the owner of the trademark would receive following its sale for use to third parties. The present value of the trademark is therefore expressed as the present value of future royalties, estimated in reference to specific parameters (royalty rate, percentage of revenues) after the relative tax effects.
The measurement also included the Tax Amortisation Benefit for a potential purchaser associated with the deductibility of the amortisation of the asset itself, in the case of a cash-settled transaction. The following formula was used for the purposes of measurement:

$$W = \left[\frac{\sum_{t=1}^{n} S_t \cdot r \cdot (1-T)}{(1+ke)^t} + TV\right] + \mathrm{TAB}$$

where:
W = Value of the trademark
St = 2020-2022 net interest and other banking income
R = Royalty rate
T = Tax rate
Ke = Discount rate
TV = Terminal Value obtained through capitalisation in perpetuity of the expected royalty flows during the period following the last forecast, considering a long-term growth rate
TAB = Tax Amortisation Benefit

B.1 - Estimates of cash flows

For the Retail CGU, cash flows distributable during the explicit period were determined starting from the 2020-2022 economic/equity figures for the CGUs, taking into account the minimum equity level estimated on the basis of a 9.505% target Common Equity Tier 1 (CET1), in line with the minimum equity level which the ECB has requested be continuously respected by Banco BPM Group, completing the last Capital Decision communicated by the ECB as of the reporting date of this Financial Report in the context of the Supervisory Review and Evaluation Process (SREP).
In particular, the projections refer to a scope comprised of Retail operations (households and businesses with turnover of less than 75 million euro), in line with segment reporting. That CGU includes most of the scope of the operations attributable to both the former Banco Popolare Group and the BPM Group.
The three-year projections represent the best estimate available at the date of approval of the Financial Statements, and also take account of the preliminary data from the new Strategic Plan currently being drawn up.

For the Banca Akros CGU, the projections were developed on the basis of the 2020-2022 development guidelines identified analytically for the individual segments of the company, defining for each one the underlying reasons for the growth objectives, in line with the preliminary data from the new Strategic Plan currently being drawn up.

For the Life and Protection Bancassurance CGUs, the projections coincide with the forecast cash flows resolved by the individual insurance companies in 2019, in relation to the periodic processing of economic and capital plans.

To estimate the terminal value, the average sustainable dividend after the explicit planning period was calculated as a function of expected profitability in the long term. This latter was estimated using a reference long-term business growth rate of 2%, taken as equal to the nominal growth rate of the company, in line with the inflation objective in the context of the ECB's long-term monetary stability policy.

B.2 - Cash flow discount rates

To discount dividends distributable to shareholders, a cost of capital was used in line with the requested return on investments with characteristics similar to those being measured. The cost of capital (K_e) was determined on the basis of the Capital Asset Pricing Model (CAPM), based on which the return of a risk asset is equal to the sum of a risk free rate (R_f) and a risk premium (MRP), determined taking account of the specific risk of the asset:

$$K_e = R_f + \beta \times (MRP)$$

More specifically, the risk free component (R_f), which in any case includes "country risk", is determined using the same methodological approach followed for the 2018 financial statements, by using the 1-year average return on 10-year Italian government BTP securities as reference.
With regard to the beta (ß) coefficient, which measures the risk of the specific business or of the operating sector in terms of the correlation between the effective yield of a share and the overall yield of the reference market, in line with the test conducted for the 2018 financial statements, the following were used:
a) for the Retail CGU, an indicator relative to a sample of comparable companies (listed Italian banks) obtained from Bloomberg;
b) for the Banca Akros CGU, an average indicator relative to a sample of companies in the Private and Investment Banking sector, obtained from Bloomberg.
Said ratio was identified weekly over a time horizon of 5 years.
Lastly, the risk premium requested from the market (MRP - Market Risk Premium) was determined to be 5.2%, based on the use of sources in line with measurement practices.

C. Summary of methodologies used and the main measurement parameters

In light of that illustrated above, the following table summarises the methodologies used to determine the recoverable value and the quantities of the main parameters (Ke and g), for each CGU:

C.G.U.	Criteria used to determine recoverable value	Discounting rates "Ke"	Growth rate "g"
Retail	Value in use – Dividend Discount Model	8.61%	2.00%
Bancassurance Life	Value in use – Dividend Discount Model	7.45%	2.00%
Bancassurance Protection	Value in use – Dividend Discount Model	7.45%	2.00%
Banca Akros	Fair Value – Royalty Rate	7.61%	2.00%

D. Summary of results

On the basis of the guidelines outlined above, the impairment test as at 31 December 2019 did not give rise to the need for any write-downs on intangible assets with indefinite useful life, as the value in use of each CGU was higher than its book value. As also specified in the paragraph "Significant accounting policies and uncertainties regarding the use of estimates in the preparation of consolidated financial statements" in "Part A – Accounting Policies" of these Notes, given the special and uncertain situation relative to the overall macroeconomic framework, it cannot be excluded that the hypotheses adopted, however reasonable and prudential, might not be confirmed by future scenarios in which the Group finds itself operating.

E. Sensitivity Analysis

In compliance with the dictates of IAS 36, for each CGU a sensitivity analysis of the recoverable value was conducted, in order to calculate the variability of this value in relation to reasonable changes in the underlying parameters.
In particular, the data shown in the tables below represent the differential (in absolute value and percentage) between the recoverable value and the reference book value, in the hypothesis of an increase or decrease in the growth rate (g) and/or the cost of capital (Ke) with respect to the rates effectively used. Specifically, the tables show the level that the rate "Ke" should take on in order to decrease to zero the positive delta between the recoverable value and the book value, if the growth rate "g" is kept constant at 2%.

Retail CGU Growth rates with terminal value "g"/Discounting rates "Ke" (difference between recoverable value and reference value in millions of euro) (percentage impact on value in use)					
		(Ke)			
		8.61%		10.51%	
(g)	1.50%	723	22.9%	-41	-1.7%
	2.00%	827	25.4%	0	0.0%
	2.50%	947	28.0%	46	1.9%

Banca Akros CGU Growth rates with terminal value "g"/Discounting rates "Ke" (difference between recoverable value and reference value in millions of euro) (percentage impact on fair value)					
		(Ke)			
		7.61%		28.3%	
(g)	1.50%	76	80.3%	-0.2	-1.0%
	2.00%	83	81.6%	0	0.0%
	2.50%	91	83.1%	0.2	1.0%

Bancassurance Life CGU Growth rates with terminal value "g"/Discounting rates "Ke" (difference between recoverable value and reference value in millions of euro) (percentage impact on fair value)					
		(Ke)			
		7.45%		10.1%	
(g)	1.50%	85	25.2%	-12	-5.2%
	2.00%	112	30.8%	0	0.0%
	2.50%	145	36.6%	14	5.3%

Bancassurance Protection CGU Growth rates with terminal value "g"/Discounting rates "Ke" (difference between recoverable value and reference value in millions of euro) (percentage impact on fair value)					
		(Ke)			
		7.45%		8.63%	
(g)	1.50%	16	9.7%	-9	-6.3%
	2.00%	29	16.2%	0	0.0%
	2.50%	45	23.0%	10	6.4%

In addition, for the Retail CGU, a sensitivity analysis was conducted on the income flows considered in the projections and the target CET1 ratio, while for the Bancassurance Life and Bancassurance Protection CGUs, a sensitive analysis was conducted on the income flows and the target Solvency Ratio (hereinafter, "SCR"). The results of those analyses are summarised in the tables shown below, which highlight the differential (in absolute value and percentage) between the recoverable value and the reference book value in the event of an increase or decrease in the CET 1 or Solvency Ratio and/or the net income compared to the data actually used. Specifically, the tables show the levels that the CET 1 or Solvency Ratio would have to assume to decrease to zero the positive delta between the recoverable value and the book value, in the assumption of keeping the income forecasts unchanged.

Retail CGU **% change in net income/target CET1** **(difference between recoverable value and reference value in millions of euro)** **(percentage impact on value in use)**					
		CET1			
		9.505%		13.0%	
INCOME	5.00%	990	28.9%	165	6.4%
	0.00%	827	25.4%	0	0.0%
	-5.00%	663	21.4%	-166	-7.3%

Bancassurance Life CGU **% Change in net income/Target SCR** **(difference between recoverable value and reference value in millions of euro)** **(percentage impact on value in use)**					
		SCR			
		130%		288%	
INCOME	5.00%	129	33.8%	16	5.9%
	0.00%	112	30.8%	0	0.0%
	-5.00%	97	27.9%	-14	-6.1%

Bancassurance Protection CGU **% Change in net income/Target SCR** **(difference between recoverable value and reference value in millions of euro)** **(percentage impact on value in use)**					
		SCR			
		130%		404%	
INCOME	5.00%	37	19.8%	8	5.1%
	0.00%	29	16.2%	0	0.0%
	-5.00%	22	12.8%	-7	-5.1%

F. External signs of impairment

The measurements expressed for the purposes of preparing these financial statements are the result of an extrapolation of the economic value of the CGUs based on their specific profit capacities, not fully recognised by the financial markets. This measurement goes beyond the period used by the financial community and operates outside of the details of the current economic/financial situation, even though this is also taken into due account.

At 31 December 2019, Group consolidated shareholders' equity amounted to 11.6 billion euro (net of equity instruments), against stock capitalisation of 3.1 billion euro (based on the stock market prices recorded at the end of 2019). This situation obviously is not new, in that it also existed in previous years. Stock prices indicate significant discounts for all Italian banks, even with respect to tangible shareholders' equity. The justifications constantly provided in the Notes have always centred around the structural misalignment between the valuations of the financial community which, by their nature, are focused on short term objectives and estimates, as well as the methods usually used to perform impairment tests, which give a significant value to medium/long-term growth potential. In fact, the measurements expressed for the purposes of preparing these financial statements are the result of an extrapolation of the economic value of the CGUs based on their specific profit capacities, using a much longer time horizon than that used by the financial community.

10.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: generated internally		Other intangible assets: other		Total
		FIN	INDEF	FIN	INDEF	
A. Opening balance	**4,604,003**	**-**	**-**	**2,544,100**	**504,272**	**7,652,375**
A.1 Total net impairment	(4,527,614)	-	-	(1,846,820)	-	(6,374,434)
A.2 Net opening balance	**76,389**	**-**	**-**	**697,280**	**504,272**	**1,277,941**
B. Increases	**-**	**-**	**-**	**102,129**	**-**	**102,129**
B.1 Acquisitions	-	-	-	102,122	-	102,122
B.2 Increases in internal intangible assets	X	-	-	-	-	-
B.3 Recoveries	X	-	-	-	-	-
B.4 Positive changes in fair value	-	-	-	-	-	-
- shareholders' equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
B.5 Exchange gains	-	-	-	5	-	5
B.6 Other changes	-	-	-	2	-	2
C. Decreases	**(189)**	**-**	**-**	**(110,521)**	**-**	**(110,710)**
C.1 Sales	-	-	-	-	-	-
C.2 Value adjustments	-	-	-	(110,039)	-	(110,039)
- Amortisation	X	-	-	(105,590)	-	(105,590)
- Write-downs	-	-	-	(4,449)	-	(4,449)
+ shareholders' equity	X	-	-	-	-	-
+ income statement	-	-	-	(4,449)	-	(4,449)
C.3 Negative changes in fair value:	-	-	-	-	-	-
- shareholders' equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
C.4 Transfers to non-current assets held for sale	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	-	-
C.6 Other changes	(189)	-	-	(482)	-	(671)
D. Net closing balance	**76,200**	**-**	**-**	**688,888**	**504,272**	**1,269,360**
D.1 Total net adjustments	(4,527,614)	-	-	(1,911,527)	-	(6,439,141)
E. Gross closing balance	**4,603,814**	**-**	**-**	**2,600,415**	**504,272**	**7,708,501**
F. Measurement at cost	-	-	-	-	-	-

FIN: finite life
INDEF: indefinite life

With regard to the main changes recorded during 2019:

- sub-item "B.1 Acquisitions" primarily refers to software;
- sub-item "C.2 Value adjustments – Amortisation" includes the amortisation charge relating to the Client Relationship acquired through business combinations, for an amount of 38.8 million euro. The residual balance refers to the amortisation of software;
- sub-item "C.2 Value adjustments – Write-downs", equal to 4.4 million euro, relates to the impairment of software that is no longer used.

10.3 Other information

At 31 December 2019 there were no commitments relative to intangible assets.

Section 11 - Tax assets and liabilities – Item 110 of the assets and Item 60 of the liabilities

Disclosure on Deferred Tax assets (DTA), transformable DTAs and checks on recoverability

In compliance with the provisions of IAS 12 and the ESMA communication of 15 July 2019, Banco BPM Group recognised Deferred Tax Assets (DTAs), after verifying that the values recognised were supported by judgements that it was probable they could be recovered. In order to make these judgements, the current tax provisions were taken into consideration, in particular with reference to rules regarding whether certain deferred tax assets can be converted tax credits, and the Group's capacity to generate future taxable income, also taking the "tax consolidation" option into account.

Below is an illustration of the main categories of DTAs recognised in the financial statements at 31 December 2019 and the checks performed to support their recoverability.

Deferred tax assets - breakdown

As at 31 December 2019, total DTAs amounted to 4,459.8 million euro (4,682.0 million euro as at 31 December 2018), of which 4,412.3 million euro had an impact on the income statement, while 47.5 million euro was recorded as a balancing entry in shareholders' equity, in accordance with the entries referred to. For a review of the breakdown of these DTAs, please see the table "11.1 Deferred tax assets: breakdown".

As at 31 December 2019, the deferred tax assets that meet the requirements of Italian Law no. 214 of 22 December 2011 ("Law 214/2011") for transformation into tax credit amounted to 2,582.6 million euro (2,628.4 million euro as at 31 December 2018). The provisions under this law and, subsequently, under Law 147/2013 (2014 Stability Law), provide for the transformation of DTAs to tax credits in the case of a "statutory loss", a "tax loss" for IRES purposes and a "net negative value of production" for IRAP purposes. For the purposes of these regulations, write-downs on loans not yet deducted based on temporal limits in effect at the time pursuant to article 106, paragraph 3 of the Italian Consolidated Tax Law (TUIR) are included, as are negative components relative to goodwill and other intangible assets, not yet deducted according to the temporal limits in effect at the time (known as "qualified DTAs").
Specifically, at 31 December 2019, the Group's eligible DTAs derive from:

- temporary deductible differences relative to write-downs on loans exceeding immediate deductibility limits envisaged in the tax regulations solely with reference to credit and financial entities for 1,901.2 million euro (1,942.4 million euro as at 31 December 2018);
- temporary deductible differences relative to goodwill and other intangible assets recognised in previous years for 681.3 million euro (686.0 million euro as at 31 December 2018).

For further details on the breakdown and on changes in eligible DTAs, please refer to the tables contained in the paragraph below entitled "11.4 Changes in deferred tax assets pursuant to Law 214/2011".
It should be specified that, specifically with reference to these DTAs, their continued convertibility to tax credits is subordinate to the payment of the fee pursuant to Decree Law 59 of 3 May 2016, amended and converted into law with Law no. 119 of 30 June 2016. Law no. 15 of 17 February 2017, converting the "Salva risparmio" Decree Law postponed the period for which the fee is due to 31 December 2030. In order to guarantee that the DTAs can be transformed into tax credits and to avoid the negative impacts that would otherwise be suffered in own funds, Banco BPM Group adhered to this option, by paying the cited fee.
The fee for 2019 amounted to 25.4 million euro, as shown in the table breaking down other administrative expenses contained in Part C of these Notes, to which reference should be made for further details.

As at 31 December 2019, residual deferred tax assets (non-transformable DTAs) amounted to 1,877.2 million euro (2,053.6 million euro as at 31 December 2018), of which 949.6 million euro deriving from IRES tax losses which can be carried forward (1,043.7 million euro as at 31 December 2018) and 927.6 million euro deriving from costs and value adjustments deductible in years subsequent to those of recognition in the financial statements (1,009.9 million euro as at 31 December 2018).
Note that not all ineligible DTAs were recognised in the financial statements by Banco BPM and its subsidiaries. The amount of DTAs not posted as at 31 December 2019 came to 56.2 million euro, of which 18.2 million euro of IRES DTAs and 38 million euro of IRAP DTAs.

Deferred tax assets - recoverability checks

As regards eligible DTAs that can be transformed into tax credits (2,582.6 million euro, equal to 57.9% of the total DTAs posted in the financial statements as at 31 December 2019), the tax regulations introduced by Law 214/2011, along with the exercise of the option for the annual fee regime illustrated above make their recoverability certain. This treatment is in line with the indications contained in the Bank of Italy/CONSOB/ISVAP document no. 5 of 15 May 2012 "Accounting treatment of deferred tax assets deriving from Law 214/2011".
For the remaining tax assets (non-transformable DTAs), the recognition and subsequent retention in the financial statements strictly depends upon the capacity of the Group and/or the individual companies to generate future taxable income ("tax capability"). To that end, the Group subjects non-transformable DTAs to a recoverability test, separate for IRES DTAs and IRAP DTAs, based on a model that predicts future taxable income.
With specific reference to the DTAs posted in previous years in relation to tax losses carried forward, they were recorded following the exact identification of the causes that generated the tax losses and the assessment that they would not repeat in the future on a recurring basis.
The origin of the tax losses recorded in the previous years is attributable to significant extraordinary loan losses recognised as part of the process of reducing the amount of non-performing loans and, to a lesser extent, to the other extraordinary charges attributable to the recent business combination that gave rise to the group (e.g. charges relating to the reduction of redundant personnel, the integration of IT systems, the rationalisation of the territorial network) or deriving from the need to favour the rescue of other banks external to the Group in order to protect the stability of the banking system. That assessment was initially confirmed in 2019, given that the IRES taxable income generated allowed for an initial partial recovery of said DTAs.

The recoverability test was conducted based on the following information and assumptions:

- Banco BPM and its subsidiaries that have recorded DTAs reflected in the consolidated financial statements operate in Italy and, as a result, reference was made to the tax regulations in force in that country;
- said tax regulations do not establish time limits on the recovery of the IRES tax loss (art. 84, paragraph 1 of Presidential Decree 917 of 22 December 1986).
- IAS 12 does not provide a maximum horizon for the forecast of taxable income;
- the estimates of future taxable income were formulated using as reference the projects of income flows of Banco BPM Group for the period 2020-2023;
- the projections of the estimated taxable income for the years following 2023 were developed in line with the projections developed for the purpose of conducting impairment testing of intangible assets with indefinite useful lives, applying a long-term growth rate of 2%;
- based on that indicated by the ESMA in its communication published on 15 July 2019, in order to take into consideration the uncertainty that characterises the actual realisation of the long-term forecasts, an adjusting factor for forecast income flows was introduced. That factor was defined as equal to the risk premium requested by the market (5.2%) multiplied by the Beta ratio expressing the specific risk of the main operating segment (1.29%) and, thus, 6.71%. Those components are consistent with those used to conduct the impairment testing of intangible assets with finite useful lives;
- deferred tax liabilities (DTLs) are used to offset DTAs in the case their chargeback is expected to occur during the same year.

The forecasts of taxable income, developed considering the adjusting factor of the income flows forecast over the longer-term, result in the full recovery of all the DTAs, including those relating to prior years' tax losses, at the end of 2037 (18 years). In the event that the projections of taxable income developed based on income flows not adjusted using said adjusting factor were confirmed by the results that the Group will generate in the future, the full recovery of the DTAs, including those relating to previous years' tax losses, would be quicker, finishing in 2032 (13 years). A sensitivity analysis was developed of the adjusting factor of income flows forecast in the longer-term, assessing the impacts over the time horizon in which the total recovery of the DTAs recorded in the financial statements as at 31 December 2019 is forecast. Based on those analyses, a possible decrease/increase of 1.5% in the adjusting factor would result in a reduction of the time horizon by 2 years or the extension of the time horizon by 4 years, respectively.

11.1 Deferred tax assets: breakdown

	IRES	IRAP	Other taxes	31/12/2019	31/12/2018 (*)
A) As balancing entry in the Income Statement					
A.1) Transformable DTAs pursuant to Law 214/2011	**2,295,007**	**287,561**	**-**	**2,582,568**	**2,628,399**
Write-downs of loans deductible in subsequent years	1,733,787	167,437	-	1,901,224	1,942,358
Costs deductible in subsequent years following release of goodwill and other intangible assets	561,220	120,124	-	681,344	686,041
A.2) DTA - Other cases	**1,754,852**	**74,859**	**-**	**1,829,711**	**1,939,343**
Tax losses carried forward	949,642	-	-	949,642	1,043,737
ECL adjustments of FTAs pursuant to IFRS 9 on loans to customers deductible in the subsequent years	327,628	63,982	-	391,610	391,610
Provisions and value adjustments deductible in subsequent years	171,052	981	-	172,033	200,312
Personnel expenses and provisions for severance indemnities deductible in subsequent years	156,345	300	-	156,645	178,739
Value adjustments to real estate deductible in subsequent years	120,671	2,991	-	123,662	67,254
Book values lower than the recognised tax values resulting from value adjustments to goodwill and other intangible assets	24,129	4,934	-	29,063	31,176
Book values lower than the recognised tax values resulting from fair value measurement of financial assets	4,083	140	-	4,223	15,072
Other cases of misalignment between book and tax values	1,302	1,531	-	2,833	11,443
Total A	**4,049,859**	**362,420**	**-**	**4,412,279**	**4,567,742**
B) As balancing entry in Shareholders' Equity					
Book values lower than the recognised tax values deriving from fair value measurement of financial assets measured as a balancing entry in shareholders' equity	12,103	9,988	-	22,091	98,824
Other cases of misalignment between book and tax values	23,648	1,773	-	25,421	15,475
Total B	**35,751**	**11,761**	**-**	**47,512**	**114,299**
Total (A+B)	**4,085,610**	**374,181**	**-**	**4,459,791**	**4,682,041**

(*) The figures relating to the previous year have been restated to guarantee a like-for-like comparison.

11.2 Deferred tax liabilities: breakdown

	IRES	IRAP	Other taxes	31/12/2019	31/12/2018 (*)
A) As balancing entry in the Income Statement:					
Book values exceeding recognised tax values following the process of tax amortisation of goodwill and other intangible assets	233,298	47,169	-	280,467	291,946
Recoveries in fair value of real estate taxable in coming years	32,843	5,193	-	38,036	23,063
Book values exceeding recognised tax values resulting from fair value measurement of financial instruments	13,211	10,001	-	23,212	18,639
Book values exceeding recognised tax values resulting from fair value measurement of loans to customers	15,856	3,206	-	19,062	4,002
Book values exceeding recognised tax values following the Purchase Price Allocation at the time of business combinations	12,706	2,574	-	15,280	22,401
Other cases of misalignment between book and tax values	11,835	203	-	12,038	20,551
Total A	**319,749**	**68,346**	**-**	**388,095**	**380,602**
B) As balancing entry in Shareholders' Equity					
Book values exceeding recognised tax values resulting from fair value measurement of owned properties and works of art	151,853	29,763	-	181,616	94,702
Book values exceeding recognised tax values resulting from fair value measurement of financial assets measured as a balancing entry in shareholders' equity	29,238	7,895	-	37,133	18,176
Other cases of misalignment between book and tax values	2,765	425	-	3,190	741
Total B	**183,856**	**38,083**	**-**	**221,939**	**113,619**
Total (A+B)	**503,605**	**106,429**	**-**	**610,034**	**494,221**

(*) The figures relating to the previous year have been restated to guarantee a like-for-like comparison.

11.3 Changes in deferred tax assets (balancing entry in the income statement)

	31/12/2019	31/12/2018
1. Opening balance	**4,567,742**	**4,142,962**
2. Increases	**210,740**	**1,195,818**
2.1 Deferred tax assets recognised during the year	160,084	826,971
a) relative to previous years	22,126	12,695
b) due to changes in accounting criteria	729	-
c) recoveries	898	-
d) other	136,331	814,276
2.2 New taxes or increases in tax rates	17,634	-
2.3 Other increases	33,022	368,847
3. Decreases	**(366,203)**	**(771,038)**
3.1 Deferred tax assets cancelled during the year	(278,732)	(669,719)
a) reclassifications	(258,168)	(652,042)
b) write-downs due to unrecoverability	(2)	(17,299)
c) due to changes in accounting criteria	-	-
d) other	(20,562)	(378)
3.2 Decreases in tax rates	-	(66)
3.3 Other decreases:	(87,471)	(101,253)
a) transformation to tax credits pursuant to Law 214/2011	(45,933)	(65,698)
b) other	(41,538)	(35,555)
4. Closing balance	**4,412,279**	**4,567,742**

11.4 Changes in deferred tax assets pursuant to Law 214/2011

	Total 31/12/2019	Total 31/12/2018
1. Opening balance	**2,628,399**	**2,695,009**
2. Increases	**375**	**-**
3. Decreases	**(46,206)**	**(66,610)**
3.1 Reclassifications	(3)	-
3.2 Transformation into tax credits	(45,933)	(65,699)
a) deriving from losses for the year	(45,933)	(2,771)
b) deriving from tax losses	-	(62,928)
3.3 Other decreases	(270)	(911)
4. Closing balance	**2,582,568**	**2,628,399**

11.5 Changes in deferred tax liabilities (balancing entry in the income statement)

	Total 31/12/2019	Total 31/12/2018
1. Opening balance	**372,578**	**444,422**
2. Increases	**170,232**	**20,720**
2.1 Deferred tax liabilities recognised during the year	70,919	10,726
a) relative to previous years	6,109	6,292
b) due to changes in accounting criteria	39,106	-
c) other	25,704	4,434
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	99,313	9,994
3. Decreases	**(154,715)**	**(84,540)**
3.1 Deferred tax liabilities cancelled during the year	(110,826)	(81,008)
a) reclassifications	(63,967)	(61,027)
b) due to changes in accounting criteria	-	-
c) other	(46,859)	(19,981)
3.2 Decreases in tax rates	-	-
3.3 Other decreases	(43,889)	(3,532)
4. Closing balance	**388,095**	**380,602**

11.6 Changes in deferred tax assets (balancing entry in shareholders' equity)

	Total 31/12/2019	Total 31/12/2018
1. Opening balance	**114,299**	**64,562**
2. Increases	**31,477**	**490,467**
2.1 Deferred tax assets recognised during the year	25,053	367,997
a) relative to previous years	-	-
b) due to changes in accounting criteria	594	31
c) other	24,459	367,966
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	6,424	122,470
3. Decreases	**(98,264)**	**(440,730)**
3.1 Deferred tax assets cancelled during the year	(95,135)	(8,091)
a) reclassifications	(95,135)	(8,091)
b) write-downs due to unrecoverability	-	-
c) due to changes in accounting criteria	-	-
d) other	-	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases	(3,129)	(432,639)
4. Closing balance	**47,512**	**114,299**

11.7 Changes in deferred tax liabilities (balancing entry in shareholders' equity)

	31/12/2019	31/12/2018
1. Opening balance	**113,619**	**210,579**
2. Increases	**159,750**	**207,524**
2.1 Deferred tax liabilities recognised during the year	159,750	19,252
a) relative to previous years	-	-
b) due to changes in accounting criteria	3,949	65
c) other	155,801	19,187
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	188,272
3. Decreases	**(51,430)**	**(304,484)**
3.1 Deferred tax liabilities derecognised during the year	(17,487)	(84,986)
a) reclassifications	(17,487)	(84,986)
b) due to changes in accounting criteria	-	-
c) other	-	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases	(33,943)	(219,498)
4. Closing balance	**221,939**	**113,619**

11.8 Other information

Group tax situation
For an examination of the risks associated with existing disputes with the tax authorities and the relative developments during 2019 (new disputes arising or disputes concluded and/or settled), please see that found in Section 10 - Provisions for Risks and Charges - Item 100 of the Liabilities, which provide details of provisions carried out against liabilities judged to be probable, pursuant to that required under the reference accounting standard IAS 37.

Consolidated tax regime on a national basis
Banco BPM and the subsidiaries listed below exercised the right to make use of the Group taxation regime (pursuant to art. 117 et seq. of Presidential Decree 917/1986 - TUIR - Italian Consolidated Tax Law). This option refers to all the companies in the Group which meet the requirements established under the cited law, specifically:

1. Aletti Fiduciaria S.p.A.
2. Banca Aletti & C. S.p.A.
3. Banca Akros S.p.A.
4. Bipielle Real Estate S.p.A.
5. BP Trading Real Estate S.r.l.
6. BRF Property S.r.l.
7. Ge.Se.So. S.r.l.
8. Lido dei Coralli S.r.l.
9. P.M.G. S.r.l.
10. ProFamily S.p.A. (Newco)
11. Release S.p.A.
12. Sirio Immobiliare S.r.l.
13. Tecmarket Servizi S.p.A.
14. Terme Ioniche S.r.l.
15. Terme Ioniche Società Agricola S.r.l.

There are no associated companies which opted for the tax transparency regime pursuant to art. 115 et seq. of Presidential Decree 917-1986.

Banco BPM VAT Group
With a decision by Banco BPM Board of Directors on 25 September 2018, it was decided to establish the Banco BMP VAT Group, pursuant to articles 70-bis to 70-duodecies of Presidential Decree 633 of 26 October 1972 ("VAT

Law") and the related Implementing Ministerial Decree of 6 April 2018. It will be effective as of 1 January 2019 and the companies included are those identified below:

1. Banco BPM S.p.A.
2. Banca Aletti & C. S.p.A
3. Aletti Fiduciaria S.p.A.
4. Arena Broker S.r.l.(***)
5. Banca Akros S.p.A.
6. Bipielle Real Estate S.p.A.
7. BP Covered Bond S.r.l.
8. BP Property Management S.c.a r.l. (*)
9. BPM Covered Bond 2 S.r.l.
10. BPM Covered Bond S.r.l.
11. BRF Property S.p.A.
12. Consorzio AT1
13. GE.SE.SO Gestione Servizi Sociali S.r.l.
14. Immobiliare Marinai d'Italia S.r.l.
15. Lido dei Coralli S.r.l.
16. Manzoni 65 S.r.l. (**)
17. Meleti S.r.L.
18. Perca S.r.L.
19. ProFamily S.p.A.(***)
20. ProFamily S.p.A. (Newco – as of 01/01/2020)
21. Release S.p.A.
22. Sirio Immobiliare S.r.L.
23. Società Gestione Servizi BP S.c.p.A.r.l. (*)
24. Sviluppo Comparto 6 S.r.l.(**)
25. Sviluppo Comparto 8 S.r.l.(**)
26. Tecmarket Servizi S.p.A.
27. Tiepolo Finance S.r.L.(****)

(*) These companies were incorporated into Banco BPM S.p.A.
(**) These companies were incorporated into Bipielle Real Estate S.p.A.
(***) These companies were sold during 2019.
(****) During 2019, voluntary liquidation was initiated, with the company being subsequently wound up and struck off.

Section 12 - Non-current assets and asset disposal groups held for sale and associated liabilities – Item 120 in the assets and item 70 in the liabilities

12.1 Non-current assets and asset disposal groups held for sale: breakdown by type of asset

	Total 31/12/2019	Total 31/12/2018
A. Assets held for sale		
A.1 Financial assets	93,838	1,576,148
A.2 Equity investments	-	-
A.3 Property, plant and equipment	33,594	9,396
of which: obtained through enforcement of guarantees received	220	3,960
A.4 Intangible assets	-	-
A.5 Other non-current assets	3,650	7,238
Total A	**131,082**	**1,592,782**
of which at cost	97,488	1,587,374
of which at fair value level 1	-	-
of which at fair value level 2	-	-
of which at fair value level 3	33,594	5,408
B. Discontinued operations		
B.1 Financial assets at fair value through profit and loss	-	-
- Financial assets held for trading	-	-
- Financial assets designated at fair value	-	-
- Other financial assets mandatorily at fair value	-	-
B.2 Financial assets at fair value through other comprehensive income	-	-
B.3 Financial assets at amortised cost	-	-
B.4 Equity investments	-	-
B.5 Property, plant and equipment	-	-
of which: obtained through enforcement of guarantees received	-	-
B.6 Intangible assets	-	-
B.7 Other assets	-	-
Total B	**-**	**-**
of which at cost	-	-
of which at fair value level 1	-	-
of which at fair value level 2	-	-
of which at fair value level 3	-	-
C. Liabilities associated with assets held for sale		
C.1 Payables	-	(444)
C.2 Securities	-	-
C.3 Other liabilities	(5,096)	(2,599)
Total C	**(5,096)**	**(3,043)**
of which at cost	(5,096)	(3,043)
of which at fair value level 1	-	-
of which at fair value level 2	-	-
of which at fair value level 3	-	-
D. Liabilities associated with discontinued operations		
D.1 Financial liabilities at amortised cost	-	-
D.2 Financial liabilities held for trading	-	-
D.3 Financial liabilities at fair value	-	-
D.4 Provisions	-	-
D.5 Other liabilities	-	-
Total D	**-**	**-**
of which at cost	-	-
of which at fair value level 1	-	-
of which at fair value level 2	-	-
of which at fair value level 3	-	-

At 31 December 2019, assets held for sale included the following types:

- owned properties for which sales negotiations in progress at 31 December 2019 render probable the completion of the sales during the next year (indicated under item A.3 "Property, plant and equipment").
- the remaining exposures are fully attributable to the "ACE Leasing" Project. This is illustrated in the paragraph "Other significant aspects relating to Group accounting policies" of Part A.1 of these Notes.

At 31 December 2018, assets held for sale included the following types:

- bad loans to customers, associated with the "ACE" project (included in item A.1 "Financial assets" of the table above in the amount of 1,330 million euro). These assets were no longer included in the balances at 31 December 2019 following the completion of the sale in March 2019;
- properties owned, presented in item A.3 "Property, plant and equipment" for 9.4 million euro; These properties are no longer included in the balances of the item following the sale of 4 property units for 7.7 million euro and the return to property, plant and equipment held for investment for 1.7 million euro of a unit whose sale is deemed no longer likely;
- net assets attributable to the non-captive branch of the ProFamily equity investment, consisting of assets for 253.4 million euro (of which loans of 246.1 million euro included in sub-item A.1 "Financial assets") and liabilities of 3.0 million euro. These items were no longer included in the balances at 31 December 2019 as a result of completion of the sale to Agos Ducato S.p.A. in June 2019.

For assets and liabilities indicated in correspondence with the sub-items "of which at fair value level 1/level 2/level 3", please see that set out in "Part A.4 - Fair value disclosure".

12.2 Other information

There is no other information worthy of note.

Section 13 - Other assets – Item 130

13.1 Other assets: breakdown

	31/12/2019	31/12/2018
Receivables due from tax authorities (not classifiable among tax assets)	1,115,319	1,028,508
Receivables for sales of goods and provision of services	31,193	36,077
Other income to be received	10,128	14,602
Cash and other values on hand	7,559	9,917
Items being processed	744,278	809,187
Items in transit between branches	20,409	96,676
Illiquid items for portfolio transactions	1,099	-
Securities and coupons to be settled	33,395	119,118
Other transactions to be settled	15,018	19,194
Leasehold improvements	-	72,708
Accrued income and prepayments not included under their own item	20,135	24,942
Other items	108,316	115,750
Total	**2,106,849**	**2,346,679**

The item "Receivables due from tax authorities" mainly includes:

- receivables for applications for refund of direct taxes for a total of 296.8 million euro, of which 200.3 million euro relating to 2018, requested for refund in 2019. The item also includes the IRPEG/ILOR receivables relative to 1995 for the former Banca Popolare di Novara of 91.3 million euro, repayment of which was denied by the Tax Authorities - Novara Provincial Office. In the context of the dispute begun by the former Banco Popolare, both the Provincial Tax Commission and the Regional Tax Commission accepted the appeals presented, ordering the Tax Authority to also pay legal expenses. The appeal to the Supreme Court filed by the Tax Authority is pending;
- receivables for applications for VAT refund for a total of 232.5 million euro, of which 173.8 million euro relating to 1998, 1999 and 2000 of the former Banca Italease and 58.6 million euro relating to 2007 of

the former Mercantile Leasing. In relation to the application for refund of receivables of the former Banca Italease for a total of 161.8 million euro, as part of the dispute initiated against the silent refusal of the Tax Authority, both the Provincial and Regional Tax Commissions accepted the appeals submitted by the Bank. On 21 March 2019, following the appeal of the Tax Authority, the Supreme Court decided to refer to another section of the Regional Tax Commission the verification of the existence of the pending charges highlighted by the Authority to justify the non-refund. Given that said pending charges have been extinguished, the Bank is confident that it will fully recover the receivables in question. As regards the remaining 12 million euro also referring to the former Banca Italease, as part of the dispute initiated, both the Provincial and Regional Tax Commissions accepted the appeals submitted. The appeal to the Supreme Court filed by the Tax Authority is pending.
With regard to the receivables relating to the former Mercantile Leasing, on 14 January 2020 the Tax Authority communicated that it was willing to immediately pay the refund on submission of a bank guarantee of 50.9 million euro. With regard to the difference, which was denied by the Tax Authority, an appeal will be submitted to the Provincial Tax Commission;
- receivables recorded as balancing entries to the provisional payments made pending the final judgment of the pending tax disputes, for a total of 210.2 million euro, of which 201.9 million euro relating to the dispute concerning the claimed non-deductibility of the costs incurred in 2005 by the former Banca Popolare Italiana attributable to the attempted takeover of Banca Antonveneta;
- residual receivables deriving from the application for refund of the IRAP deductible from IRES referring to labour costs for the tax periods 2005 to 2011 following the issue of Decree Law no. 185/2008 for a total of 79.0 million euro;
- receivables deriving from excess advance stamp duty payments, substitute taxes applied to customers during the year and which will be received through settlement during 2020 totalling 190.2 million euro;
- tax receivables connected with the interest accrued on loans disbursed to customers resident in areas hit by earthquakes for 40.5 million euro;
- tax receivables relating to withholdings on dividends paid, for which refunds were requested from the tax authorities in the resident countries of the issuer of the securities based on the provisions set out in the Conventions against Double Taxation for a total of 35.8 million euro. Those receivables comprise 35.2 million euro relating to the applications for refund submitted by the subsidiary Banca Aletti to the Swiss Tax Authorities regarding withholdings made in 2008 and 2009. Those applications were rejected on 9 March 2018, on the grounds that the Bank is unable to demonstrate that it is the beneficial owner of the dividends subject to withholding, a fact that would rule out the possibility of invoking the application of the Convention between Italy and Switzerland. Though the appeal against the refusal is still pending before the Swiss Administrative Court, in the conviction of the full validity of its request, in light of the case-law approach that can be taken from a ruling issued by the same authority on 22 August 2019 in relation to a similar dispute, also in light of the provisions of IFRIC 23 for situations of uncertainty in applying tax regulations, the subsidiary Banca Aletti decided it was prudent to recognise a specific allocation to Provisions for risks and charges at the end of the year, equal to the amount of the receivable in question.

The item "Items being processed" essentially contains sums awaiting definitive assignment and various suspended items, as well as charges received from external companies relative to the payment of utilities to be settled using customer current accounts.

The item "Leasehold improvements" was blank for the current year. Following the application of IFRS 16, as of 1 January 2019, said expenses were reclassified to the item "Property, plant and equipment", along with the rights of use of the properties acquires through lease contracts, as illustrated in the paragraph "Changes in 2019 in the accounting standards applied by the Group" set out in "Part A – Accounting policies" of these Notes.

LIABILITIES

Section 1 – Financial liabilities at amortised cost – Item 10

1.1 Financial liabilities at amortised cost: breakdown by product for amounts due to banks

Transaction type/Amounts	Total 31/12/2019				Total 31/12/2018			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Due to central banks	**20,783,964**	X	X	X	**21,289,947**	X	X	X
2. Due to banks	**7,739,371**	X	X	X	**10,343,594**	X	X	X
2.1 Current accounts and demand deposits	636,642	X	X	X	877,462	X	X	X
2.2 Fixed-term deposits	113,156	X	X	X	158,955	X	X	X
2.3 Loans	6,777,309	X	X	X	9,077,330	X	X	X
2.3.1 Repurchase agreements	5,870,652	X	X	X	8,194,818	X	X	X
2.3.2 Other	906,657	X	X	X	882,512	X	X	X
2.4 Payables for commitment to repurchase own capital instruments	-	X	X	X	-	X	X	X
2.5 Lease payables	7,650	X	X	X	-	X	X	X
2.6 Other payables	204,614	X	X	X	229,847	X	X	X
Total	**28,523,335**	**-**	**-**	**28,523,336**	**31,633,541**	**-**	**-**	**31,633,541**

BV = Book value
L1 = Level 1
L2 = Level 2
L3 = Level 3

At the reporting date, "Due to central banks" amounted to 20,735.9 million euro and referred to long-term refinancing (TLTRO II and III) and short-term refinancing (MRO) with the European Central Bank.

1.2 Financial liabilities at amortised cost: breakdown by product for amounts due to customers

Transaction type/Amounts	Total 31/12/2019				Total 31/12/2018			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	86,155,794	X	X	X	78,713,896	X	X	X
2. Fixed-term deposits	1,626,230	X	X	X	2,410,243	X	X	X
3. Loans	4,685,184	X	X	X	8,138,991	X	X	X
3.1 Repurchase agreements	3,866,166	X	X	X	7,110,267	X	X	X
3.2 Other	819,018	X	X	X	1,028,724	X	X	X
4. Payables for commitment to repurchase own capital instruments	-	X	X	X	-	X	X	X
5. Lease payables	724,886	X	X	X	-	X	X	X
6. Other payables	907,818	X	X	X	934,729	X	X	X
Total	**94,099,912**	**-**	**-**	**94,099,912**	**90,197,859**	**-**	**-**	**90,197,859**

BV = Book value
L1 = Level 1
L2 = Level 2
L3 = Level 3

Sub-item 3.1 "Repurchase agreements" includes transactions with Cassa Compensazione e Garanzia of 2,756.0 million euro (last year, they amounted to euro 6,306.5 million euro). The reduction during the year was offset by the increase in repurchase agreements payable, classified in the portfolio of "Financial liabilities held for trading" (item 20 of balance sheet liabilities). The book value as at 31 December 2019 came to 3,581 million euro (3,510 million euro with the counterparty Cassa Compensazione e Garanzia) compared to a nil value as at 31 December 2018.

1.3 Financial liabilities at amortised cost: breakdown by product for debt securities issued

Security type/Amounts	Total 31/12/2019				Total 31/12/2018			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. Bonds	15,635,158	13,816,992	2,139,139	-	14,160,280	6,163,016	7,449,951	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	15,635,158	13,816,992	2,139,139	-	14,160,280	6,163,016	7,449,951	-
2. Other securities	75,554	-	-	75,554	168,662	-	-	168,662
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	75,554	-	-	75,554	168,662	-	-	168,662
Total	**15,710,712**	**13,816,992**	**2,139,139**	**75,554**	**14,328,942**	**6,163,016**	**7,449,951**	**168,662**

BV = Book value
L1 = Level 1
L2 = Level 2
L3 = Level 3

Securities issued include the covered bonds issued by Banco BPM, with a book value totalling 6,550.1 million (compared to 5,533.4 as at 31 December 2018).

1.4 Breakdown of subordinated debt/securities

At the reporting date, the only subordinated liabilities issued by the Group, classified under debt securities issued at amortised cost, refer to 9 issues of securities for a book value of 3,168.5 million euro (in the previous year, 8 issues occurred, for a book value of 2,967.6 million euro), of which two issues comprised preference shares for an amount of 131.7 million euro (as at 31 December 2018 2 issues occurred for 131.6 million euro).
These latter “preference share” instruments are grandfathered in additional Tier 1 capital.

In October 2019 a new, 10-year subordinate security was issued for a nominal value of 350 million euro, with a redemption option after five years, which is eligible for calculation in Tier 2 capital.

In addition, financial statement item “140. Equity instruments” includes the new Additional Tier 1 equity instruments, issued in April 2019 for a nominal value of 300 million euro, eligible for calculation in Additional Tier 1 capital.

During the year, no subordinate securities matured and none were redeemed, and no liability management transactions relating to such securities were carried out.
Trading of own subordinate instruments was eliminated, as a consequence of the rules introduced under Delegated Regulation 241/2014 of the European Commission and the latest authorisation granted by the ECB to Banco BPM Group.

The features of subordinated liabilities used in calculations for regulatory purposes are indicated in the document Disclosure to the Public by Entities - Pillar III.

1.5 Breakdown of structured debt

As at 31 December 2019, as in the previous year, there were no payables which required the separation of incorporated derivatives (“structured debt”).

1.6 Lease payables

Breakdown of flows from lease contracts based on contractual duration	31/12/2019	
	Due to banks	Due to customers
Up to 3 months	269	34,258
From 3 months to 1 year	805	99,698
From 1 year to 5 years	3,247	466,071
Over 5 years	3,463	174,982
Total	**7,784**	**775,009**
Time effect	**(134)**	**(50,123)**
Present value of lease payables	**7,650**	**724,886**

Section 2 - Financial liabilities held for trading – Item 20

2.1 Financial liabilities held for trading: breakdown by product

Transaction type/Amounts	Total 31/12/2019					Total 31/12/2018				
	NV	Fair Value			Fair Value *	NV	Fair Value			Fair Value *
		L1	L2	L3			L1	L2	L3	
A. Cash liabilities										
1. Due to banks	1,424	5,306	-	-	5,306	3,686	4,149	-	-	4,149
2. Due to customers	4,249,510	898,778	3,581,206	-	4,479,984	396,231	399,786	-	-	399,786
3. Debt securities	3,225,246	-	3,239,661	-	3,207,220	3,482,866	-	3,372,238	-	3,372,238
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	3,225,246	-	3,239,661	-	3,207,220	3,482,866	-	3,372,238	-	3,372,238
3.2.1 Structured	3,225,246	-	3,239,661	-	X	3,482,866	-	3,372,238	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total A	**7,476,180**	**904,084**	**6,820,867**	**-**	**7,692,510**	**3,882,783**	**403,935**	**3,372,238**	**-**	**3,776,173**
B. Derivative instruments										
1. Financial derivatives	-	127,682	2,512,331	538	-	-	204,376	2,521,060	913	-
1.1 Held for trading	X	127,682	2,511,881	538	X	X	204,376	2,465,165	913	X
1.2 Connected with the fair value option	X	-	289	-	X	X	-	55,704	-	X
1.3 Other	X	-	161	-	X	X	-	191	-	X
2. Credit derivatives	-	-	1,166	-	-	-	-	-	-	-
2.1 Held for trading	X	-	1,166	-	X	X	-	-	-	X
2.2 Connected with the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	**X**	**127,682**	**2,513,497**	**538**	**-**	**X**	**204,376**	**2,521,060**	**913**	**-**
Total (A+B)	**X**	**1,031,766**	**9,334,364**	**538**	**7,692,510**	**X**	**608,311**	**5,893,298**	**913**	**3,776,173**

NV = nominal or notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3
*Fair value * = Fair value calculated excluding changes in value due to changes in the issuer's creditworthiness with respect to the issue date*

The items "1. Due to banks" and "2. Due to customers" refer to technical overdrafts on securities listed on active markets, classified as level 1, and repurchase agreements classified as level 2.

Item 3.2.1 "Other structured securities", which as at 31 December 2019 totalled 3,239.7 million euro, is represented by certificates issued by Banca Akros, which include protection for the premium paid by the customer or

a portion of the same, unconditional with respect to the trend in the financial parameters to which they are indexed. As at 31 December 2018, the balance of these issues was 3,372.2 million euro.
For those issues, the change in the Group's creditworthiness compared to the issue date resulted in the recognition of cumulative capital losses of 32.4 million euro (equal to the difference between the fair value in the financial statements and that on the date indicated in the column "Fair value").
In addition, for certificates classified under financial derivatives (794.3 million euro as at 31 December 2019), the cumulative effect of the change in the Group's creditworthiness was also negative for 1.7 million euro. Specifically, these are conditionally protected certificates or certificates with a portion of protection of less than 50% of the premium paid.

2.2 Breakdown of "Financial liabilities held for trading": subordinated liabilities

As at 31 December 2019, there were no subordinated financial liabilities held for trading (1.1 million euro at the end of the previous year, relative to technical overdrafts on subordinated bonds of the subsidiary Banca Akros).

2.3 Breakdown of "Financial liabilities held for trading": structured debt

As at 31 December 2019, as well as in the previous year, there were no payables which required the separation of incorporated derivatives.

Section 3 - Financial liabilities at fair value – Item 30

3.1 Financial liabilities at fair value: breakdown by product

Transaction type/Amounts	Total 31/12/2019					Total 31/12/2018				
	NV	Fair value			Fair value*	NV	Fair value			Fair value*
		L1	L2	L3			L1	L2	L3	
1. Due to banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Structured	-	-	-	-	X	-	-	-	-	X
1.2 Other	-	-	-	-	X	-	-	-	-	X
of which:										
- commitments to disburse funds	-	X	X	X	X	X	X	X	X	X
- financial guarantees given	-	X	X	X	X	X	X	X	X	X
2. Due to customers	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Structured	-	-	-	-	X	-	-	-	-	X
2.2 Other	-	-	-	-	X	-	-	-	-	X
of which:										
- commitments to disburse funds	-	X	X	X	X	X	X	X	X	X
- financial guarantees given	-	X	X	X	X	X	X	X	X	X
3. Debt securities	**416,988**	**207,489**	**213,072**	**-**	**424,907**	**695,886**	**424,375**	**268,515**	**-**	**707,056**
3.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2 Other	416,988	207,489	213,072	-	X	695,886	424,375	268,515	-	X
Total	**416,988**	**207,489**	**213,072**	**-**	**424,907**	**695,886**	**424,375**	**268,515**	**-**	**707,056**

FV = Fair value
FV = FV calculated excluding changes in value due to changes in the issuer's creditworthiness with respect to the issue date.*
NV = nominal value
L1 = Level 1
L2 = Level 2
L3 = Level 3

Financial liabilities at fair value refer to bond issues for which the Fair Value Option was selected in order to eliminate or significantly reduce accounting imbalances with respect to measurement criteria for financial derivatives used for management hedges, in alternative to designating a hedge using hedge accounting rules. This accounting imbalance depends on the fact that the derivatives would be measured at fair value in any case while, in the absence of the fair value option, the bond loans would be recognised at amortised cost.

For the scope of securities with the fair value option and information on the methodology used to determine fair value and quantify changes in credit standing, please see that described in "Part A - Accounting policies - A.2 Key financial statement items, 16 - Other information, Financial liabilities at fair value and determination of creditworthiness".

3.2 Breakdown of item 30 "Financial liabilities at fair value": subordinated liabilities

As at 31 December 2019, as well as in the previous year, there were no subordinated liabilities.

Section 4 - Hedging derivatives – Item 40

4.1 Hedging derivatives: breakdown by hedge type and by level

	Fair value 31/12/2019			NV 31/12/2019	Fair value 31/12/2018			NV 31/12/2018
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives	**-**	**552,761**	**-**	**13,299,333**	**-**	**726,307**	**-**	**12,165,537**
1) Fair value	-	484,935	-	13,024,333	-	637,823	-	11,790,537
2) Cash flows	-	67,353	-	275,000	-	87,701	-	375,000
3) Foreign investments	-	473	-	-	-	783	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**552,761**	**-**	**13,299,333**	**-**	**726,307**	**-**	**12,165,537**

NV = notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3

4.2 Hedging derivatives: breakdown by portfolio hedged and type of hedge

Operations/Hedge type	Fair Value							Cash flows		Foreign investments
	Micro hedging									
	Debt securities and interest rates	Equity instruments and share indices	Currencies and gold	Credit	Commodities	Other	Macro Hedging	Micro hedging	Macro Hedging	
1. Financial assets at fair value through other comprehensive income	396,684	-	-	-	X	X	X	-	X	X
2. Financial assets at amortised cost	184	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	-	X	67,353	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**396,868**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**67,353**	**-**
1. Financial liabilities	-	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	88,067	X	-	X
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**88,067**	**-**	**-**	**-**
1. Expected transactions	X	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	-	X	-	473

Section 5 Fair value change of financial liabilities in macro fair value hedge portfolios - Item 50

5.1 Fair value change of hedged financial liabilities

Fair value change of hedged liabilities/Group components	31/12/2019	31/12/2018
1. Positive fair value change of financial liabilities	71,880	49,756
2. Negative fair value change of financial liabilities	(9,581)	-
Total	**62,299**	**49,756**

Section 6 - Tax liabilities – Item 60

This section is commented in Section 11 of the balance sheet assets, in Part B - Information on the Balance sheet in these Notes.

Section 7 - Liabilities associated with asset disposal groups held for sale - Item 70

The information in this section is commented in Section 12 of the balance sheet assets, in Part B - Information on the Balance sheet, in these Notes.

Section 8 - Other liabilities – Item 80

8.1 Other liabilities: breakdown

	31/12/2019	31/12/2018
Due to tax authorities (not classifiable under tax liabilities)	115,265	115,298
Due to personnel	5,746	10,472
Due to social security institutions	58,463	61,351
Due to suppliers	261,400	215,941
Items in transit between branches not attributable to specific accounts	47,181	205,908
Sums on hand to be paid to third parties	324,281	345,278
Bank transfers for clearance	497,530	601,601
Items related to securities transactions	62,711	102,638
Other items being processed	782,506	572,316
Adjustments for illiquid items in portfolio	837,296	931,170
Accrued expenses and deferred income not included under their own item	31,689	29,809
Other items	279,755	622,807
Total	**3,303,823**	**3,814,589**

"Due to tax authorities (not classifiable under tax liabilities)" includes net tax liabilities such as VAT payable, substitute tax on loans, withholdings on interest expense and income from employed work and similar, withholdings and other tax items not recognised under item 60 "Tax liabilities".

"Due to social security institutions" is mainly composed of charges relating to mandatory social security contributions.

"Bank transfers for clearance" mainly regard bank transfers to be credited.

"Items related to securities transactions" is comprised of securities cash purchase and sale transactions made between the end of one year and the beginning of the next, and amounts awaiting final allocation.

"Other items being processed" relate to transactions pending clearing or settlement.

"Adjustments for illiquid items in portfolio" includes mismatches of bills in the portfolio ("Portfolio of minority interests" and "Own portfolio").

"Other items" is mainly comprised of liabilities relating to collections of F24 tax form mandates and other residual items linked to normal banking operations.

Section 9 - Employee termination indemnities - Item 90

9.1 Employee termination indemnities: annual changes

	31/12/2019	31/12/2018
A. Opening balance	**377,498**	**408,160**
B. Increases	**33,360**	**11,048**
B.1 Allocation for the year	5,285	5,042
B.2 Other changes	28,075	6,006
C. Decreases	**(25,972)**	**(41,710)**
C.1 Settlements	(22,151)	(31,938)
C.2 Other changes	(3,821)	(9,772)
D. Closing balance	**384,886**	**377,498**

The sub-item B.1 "Allocation for the year" refers to charges recognised in item 190 a) "administrative expenses - personnel expenses, sub-item 1.e) provisions for employee termination indemnities" in the income statement.

Among the increases, sub-item B.2 "Other changes" includes the actuarial losses of 28.0 million euro, while among decreases, sub-item C.2 "Other changes" includes actuarial gains of 1 million euro. Actuarial gains and losses are recognised as a balancing entry to the related valuation reserve of shareholders' equity "Actuarial gains (losses) on defined benefit plans" and are reported in the statement of comprehensive income.

In addition, sub-item C.2 "Other changes" includes 1.6 million euro relating to the First Servicing S.p.A. contribution of the business segment comprised of credit collection activities.

9.2 Other information

As described in "Part A - Accounting policies, 15 Other information – Employee termination indemnities and other employee benefits", following the reform of supplementary pension plans, the employee termination indemnities recognised in the present item refer only to the portion accruing since 31 December 2006, for companies with an average of at least 50 employees in 2006, which refers to almost all Group companies.
For said companies, the provision does not include benefits that, as a result of said reform, have been paid into supplementary pension plans or the INPS Treasury Fund. The employee termination indemnities accruing from 1 January 2007 are considered a "defined benefit plan" and are recognised in personnel costs, based on the contributions owed, without actuarial calculations, as a balancing entry to the balance sheet item "Other liabilities" or for the outflow of cash.

- under the sub-item "severance indemnities" if paid to the INPS Treasury fund;
- under the sub-item "payments to external supplementary pension funds - defined contribution" if paid to supplementary pension funds.

Main actuarial assumptions

Actuarial measurement of employee termination indemnities is performed by independent external actuaries, on the basis of "accrued benefit" methodology, using the Projected Unit Credit criteria, as established in IAS 19. The table below indicates the main demographic and economic/financial assumptions used as the basis for the measurement as at 31 December 2019, compared to that as at 31 December 2018.

Main actuarial assumptions for measuring employee termination indemnities	
Demographic assumptions (2019-2018):	
Employee mortality rate	IPS55 with Age-Shifting demographic basis for annuity insurance
Frequency and amount of advances on employee termination indemnities	up to 1.5%
Frequency of turnover	1.0%-3,5%
Probability of retirement	According to the latest legislative provisions, upon reaching the first pension qualifying condition, based on the provisions of Compulsory General Insurance
Financial assumptions (2019-2018):	
Yearly discount rate(*)	Iboxx Corporate AA index, with time reference corresponding to the average duration of the plans
Annual inflation rate	1.50%

(*) As at 31 December 2019 the Iboxx Euro AA 7-10 year Corporate Index was 0.37% (1.13% as at 31 December 2018), and the Iboxx Euro Corporate AA10+ Index was 0.77% (1.57% in December 2018).

Actuarial gains/losses recognised in the statement of comprehensive income

As illustrated in paragraph 9.1 above, the changes to certain actuarial assumptions for the valuation of employee termination indemnities as at 31 December 2019, with respect to the previous year, led to an overall increase in the provisions of 27.2 million euro, equal to the combined effect of the following elements:

- actuarial losses of 27.8 million euro, attributable to the changes in financial assumptions, due to the reduction in the yearly discount rate;
- net actuarial gains of 0.6 million euro, attributable to other actuarial assumptions. In detail, the above impact is equal to the imbalance between the actuarial gains (0.8 million euro) relating to past experience, i.e. the differences found between the previous demographic actuarial assumptions used and what actually occurred, and actuarial losses (-0.2 million euro) attributable to a change in the demographic assumptions.

With regards to the discount rate, which is one of the most important assumptions used in measuring obligations associated with defined benefit plans, reference was made to the returns for companies with an "AA" rating, considered to be the best expression of returns for high quality companies. In fact, the reference accounting standard IAS 19 specifies that this rate must reflect the time value of money, but not the specific credit risk of the entity, nor the actuarial or investment risk, nor the risk that, in the future, the actual figures may differ with respect to the actuarial assumptions used. Additionally, the standard states that this rate must be calculated in reference to market yields of the securities of primary companies in the country in which the entity operates (or, the High Quality Corporate Bond yield), as at the annual reporting date, and alternatively, if there is no market for such securities, with reference to market yields on government securities. Specifically, the "Iboxx Corporate AA" index was used, from the info provider Markit, with a reference time horizon corresponding with the average duration of the defined benefit plans (social security, severance indemnity and seniority premiums). The indexes used as references were the Iboxx Euro Corporate AA 7-10 year index, at 0.37%, and the Iboxx Euro Corporate AA10+ Index, at 0.77%. The respective decrease in the rates of 76 basis points (0.37% as at 31 December 2019 compared to 1.13% as at 31 December 2018) and 80 basis points (0.77% as at 31 December 2019 compared to 1.57% as at 31 December 2018) is attributable solely to changes in the market, since the reference parameter as at 31 December 2019, for equal plans, was the same as that seen the previous year.

Sensitivity Analysis

As required under IAS 19, sensitivity analysis was performed for the obligation relative to employee termination indemnities, with the hypothesis of a 50 basis point increase or decrease in the discount rate and the inflation rate. The purpose of the analysis is to identify how much the liability would vary in relation to reasonably possible fluctuations in this actuarial assumption.

	Change in employee termination indemnities in absolute terms (*)	Change in employee termination indemnities in percentage terms
Change in actuarial assumption:		
- Discount rate:		
+0.5%	(18,060)	(4.69%)
-0.5%	19,317	5.02%
- Inflation rate:		
+0.5%	11,625	3.02%
-0.5%	(11,222)	(2.92%)

(*) the amounts in parentheses indicate a decrease in the fund.

Section 10 - Provisions for risks and charges – Item 100

10.1 Provisions for risks and charges: breakdown

Items/Components	Total 31/12/2019	Total 31/12/2018
1. Provisions for credit risk relating to commitments and financial guarantees given	40,367	62,357
2. Provisions for other commitments and guarantees given	75,623	61,457
3. Company pension funds	150,910	150,676
4. Other provisions for risks and charges	834,897	1,052,878
4.1 legal and tax disputes	156,944	157,456
4.2 personnel expenses	368,835	481,252
4.3 other	309,118	414,170
Total	**1,101,797**	**1,327,368**

10.2 Provisions for risks and charges: annual changes

	Provisions for other commitments and guarantees given	Pension funds	Other provisions for risks and charges	Total
A. Opening balance	**61,457**	**150,676**	**1,052,878**	**1,265,011**
B. Increases	**14,193**	**17,540**	**259,344**	**291,077**
B.1 Allocation for the year	14,193	639	257,151	271,983
B.2 Changes due to the passage of time	-	1,910	364	2,274
B.3 Changes due to discount rate variations	-	11,383	416	11,799
B.4 Other changes	-	3,608	1,413	5,021
C. Decreases	**(27)**	**(17,306)**	**(477,325)**	**(494,658)**
C.1 Use during the year	(2)	(14,188)	(408,976)	(423,166)
C.2 Changes due to discount rate variations	-	-	-	-
C.3 Other changes	(25)	(3,118)	(68,349)	(71,492)
D. Closing balance	**75,623**	**150,910**	**834,897**	**1,061,430**

Item C.1 "Use during the year" includes uses executed as a balancing entry to payments for personnel expenses and amounts deriving from the settlement of clawbacks and other disputes for which specific provisions were allocated.

Item C.3 "Decreases - Other changes" mainly refers to the release of provisions established in previous years.

10.3 Provisions for credit risk relating to commitments and financial guarantees given

	Provisions for credit risk relating to commitments and financial guarantees given			
	First Stage	Second Stage	Third stage	Total
Commitments to disburse funds	13,864	4,628	-	18,492
Financial guarantees given	4,352	3,149	14,374	21,875
Total	**18,216**	**7,777**	**14,374**	**40,367**

10.4 Provisions for other commitments and guarantees given

Provisions for other commitments and guarantees given amount to 75.6 million euro (61.5 million euro at the end of the previous year) and mainly refer to commercial sureties issued for customers.

10.5 Defined benefit company pension funds

Pension funds identified in the financial statements represent the liabilities relative to defined benefit plans for a value of 150.9 million euro and all relate to external funds.

1. Illustration of fund characteristics and associated risks

For defined benefit supplementary pension funds, determination of actuarial values, as required in application of IAS 19 "Employee Benefits", is done by independent actuaries, as illustrated in "Part A - Accounting Policies, 16 Other Information - Employee termination indemnities and other employee benefits".

As at the reporting date, the funds in question amounted to 150.9 million euro (150.7 million euro as at 31 December 2018). Charges for the year were allocated for 2.5 million euro to item 190 a) - "Personnel expenses" in the income statement and for 11.9 million euro as an increase to shareholders' equity valuation reserve "Actuarial gains (losses) on defined benefit plans".

Below are pension funds, identifying those of the former Banco Popolare Group and former Banca Popolare di Milano Group.

Internal funds refer to:

a) Funds included under "Banco Popolare Group defined benefit pension fund", which as of 1 April 2017 was identified as the "container" of the defined benefit pension funds relative to the former Banco Popolare Group, with guarantees from the Bank. The rules governing the amounts transferred are, nonetheless, specific details of each form:
   - commitments pursuant to the former Banca Popolare Italiana (BPI) Fund, now the Banco Popolare Group's defined benefit pension fund: this represents the value of commitments relative to 104 beneficiaries of the former Banca Popolare di Lodi, consisting of pension payments in addition to those required by law for their personnel. This fund is governed by the Regulation of 17 June 1992. In accordance with the provisions of Legislative Decree 124/1993, the Bank transformed the Fund with an agreement on 6 October 2000, in order to allow adhesion by personnel hired after 27 April 1993, and as of 1 April 2017 the Fund was identified as the "container" for the defined benefit pension funds relative to the former Banco Popolare Group with guarantees from the Bank;
   - commitments pursuant to the former Chiavari Fund: the fund was established through an agreement with the trade union on 11 December 1986, and ensures its participants and their heirs a payment in addition to pensions provided by INPS. As at the reporting date this fund had 3 beneficiaries;
   - commitments pursuant to the former Banca Industriale Gallaratese (BIG) Fund: this represents commitments to the personnel of the former Banca Industriale Gallaratese. It was established on 25 February 1986 and guarantees additional payments with respect to those required under the law in favour of those who were working for the former B.I.G. as of the stated date and is governed by the Regulations issued at the time the fund was established. On 21 August 1992, the former B.I.G. was merged by incorporation with Banca Popolare di Lodi and subsequently, those registered with the fund were given the option to transfer their position to the Banca Lodi pension fund or keep it with the original fund. At 31 December 2019, the fund had 56 beneficiaries;

- commitments pursuant to the former Bipielle Adriatico Fund: this is a fund integrating INPS payments for obligatory payments for invalidity, old age and heirs relative to employees of Bipielle Adriatico (former Cassa di Risparmio di Imola), established with Regulation of 29 December 1954, later amended on 29 July 1997. At 31 December 2019, the fund had 4 beneficiaries;
- commitments pursuant to the former BPL Fund Regulation 1961 and 1973: this represents the additional social security payment for personnel of the former Banca Popolare di Lodi, as established under the regulations of 18 April 1961 and 12 December 1973. As at the reporting date, the beneficiaries respectively totalled 7 and 15;
- commitments pursuant to the former Banca Popolare Cremona pension fund: this represents social security payments in addition to those required under the law for employees of the former Banca Popolare di Cremona, as established under the regulations of 17 June 1972. As at the reporting date, there were 5 beneficiaries;
- commitments pursuant to the former Cassa di Risparmio di Lucca Fund: this represents a fund for additional payments relative to INPS and is governed by the regulation of 2 October 1986, subsequently amended on 16 December 1988. As at the reporting date, there were 56 beneficiaries;
- commitments pursuant to the Cassa di Risparmio di Pisa Fund: this involves the commitments associated with the fund providing additional social security payments, governed with regulations of 20 April 1959. As at the reporting date, there were 22 beneficiaries;
- commitments pursuant to the former Cassa di Risparmio di Livorno Fund: this represents a fund for additional payments relative to INPS and is governed by the regulation of 3 April 1991. As at the reporting date, there were 59 beneficiaries;
- commitments relative to former employees of the former ICCRI-BFE: the bank guarantees additional INPS payments for general obligatory invalidity, old age and heir insurance pursuant to the Agreement of 19 April 1994, for 41 of the former employees;
- commitments to 31 beneficiaries of the additional fund for INPS payments for obligatory invalidity, old age and heir insurance for the former Banca Italease;
- commitments to 18 former employees relative to the additional fund for INPS payments for obligatory invalidity, old age and heir insurance for retired personnel of the former Banca S. Geminiano e S. Prospero, established with an agreement of 30 July 1976, with the aim of granting an additional pension to Bank employees;
- commitments to 18 former employees relative to the defined benefit fund for retired personnel of the former Banca Popolare di Verona – Banco S. Geminiano e S. Prospero, governed by the Bylaws - Regulation pursuant to the collective understandings in effect as of 1 January 1999, with the aim of providing an additional pension over that of the general obligatory insurance for Bank personnel;
- commitments to 115 beneficiaries of the former Credito Bergamasco for the provision of pension payments defined under company agreements previously stipulated with the company union representatives (additional company payment - TIA).

b) Other funds for the former Banco Popolare Group
- commitments to 4 former directors relative to the additional fund for INPS payments for obligatory invalidity, old age and heir insurance for retired directors of the former Banca S. Geminiano e S. Prospero, established with a company agreement of 10 October 1996, with the aim of granting an additional pension over that of the general obligatory insurance to its employees;
- commitments to 4 former directors relative to the additional fund for INPS payments for obligatory invalidity, old age and heir insurance for retired directors of the former Banca Popolare di Verona, established with an agreement of 30 July 1976, with the aim of granting an additional pension to Bank employees;
- commitments to 264 pensioners retiring prior to 1 January 1988, relative to adjustment cheques in favour of retired personnel of the former Banca Popolare di Verona e Novara and a former director;
- commitments to employees and pensioners of the former Credito Bergamasco: this represents the value of commitments relative to 3 former employees, who receive a social security payment established under a company agreement of 10 October 1996 and company largesse approved by the Board of Directors on 29 April 1985.

c) Former Banca Popolare di Milano Group funds
- Former Banca Popolare di Bologna e Ferrara pension funds
  This is a defined benefit fund associated with the commitment made by the incorporated former Banca Popolare di Bologna e Ferrara to pay a defined benefit to employees retiring as of 31 December 1995, in line with their level of service. As at the reporting date, there were 91 beneficiaries;

- Former Banca Agricola Milanese pension funds
  This represents the commitment made by the incorporated former Banca Agricola Milanese to provide an additional pension to employees retiring as of 31 December 1972. As at the reporting date, there were 3 beneficiaries;
- Additional social security payment for the former Banca Popolare di Milano
  In application of the additional social security payment regulations, the commitment consists of: the recognition of an additional pension to former retired employees whose INPS pension is lower than a pre-established percentage of their salary at the same level of service (referred to as employees with integrated pensions); or, in the case the INPS pension exceeds this percentage, a monthly payment to all pensioners of 50% of a scale frozen at the values of 31 December 1991. These benefits are not paid to employees who began service after 28 April 1993 and those hired in the context of mergers. As at the reporting date, there were 5,092 beneficiaries;
- Former Cassa di Risparmio di Alessandria pension fund
  This is a defined benefit fund without legal personality and capital independence, additional (substitute only for certain special situations) to the INPS pension payment. Those enrolled with the Fund consist solely of former employees who are now retired or their heirs. As at the reporting date, there were 227 beneficiaries.

Internal funds also include liabilities for the additional social security system in favour of the chairman in the amount of 0.4 million and the liability relative to S.I.PRE. for 0.2 million euro.
Statements for Banco BPM's internal funds are annexed to the parent company's separate financial statements.

2. Changes during the year in net defined benefit liabilities (assets) and in repayment rights

	31/12/2019
A. Opening balance	**150,676**
B. Increases	**17,540**
B.1 Social security costs relative to past work provided (CSC)	639
B.2 Financial charges due to the passage of time	1,910
B.3 Other actuarial losses	3,584
B.4 Losses due to discount rate variations	11,383
B.5 Other increases	24
C. Decreases	**(17,306)**
C.1 Use during the year	(14,188)
C.2 Gains due to discount rate variations	-
C.3 Other actuarial gains	(3,077)
C.4 Other decreases	(41)
D. Closing balance	**150,910**

Net actuarial losses totalled 11.9 million euro and were attributable to the following:

- the change in the discount rate, which led to an actuarial loss of euro 11.4 million euro, corresponding to sub-item “B.4 Losses due to discount rate variations”;
- other actuarial assumptions that led to a net loss of 0.5 million recognised for 3.6 million euro under sub-item B.3 “Other actuarial losses” and for 3.1 million euro under sub-item C.3 “Other actuarial gains”.

3. Fair value disclosure on plan assets

Based on IAS 19, plan assets are those held by an entity (a fund) that is legally separate from the entity which prepares the financial statements (external fund) and which can be used solely to pay or fund employee benefits and which are therefore not available to the creditors of the entity which prepares the financial statements. On the basis of this definition, as at 31 December 2019, as well as at 31 December 2018, there were no plan assets.
For the sake of completeness, we note that certain insurance policies exist, classified under item 20 c) “Financial assets at fair value through profit and loss - Other financial assets mandatorily at fair value”, with the objective of providing the funding needed to pay the indemnities of the plans entered into with certain directors (known as the “S.I.PRE. Plan”) and with the chairman, for which the fair value as at 31 December 2019 totalled 0.5 million euro, as in the previous year.

4. Description of main actuarial assumptions

Below are the demographic, financial and economic actuarial assumptions used for the main funds.

a) Banco Popolare Group defined benefit pension fund

Technical demographic bases: the IPS55 demographic tables with Age-Shifting were used to estimate the mortality of personnel.

Technical financial bases: the measurements were made using the Iboxx Corporate AA 7-10 Index, in line with the average duration of the defined benefit plans (social security, employee termination indemnities and seniority bonuses), 0.37% as at 31 December 2019 (1.13% as at 31 December 2018).

Technical economic bases: inflation was set at 1.5%, as in the previous year.

b) Former Banca Popolare di Bologna e Ferrara Fund

Technical demographic bases: the IPS55 tables were used to estimate mortality.

Technical financial bases: measurements were made considering the Iboxx Corporate AA 7-10 Index, in line with the average duration of the plan, 0.37% as at 31 December 2019 (as at 31 December 2018, the index used was the Iboxx Corporate AA 10+, at 1.57%).

Technical economic bases: inflation was set at 1.5%, and a future growth rate of pensions of zero was used, in line with the previous year.

c) Banca Popolare di Milano additional pension payment

Technical demographic bases: the IPS55 demographic tables were used to estimate mortality.

Technical financial bases: measurements were made considering the Iboxx Corporate AA 7-10 Index, in line with the average duration of the plan, 0.37% as at 31 December 2019 (as at 31 December 2018, the index used was the Iboxx Corporate AA 10+, at 1.57%).

Technical economic bases: the growth rate was assumed to be equal to inflation, set at 1.5%, as in the previous year. The annual increase in salaries was set at 2.5%, unchanged with respect to the previous year.

d) Former Cassa di Risparmio di Alessandria pension fund

Technical demographic bases: the SI 2018 tables were used to estimate mortality.

Technical financial bases: measurements were made considering the Iboxx Corporate AA 7-10 Index, in line with the average duration of the plan, 0.37% as at 31 December 2019 (as at 31 December 2018, the index used was the Iboxx Corporate AA 10+, at 1.57%).

Technical economic bases: inflation was set at 1.5%. As at 31 December 2018, inflation was set as follows: 1.3% for 2019, 1.5% for 2020 and 1.6% for 2021. Starting in 2022, the target reference value set by the ECB was used, equal to 2.00% annually.

5. Information on amounts, timing and uncertainties regarding cash flows

As required under IAS 19, a sensitivity analysis was performed for the obligation relative to defined benefit pension funds with the hypothesis of a 50 basis point increase or decrease in the discount rate and the inflation rate. The purpose of the analysis is to identify how much the liability would vary in relation to reasonably possible fluctuations in this actuarial assumption.

	Changes in defined benefit funds in absolute terms (*)	Changes in defined benefit funds in percentage terms
discount rate +0.5%	(5,920)	(3.92%)
discount rate -0.5%	6,381	4.23%
inflation rate +0.50%	4,001	2.65%
inflation rate – 0.50%	(3,755)	(2.49%)

(*) the amounts in parentheses indicate a decrease in the fund

6. Multi-employer plans

There are no plans of this type.

7. Defined benefit plans that share risks between entities under common control

There are no plans of this type.

10.6 Provisions for risks and charges – other provisions

10.6.1 Other provisions for risks and charges - legal and tax disputes

The Group operates in a legal and regulatory scenario, which exposes it to a wide variety of legal proceedings, relating, for example, to the conditions applied to its customers, to the nature and characteristics of the products and financial services it sells, to administrative irregularities, to clawback actions for bankruptcies, and to labour law disputes.

Banco BPM, the companies that merged to form the Group, the incorporated subsidiaries and the subsidiaries underwent various inspections by the Tax Authority in 2019 and in previous years. These activities concerned the taxable income declared for the purpose of income tax, VAT, registration tax, and more generally the manner in which the tax legislation in force at the time was applied. As a consequence of said inspections, Banco BPM Group is involved in numerous legal proceedings.

Legal and tax disputes are analysed by the Group to identify those for which the use of economic resources intended to produce economic benefits are likely to conclude the case and which consequently require the allocation of provisions for the rest of the "contingent liabilities". The term "contingent liabilities" is used for disputes against which no provisions have yet been made which correspond with:

i) possible obligations, in that it is still to be confirmed whether the entity has a present obligation that could lead to an outflow of resources embodying economic benefits;
ii) present obligations that, nonetheless, do not meet the recognition criteria established under IAS 37 (because either it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or a sufficiently reliable estimate of the amount of the obligation cannot be made).

Note that the information provided below involving the claims associated with the main disputes represent the maximum exposure to risk, regardless of the Group's opinion regarding the relative possibility of losing. For some of these disputes, the Group holds that the risk is quite limited and therefore, as they are possible liabilities, has not made any provision.

For liabilities judged probable, the information on the amount of the allocation is not provided in order to not harm the Group relative to developments in the disputes with the counterparty, whether in court or through a settlement. As indicated in the paragraph "Significant accounting policies and uncertainties regarding the use of estimates in the preparation of consolidated financial statements", to which the reader is referred, the complexity of the situations and of corporate operations which are behind disputes imply considerable elements of subjective judgement, which may regard both what may be due and whether it is due and how much time will elapse before liabilities materialise. In this regard, although the estimates made by the Group are retained reliable and compliant with the reference accounting standards, we cannot however exclude that the costs that will emerge to settle disputes may be different, also in regard to significantly higher amounts, than the allocations made.

The provisions allocated against all existing legal and tax disputes, including cases associated with enforcement actions, total 156.9 million euro.

Legal disputes with customers

The high number of cases makes it difficult to provide a detailed list, while their varying nature makes it extremely difficult if not impossible to group them into similar types. Below we provide a brief description of the main legal disputes pending as at 31 December 2019, for which conclusion could involve a probable or possible use of financial resources.

- On 14 April 2014, Maflow S.p.A., in extraordinary receivership, summoned the former Banco Popolare before the court, requesting: (i) a court order, together with others, to pay compensation for damages of 199 million euro, corresponding to the financial difficulties of Maflow, as calculated by the counterparty; (ii) a court order to return the amount allegedly received by the bank unlawfully from loans granted to Maflow from its establishment to default. The above is all based on the assumption that the bank played a dominant role by influencing the financial management of Maflow.
  In a ruling dated 14 December 2016, which was then appealed against, the Court of Milan totally rejected the claims of the petitioner in those proceedings, also ordering the same to pay legal expenses.
- Administrative Proceedings: on 17 July 2014, the former Banco Popolare received a formal written notice, insofar as jointly and severally obliged with those potentially responsible for the infringement, regarding the alleged infringement of anti-money laundering legislation (Italian Legislative Decree no. 231/2007). The accusation regarded the failure to report a transaction retained as suspicious, following inspections conducted by the Finance Police; the matter in question dated back to 2009 and regarded the paying in of 41 non-transferable banker's drafts for a total amount of 10.1 million euro. On 24 June 2019 the proceeding ended with no negative economic impacts for the bank.
- On 10 July 2019 a customer summoned Banco BPM before the court to obtain total compensation for damages of around 21 million euro for having allowed a proxy/delegate of the customer to carry out a series of unauthorised transactions on various current accounts and securities portfolios. The lawsuit is pending in the initial stage before the Court of Milan.
- On 18 July 2019, the heirs of a customer summoned Banco BPM before the court to request the cancellation of several transactions, mainly financial in nature, which were allegedly carried out on accounts held by the customer without authorisation and in violation of the MiFID regulations. The counterparties requested that the Bank be ordered to return a total amount of around 37 million euro. The lawsuit is pending in the initial stage before the Court of Milan.
- On 28 October 2019 a customer company summoned Banco BPM before the court to verify the liability of the Bank which, based on the reconstruction by the adversary, allegedly demanded excess guarantees in providing several agricultural loans, initiated repayment of one of the loans granted in advance and forced the company to cease operating its own plant. The counterparty also submitted claims for damages for 40 million euro relating to the alleged damages incurred due to the claimed negligent business conduct carried out and requested that the loan contracts and related mortgages be declared null and void. The lawsuit is pending in the initial stage before the Court of Latina.
- On 20 December 2019 Banco BPM was summoned, along with a pool of banks, by the receivership of Privilege Yard for alleged unlawful disbursement of a loan which, according to the counterparty, was granted based on a business plan defined as improbable, due to the clear inability to repay the loan, and lacking appropriate guarantees. The receivership requested that the liability of the banks be verified for collusion in the *mala gestio* (poor management) by the directors of Privilege Yard, ordering them to jointly pay compensation for the damages of around 97 million euro (Banco BPM share 27 million euro). The lawsuit is pending in the initial stage before the Court of Rome.
- The subsidiary Partecipazioni Italiane in liquidation, as the former owner of land located in Pavia that was the industrial site of the former Necchi S.p.A., (which ceased business operations many years ago), was

the subject of an order of the Province of Pavia which requested that the subsidiary, as the party "historically" responsible, along with another party, carry out the reclamation and containment of that area, which for many years now has been owned by third parties outside Banco BPM Group. As part of the legal dispute initiated by the subsidiary against that order, on 2 December 2019, the Lombardy Regional Administrative Court rejected the appeal of Partecipazioni Italiane, ordering the company to carry out all the works necessary to reclaim or contain the area. Given that the Regional Administrative Court failed to consider the body of proof produced by the subsidiary in the proceedings, the subsidiary intends to submit an appeal against that ruling. Irrespective of the possible future developments of the dispute in question, in relation to the obligation deriving from said ruling, it is likely that the subsidiary may be required to commit financial resources to bear the charges for the reclamation and containment works. Based on a technical report by an expert assigned by the subsidiary, considering the undetermined nature of the works to be carried out on the area (which could be defined only after a characterisation plan has been drawn up and the related administrative proceedings for approval of any reclamation plan have concluded), it is impossible to reliably estimate any charges for reclamation, even within a significantly large range. Therefore, in relation to the potential liability described, no allocations were made to provisions for risks and charges in the subsidiary's financial statements or, as a result, in these consolidated financial statements.

In the light of the successful outcomes in the courts of first instance and/or the existence of valid grounds on which to challenge the claims made by the claimants with regard to proceedings under way, the claims classified as possible but unlikely amount to a total of 775.0 million euro.
Claims classified as probable amount to a total of 256.1 million euro, against which 70.0 million euro has been allocated under the item Provisions for risks and charges.

<u>Clawback actions and lawsuits begun against bad loans</u>

The high number of cases makes it difficult to provide a detailed list, while their varying nature makes it extremely difficult if not impossible to group them into similar types. Below we provide a brief description of the main legal disputes pending as at 31 December 2019, for which conclusion could involve a probable or possible use of financial resources.

- Ittierre S.p.A. - The company in extraordinary receivership submitted a petition requesting the return of 30.9 million euro pursuant to Art. 67 of the Bankruptcy Law. The court-appointed expert witness in accounting deemed remittances of only 35,000 euro revocable. The proposed settlement, aimed at settling all the disputes of the Ferrè Group, entails the payment of 3.5 million euro, and has been accepted by the three Administrators of the proceedings and is awaiting authorisation from the Ministry of Economic Development;
- Tecnogas S.p.A. - The proceedings are requesting the return of amounts of 11.2 million euro. The bankruptcy clawback proceedings in first instance were favourable to the bank.

In the light of the successful outcomes in the courts of first instance and/or the existence of valid grounds on which to challenge the claims made by the claimants with regard to proceedings under way, the provisions allocated against the claims classified as probable amount to a total of 14.8 million euro.

<u>Tax disputes</u>

The total amount of claims made by the Tax Authority with regard to tax disputes underway that involve Banco BPM and its subsidiaries amounted to 318.5 million euro as at 31 December 2018, of which 306.8 million euro related to notices of assessment, tax demands and settlement notices and 11.7 million euro related to formal reports on findings served or to be served (based on the daily reports on findings for the inspection currently underway)[1].
During the year, the Group analysed, for each pending dispute, the new opportunities introduced by Decree Law no. 119 of 23 October 2018, converted by Law no. 136 of 17 December 2018, on the subsidised settlement of pending tax disputes. Based on those analyses, for the disputes listed below, it was deemed cost-effective to eliminate the risk connected with the uncertainty of the final outcome of the dispute in relation to the charge to be incurred:

[1] Note that, with the exception of the assessments relating to 2005 of the former Banca Popolare Italiana and the claims for which the commitment of economic resources is deemed likely, the estimate of the amounts claimed through the notices of assessment does not include any interest to be paid in the event of losing the lawsuit. The estimate of the claims taken from the formal reports on findings served or being served other than those for which it commitments of economic resources are deemed likely do not include either interest or fines.

- dispute (former Banca Popolare Italiana Soc. Coop.) regarding the notice of settlement of the registration tax relating to the reclassification of the disposal of a portfolio of securities made in 2002 between Cassa di Risparmio di Pisa and Banca Popolare Italiana as a business segment disposal. The claims amounted to 14.5 million euro. In a ruling dated 18 October 2011, the Regional Tax Commission of Florence fully upheld the appeal submitted by Banco BPM. The dispute was closed with the payment of tax amounting to 0.8 million euro;
- disputes regarding the notices of assessment served on 23 December 2014 regarding 2009 for the former subsidiaries Banca Popolare di Lodi, Credito Bergamasco and Efibanca. The total claim amounted to 58.4 million euro. It referred to an alleged violation in the accounting measurement of the financial liabilities arising from the failure to consider the Banks' own creditworthiness when determining the fair value of the liabilities issued by the Banks and placed with retail clients, which gave rise to an alleged violation of the "accruals principle" in recognising income and charges. The Tax Commissions upheld all appeals presented by Banco BPM and dismissed the notices of assessment in the first and second instances. The appeal to the Supreme Court filed by the Tax Authority was pending. The dispute was closed with the payment of tax amounting to 1.5 million euro;
- dispute regarding the notices of settlement for the recovery of the mortgage and land registry taxes relative to a loan stipulated by the former Banca Italease and Banca MPS in 2006. The claim amounted to a total of 3.2 million euro. The appeal submitted by Banca Italease was upheld in the first and second instance. The appeal submitted to the Supreme Court was pending. The dispute was closed with the payment of tax amounting to 0.1 million euro;
- dispute relative to the notice served to Aletti Fiduciaria to recover taxes due by the fiduciary company pursuant to the personal liability of the shareholder under art. 36, paragraph 3, of Italian Presidential Decree no. 602/1973. The claim amounted to 7.9 million euro. The company's appeal was fully upheld in the first and second instances. The appeal to the Supreme Court was pending. The dispute was closed with the payment of tax amounting to 0.4 million euro;
- other minor disputes were closed with the payment of tax amounting to 0.1 million euro.

In summary, by applying the new provisions of subsidised settlement of disputes, a legal risk totalling 84.2 million euro was eliminated, with the outlay of 2.9 million euro, of which 2.5 million euro had already been charged to the income statement in previous years.

Note that, pursuant to art. 6, paragraph 12 of Decree Law no. 119 of 23 October 2019, converted with amendments by Law no. 136 of 17 December 2018, the Tax Authority could serve a possible denial of the settlements by 31 July 2020 (which can be challenged within sixty days before the legal body before which the dispute is pending).

The derisking action implemented during the year resulted in the finalisation of an additional out-of-court settlement agreement for the dispute regarding the notices of assessment relating to the failure to apply withholding tax on interest paid in 2015 in favour of the subsidiaries resident in Delaware. As this settlement is equivalent to those finalised in the previous year for different years, the relief sought was already aligned with the charge of the expected settlement, which was covered by specific provisions of the same amount (10.1 million euro).

In addition to the closed disputes illustrated above, during the year a sole new dispute arose. On 24 July 2019, the subsidiary Banca Aletti received a notice of correction and settlement of the registration tax due for the purchase of the private banking operations by the former Banca Popolare di Milano S.p.A., subsequently incorporated into Banco BPM. The total claim, for which Banco BPM is jointly liable, amounts to 3.9 million euro. An appeal against the deed has been presented to the Provincial Tax Commission.
Due to the changes illustrated, the total amount of the claims made by the Tax Authority as part of the tax disputes still pending as at 31 December 2019 decreased to 228.1 million euro, as illustrated in greater detail below.

Details of pending disputes as at 31 December 2019

The main tax disputes pending as at 31 December 2019 (with claims equal to or exceeding 1 million euro) are as follows:

- Banco BPM (former Banca Popolare di Verona e Novara Soc. Coop.) - tax demand regarding IRAP tax paid to the Regional Headquarters for Veneto for 2006. The claim refers to the application of the ordinary rate of 4.25% to the net value of production resulting from business activities performed in Veneto and in

Tuscany, instead of the higher rate of 5.25% and amounts to a total of 7.1 million euro. An appeal has been submitted for this tax demand. The Provincial Tax Commission partially admitted the appeal and declared that the fines imposed were not due. The Regional Tax Commission confirmed the ruling of the court of first instance, therefore cancelling the tax claim relating to higher IRAP regarding the Tuscany Regional Authority. An appeal submitted to the Supreme Court is still pending.

- Banco BPM (former Banca Popolare Italiana Soc. Coop.) - notices of assessment relating to tax year 2005 regarding the claimed non-deductibility for IRES and IRAP purposes of costs and value adjustments to receivables relating to facts or actions classified as offences (regarding offences of false corporate reporting, obstacles to supervision and market turbulence alleged to have been committed by Banca Popolare Italiana with relation to the attempted takeover of Banca Antonveneta). The claims amount to 199.8 million euro (including interest and tax collection fees). In separate rulings filed on 15 October 2014, no. 8562 (IRES) and no. 8561 (IRAP), the Provincial Tax Commission of Milan, Section 22, fully rejected the appeals submitted by the Bank, although providing no reasons underlying its confirmation of the tax claim. The above ruling was appealed before the Regional Tax Commission of Lombardy. On 6 May 2015, the appeals lodged on 3 February 2015 were heard before the Milan Regional Tax Commission, Section 2. By ruling no. 670, handed down on 19 May 2015, the Commission rejected the combined appeals submitted and confirmed the challenged rulings, also without adequate reasoning. An appeal has been submitted to the Supreme Court of Cassation.
- Banco BPM (former Banca Popolare Italiana Soc. Coop.) - notices of assessment served on 22 December 2014 relating to the formal report on findings dated 30 June 2011 for tax years 2006-2009. These notices also regard the claimed non-deductibility for IRES and IRAP purposes of costs retained as relating to facts or actions classified as offences. More specifically, they regard value adjustments to loans already disputed with reference to tax year 2005, illustrated in the previous point of this list. Said value adjustments, although recognised by Banca Popolare Italiana in its financial statements for 2005, were deductible on a straight-line basis over the following 18 financial years pursuant to the version in effect at the time of art. 106, paragraph 3 of Italian Presidential Decree no. 917 of 22 December 1986. The notices of assessment serviced therefore dispute the claimed non-deductibility of the quotas of the above-cited adjustments to loans deducted in 2006, 2007, 2008 and 2009. Total claims amount to 15.8 million euro. An appeal was presented to the Provincial Tax Commission. The commission suspended the proceedings until the judgement of the Supreme Court of Cassation on the crime costs for 2005, which were referred to in the previous point, has become final.
- Banco BPM - the audit report delivered on 7 August 2017 regarding the 2013, 2014 and 2015 financial years containing findings regarding the failure to pay IRES and IRAP with reference to certain economic relationships between Banca Italease S.p.A. and the subsidiary Banca Italease Funding LLC as part of the capital enhancement operations implemented through the issue of preference shares. The total claim amounts to 1.6 million euro.
- Banca Aletti S.p.A. - notice of adjustment and settlement regarding the registration tax served by the Tax Authority – Provincial Headquarters 1 of Milan, with regard to the certified private agreement drawn up on 28 June 2017 for the sale of the private banking activities by Banca Popolare di Milano S.p.A. to Banca Aletti S.p.A. The total claim amounts to 3.9 million euro. An appeal submitted to the Provincial Tax Commission is still pending.

Classification and assessment of the claims of the Tax Authority in accordance with IAS 37

Disputes relating to the claimed non-deductibility of costs relating to the attempted takeover of Banca Antonveneta by the former Banca Popolare Italiana

The claims of the Tax Authority, which amount to a total of 215.6 million euro, were carefully assessed in light of the negative rulings made in the courts of the first two instances.
It is deemed that the decisions taken during the first and second instances are unlawful.
First and foremost, it should be noted that, in the parallel criminal proceedings initiated against the signatories of the tax declarations for the crime of false tax declaration (a crime based on the same charges contained in the assessment notices in question), the judge acquitted the defendants "due to lack of evidence". While the criminal proceedings are separate from administrative disputes, it should be noted that, in the operative part of the judgement, the criminal judge used the same arguments to justify their decision as those put forward by the bank in its defence in the appeals presented in the administrative proceedings described above.
Furthermore, an analysis of the order and the content of the ruling of the Regional Tax Commission shows that the

Commission's decision on the merits of the case contains no specific justification and is based on a mere reference to the Authority's claims, with no express indication of the reasons for its decision not to accept the precise arguments laid out by Banco Popolare in support of its appeal.
In the light of this analysis, it being believed that there are grounds to challenge the ruling as, in fact, all the defensive arguments regarding aspects of legitimacy not considered by the judges in the first and second instances can be submitted again to the court, on 18 December 2015, the appeal to the Supreme Court was made.
The detailed analyses carried out on this situation with the support of the advisers engaged to prepare the appeal, as well as the additional opinions requested from other authoritative experts on the topic, have confirmed the conviction that the Tax Authority's claim is illegitimate and that it is still possible for the defensive arguments to be considered and accepted in the case before the Supreme Court. These same analyses led the Board of Directors to confirm the classification of the potential liability as possible but not probable.
In light of the evaluations carried out, no provision has been recognised for the potential liabilities in question in the financial statements as at 31 December 2019.

Other pending disputes

The other claims associated with tax disputes amount to 12.5 million euro.

In the light of the successful outcomes in the courts of first instance and/or the existence of valid grounds on which to challenge the claims made by the Tax Authority with regard to proceedings under way and also considering the specific opinions issued by authoritative external firms, the claims classified as possible but unlikely amount to a total of 5.8 million euro.
Instead, the claims for which it is deemed probable that economic resources will be committed amount to 6.7 million euro. That risk is fully covered by the provisions allocated under the item other provisions for risks and charges - others.

The provisions for risks and charges for tax disputes include an additional 36.0 million euro allocated by Banca Aletti, of which 35.2 million euro for the risk connected with a possible unfavourable ruling in a pending dispute with the Swiss tax authority relating to the recovery of tax credits for withholdings on dividends collected. This dispute is promoted by Banca Aletti, and already illustrated in Section 13 - Other assets of these Notes.

Audits under way as at 31 December 2019

On 5 December 2019, as part of a larger tax audit of a third party company external to Banco BPM Group, the Tax Police launched a verification of Banco BPM for the purposes of direct taxes and VAT for the tax year 2017. Based on the results of the reports of the audit, which is still under way, no findings have been stated.

10.6.2 Other provisions for risks and charges - personnel expenses

These amounted to 368.8 million euro as at 31 December 2019 and are mainly represented by residual charges to be paid to finance the Solidarity Fund for redundancy incentive plans for personnel begun in previous years (226.5 million euro) and the estimate of charges deriving from the foreseeable payment of variable compensation in compliance with that established under the Group's incentive systems.

10.6.3 Other provisions for risks and charges - other

This residual category of provisions amounts to a total of 309.1 million euro and mainly includes allocations against the following liabilities:

a) risks associated with disputes and claims, both pending and expected, associated with operations with customers and possible developments in the interpretation of certain regulations governing banking activities (252.2 million euro);
b) estimated liabilities against probable reimbursements of fees consequent to the possible early termination by customers of insurance policies (20.4 million euro);
c) risks associated with guarantees granted against the disposal of equity investments or other assets or groups of assets (12.5 million euro).

Category a) includes the provision made against risks associated with reporting activities carried out of customers interested in purchasing diamonds to the specialised company Intermarket Diamond Business S.p.A. ("IDB"). This was carried out in almost all years between 2003 and 2016, prior to the merger which gave rise to Banco BPM. The activities were suspended from the initial months of 2017 and then definitively stopped.

To that end, note that the in April 2017 the Antitrust Authority (AGCM) extended the proceedings initiated against IDB to the reporting banks, including Banco BPM, and on 30 October 2017, by finding an allegedly incorrect commercial practice under the Consumer Code, imposed an administrative fine on IDB and the reporting banks (amounting, in the case of Banco BPM, to 3.35 million euro). The Bank paid the amount of the fine and challenged the AGCM's decision before the Regional Administrative Court. Following the rejection of the challenge by the Regional Administrative Court, the Bank submitted an appeal to the Council of State, which is still pending.

In relation to those operations, criminal proceedings are also pending before the Public Prosecutor's Office of Milan. As part of these, on 19 February 2019 the Public Prosecutor's Office of Milan served to the Bank (i) a pre-judgement attachment order for a total of 84.6 million euro and (ii) a notice of investigation to Banco BPM and Banca Aletti under the terms of Italian Legislative Decree 231/2001 for an administrative offence for the predicate crimes of self-laundering and to Banco BPM for the allegation of obstructing the performance of the functions of the public supervisory authorities. In the notice of closing of the preliminary investigations, the Public Prosecutor's Office also charged several former managers of the Group with the crimes of aggravated fraud, self-laundering, obstructing the performance of the functions of the public supervisory authorities and corruption between private parties.

These situations resulted in the receipt of a high number of complaints from the Group customers involved and the launch of disputes in civil court. In that regard, also with a view to being close to customers, the Group implemented a large-scale customer care initiative. This entails a case-by-case analysis of the aspects reported by customers in their complaints, for the purpose, if necessary, of finalising settlements that envisaged the customer maintaining ownership of the gem along with the disbursement of economic relief by the Group banks involved. Moreover, following the bankruptcy of IDB, declared in January 2019, the Group further strengthened its customer care oversight, providing a free service to support customers in submitting their claims for return of the gems to the bankruptcy proceedings. As at 31 January 2020 (the date nearest to the date of approval of the 2019 draft financial statements) around 22,800 complaints had been received, for a total remedy sought of around 640 million euro, and around 500 civil proceedings were pending in which the Bank was a defendant, for a total remedy sought of around 43 million euro.
In relation to this management of complaints and disputes, both pending and potential, in the 2017 and 2018 financial statements, the Group recognised allocations to specific provisions to cover disputes with customers, for a total amount of 318.3 million euro (43 million euro in 2017 and 275.3 million euro in 2018). A total of 148.6 million euro has been used out of those financial resources (33.1 million euro in 2018 and 115.5 million euro in 2019) for reimbursements provided, in the meantime, to customers with which settlements were finalised. The additional provision charged to the income statement in 2019 amounted to 65 million euro, bringing the total amount of the provision available for potential additional reimbursement claims to 234.7 million euro. Those additional allocations were necessary due to the update of the estimates of the variables underlying the amount of economic resources that the Group is forecast to commit to settle the disputes with customers, illustrated below:

- total amount of complaints deemed to have legal grounds (also considering the times of accrual of the statute of limitations), which are expected to be received (amounts of the complaints already received and the estimate of those to be received in the future) and the disputes these have caused;
- estimate of relief that shall be paid to customers that have submitted the above complaints and the financial resources to be committed to settle the pending disputes.

The first variable is that which is most difficult to estimate, in that it is in large part independent of the managerial actions executed and closely dependent on unforeseeable events such as, for example, repeating media focuses over time on the issue in question. To that end, we also note that the Group banks do not have information about which customers have already sold their diamonds through IDB after purchase. Both for the purposes of the 2019 financial statements and those relating to previous years, when determining the provision, the lawsuits already launched against the Group, complaints received, and an estimate of complaints which can be assumed to arrive in the future were all taken into consideration, without considering any decrease in the risk of complaints against possible sales of gems already completed by customers over time.
The second variable is also difficult to determine. In the face of the notably particular issue of the diamonds, the Group has had to progressively acquire, as the issue evolves, the information needed to structurally organise the

process to deal with complaints. The methods used to determine reimbursements for customers, to resolve complaints with an eye to settlement, has also been refined over time. This has necessarily influenced and will continue to influence the amount of reimbursements proposed. Hence, the average percentage value of reimbursements proposed and accepted may vary over time.
In that context, considering the situation of difficulty and uncertainty in forecasting the variables illustrated above, it was necessary to anticipate a series of possible scenarios for each of the variables and assign them their various probabilities of occurrence. Both the anticipation of the scenarios and the assignment of their probabilities of occurrence required assessments with a high degree of subjectivity, which were and will be updated over time in order to use all the new or increased information that has become and will become available over time.
The weighted average of the economic resources to be committed deriving from the various anticipated scenarios led to the identification of an interval of possible values for the provision for risks and charges as at 31 December 2019, ranging from a minimum of 207.1 million euro to a maximum of 268.7 million euro within which the median value of 234.7 million euro is the provision recognised in the financial statements as at 31 December 2019.
Note that in estimating this provision, discounting factors were not considered, given that it is held that most complaints will be settled over a limited period of time. No assets for unexpected indemnities were recognised against this provision.
Considering all the aspects of uncertainty illustrated, it cannot be ruled out that the amount of the provision for risks and charges recognised in the financial statements at 31 December 2019 is revealed to be greater or smaller than the financial resources effectively paid out by the banks of the Group relative to disputes and complaints with their customers. Consequently, the possibility that additional allocations or recoveries will have to be made in future income statements also cannot be ruled out.
As permitted under paragraph 92 of the reference international accounting standard (IAS 37), the information above does not include information which if provided could prejudice the position of the involved Group banks (Banco BPM and Banca Aletti) in actions to protect their own third party position with respect to the issue and existing legal cases.

Item a) also includes allocations of 17.5 million euro recognised against the bank's decision to recalculate the conditions applied to customers relative to investigation fees and the granting of credit availability relative to previous years, based on metrics recently defined under more severe regulations and interpretation notes issued by the supervisory bodies.

Item b) represents the provision allocated in application of that established under accounting standard IFRS 15 against the risk of having to return a portion of commissions received for the placement of insurance policies with customers, in the case that these customers decide to close the insurance coverage in advance.
Item d) represents the provision allocated against risks associated with certain guarantees granted to the buyer at the time of disposals of equity investments, asset and groups of assets which have already been completed, as better specified below.

To this end, we can note that, in the context of the contracts signed at the time of the disposal of equity investments or business segments in 2019 and in the previous years, as well as in any correlated partnership agreements, there are investment protection and guarantee mechanisms for the buyer. Specifically, these mechanisms provide for the payment of indemnities to the buyer in the case that certain sales objectives are not met, with the establishment of maximum amounts, fixed amounts, grace periods and exceptions in favour of Banco BPM Group. These investment protection and guarantee mechanisms remain in place through the end of the partnerships.
Below is a list of the main operations carried out relative to which the disposal contracts and/or associated partnership agreements include obligations for Banco BPM Group to pay indemnities, when applicable:
- the sale of the controlling shareholding in Aletti Gestielle SGR to Anima Holding in 2017;
- the sale of a 65% shareholding in the insurance companies Popolare Vita and Avipop Assicurazioni (now respectively called Vera Vita and Vera Assicurazioni) to Società Cattolica Assicurazioni in 2018;
- the sale of a business unit relative to custodian bank business segment to BNP Paribas Securities Services in 2018 and the consequent revision of the obligations established at the time of the sale of the custodian bank business segment of the former Banca Popolare di Milano to the same buyer in 2010;
- the sale of contracts relative to delegated insurance asset management mandates placed through Banco BPM Group to Anima SGR in 2018;
- the sale in 2015 by the former Banco Popolare of the subsidiary B.P. Luxembourg S.A. to Banque Havilland;
- the sale of 81% of the shareholding held in Bipiemme Vita to Covéa in 2011.

If on the basis of the final objectives achieved and forecasts relative to developments in the same the payment of an indemnity to the buyer is deemed likely, the estimate of the relative liability is allocated to the provisions for risks and charges in question. In that regard, the amount allocated as at 31 December 2019 refers to the sale finalised in 2018 by the subsidiary Banca Aletti of the contracts relating to contracts relating to delegated insurance asset management mandates placed through Banco BPM Group network to Anima SGR. Those allocations result from the failure to reach the objectives agreed in the contracts by the deadline of 31 December 2019, even though at the date of the draft financial statements negotiations were still under way with Anima SGR which could result in a revision of those contractual agreements, in terms of redefining both the objectives and the deadline set out for their achievement.

Section 11 - Technical reserves - Item 110

The Group does not have any equity investments in insurance companies included under consolidation.

Section 12 - Redeemable shares – Item 130

12.1 Redeemable shares: breakdown

The Group has no redeemable shares as of the reporting date, nor did it as at 31 December 2018.

Section 13 - Group equity Items 120, 130, 140, 150, 160, 170 and 180

13.1 “Share capital” and “Treasury shares”: breakdown

The share capital as at 31 December 2019 was 7,100 million euro and consisted of 1,515,182,126 ordinary shares, fully subscribed and paid up.

The “treasury shares” item is represented by 3,657,792 shares of the Parent Company, fully held by the same, for a book value of 11.5 million euro.

13.2 Share capital – Number of shares of the Parent Company: annual changes

	Ordinary	Other
A. Outstanding shares at the beginning of the year	**1,515,182,126**	**-**
- fully paid up	1,515,182,126	-
- not fully paid up	-	-
A.1 Treasury shares (-)	(4,004,510)	-
A.2 Shares issued: opening balance	**1,511,177,616**	**-**
B. Increases	**346,718**	**-**
B.1 New issues	-	-
for a fee:	-	-
- business combinations	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- other	-	-
without compensation:	-	-
- to employees	-	-
- to directors	-	-
- other	-	-
B.2 Sale of treasury shares	346,718	-
B.3 Other changes	-	-
C. Decreases	**-**	**-**
C.1 Cancellation	-	-
C.2 Purchase of treasury shares	-	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	-
D. Shares issued: closing balance	**1,511,524,334**	**-**
D.1 Treasury shares (+)	3,657,792	-
D.2 Outstanding shares at the end of the year	1,515,182,126	-
- fully paid up	1,515,182,126	-
- not fully paid up	-	-

Item B.2 includes shares assigned during the year to employees, implementing remuneration and incentive policies as detailed in Part I of the Notes.
During the year there were no other transactions involving purchases or sales of Banco BPM shares, either on the part of the Parent Company or subsidiaries, with the exception of the minimal quantities transiting in the "errors account" relative to orders carried out for third parties, which were not in the position as at 31 December 2019.

13.3 Share capital: other information

There is no other information worthy of note with respect to that already provided in the previous points of this section.

13.4 Profit reserves: other information

Group Reserves recognised under item 150 of the Balance sheet liabilities amount to a total of 3,512.6 million euro, classified as follows:

- Profit reserves of 3,002.9 million euro;
- Other reserves of 509.7 million euro.

Please see the "Statement of changes in consolidated shareholders' equity" for evidence of changes in the reserves during 2019, as well as the schedule included in the Notes to Banco BPM separate financial statements for the information required under art. 2427 of the Italian Civil Code.
With reference to the changes of the opening balances related to the change in the measurement approach for real estate opening balances, please refer to that set out in the paragraph ""Changes in 2019 in the accounting

standards applied by the Group", set out in "Part A – Accounting Policies" of these Notes.
Lastly, note that the Parent Company has "legal reserves" totalling 1,420.0 million euro within its own capital reserves, equal to 1/5 of share capital. This reserve was established when the profits for 2017 were allocated by the Parent Company.

13.5 Equity instruments: breakdown and annual changes

As indicated in the "Significant events during the year" section of the Report on Operations, on 11 April 2019, Banco BPM issued Additional Tier 1 instruments for an amount of 300 million euro. These were, in particular, subordinated instruments classified in Additional Tier 1 capital, under the terms of Regulation no. 575 of 2013 (CRR).
The issue is classifiable as an equity instrument, under the terms of the accounting standard IAS 32. The price received from the issue, after deducting the directly-attributable transaction costs net of the tax effect which amounted to 1.9 million euro, was recognised in the item "140. Equity instruments", for an amount of 298.1 million euro.
In keeping with the nature of the instrument, the coupons are recognised as a reduction of shareholders' equity ("150. Reserves"). As at 31 December 2019 the shareholders' equity decreased by 12.7 million euro, as a result of the payment of the coupons net of the related tax effect.
For further details on the accounting treatment of the instruments in question, refer to the paragraph entitled "Other significant aspects relating to Group accounting policies" contained in Part A - "Accounting Part A - Accounting Policies" of these Notes.

13.6 Other information

There is no other information worthy of note with respect to that already provided in previous sections.

Section 14 - Minority interests - Item 190

14.1 Breakdown of item 190 "Minority interests"

Company names	31/12/2019	31/12/2018
Investments in consolidated companies with significant minority interests	-	-
Other equity investments	26,076	45,599
Total	**26,076**	**45,599**

Minority interests amounted to 26.1 million euro, compared to 45.6 million euro as at 31 December 2018.

14.2 Equity instruments: breakdown and annual changes

There are no financial instruments issued by companies of the Group not subject to full control.

Other information

1. Commitments and financial guarantees given

	Nominal value of commitments and financial guarantees given			Total 31/12/2019	Total 31/12/2018
	First Stage	Second Stage	Third Stage		
1. Commitments to disburse funds	**48,514,066**	**822,910**	**985,221**	**50,322,197**	**49,654,084**
a) Central Banks	-	-	-	-	1,188
b) Public Administrations	2,507,138	38,631	12,973	2,558,742	1,373,549
c) Banks	1,666,423	12,726	-	1,679,149	2,672,684
d) Other financial companies	2,828,853	39,961	55,515	2,924,329	3,382,376
e) Non-financial companies	38,106,932	663,778	883,768	39,654,478	39,020,856
f) Households	3,404,720	67,814	32,965	3,505,499	3,203,431
2. Financial guarantees given	**512,710**	**27,492**	**33,635**	**573,837**	**913,358**
a) Central Banks	-	-	-	-	-
b) Public Administrations	29,994	416	-	30,410	43,689
c) Banks	80,353	-	-	80,353	208,207
d) Other financial companies	64,431	223	16	64,670	86,086
e) Non-financial companies	299,214	22,146	31,218	352,578	509,632
f) Households	38,718	4,707	2,401	45,826	65,744

2. Other commitments and guarantees given

	Nominal value	
	Total 31/12/2019	Total 31/12/2018
1. Other guarantees given	**6,549,214**	**5,915,933**
of which: non-performing credit exposures	387,006	507,571
a) Central Banks	-	-
b) Public Administrations	17,903	22,163
c) Banks	513,838	316,335
d) Other financial companies	124,694	172,367
e) Non-financial companies	5,745,126	5,265,444
f) Households	147,653	139,624
2. Other commitments	**4,547,125**	**329,744**
of which: non-performing credit exposures	4,588	125
a) Central Banks	-	-
b) Public Administrations	3,042	-
c) Banks	31,723	25,372
d) Other financial companies	2,087,061	19,127
e) Non-financial companies	540,910	126,863
f) Households	1,884,389	158,382

3. Assets pledged on own liabilities and commitments

Portfolios	Amount 31/12/2019	Amount 31/12/2018
1. Financial assets at fair value through profit and loss	932,860	351,453
2. Financial assets at fair value through other comprehensive income	5,349,679	6,435,726
3. Financial assets at amortised cost	43,721,873	42,735,991
4. Property, plant and equipment	-	-
of which: property, plant and equipment classified as inventories	-	-

Assets pledged on own liabilities and commitments recognised under balance sheet assets totalled 50,004.4 million euro, mostly attributable to the Parent Company. These refer to:

- 17,926.7 million euro in financial assets (17,181.9 million euro in 2018), of which 17,615.8 million euro relative to mortgage loans transferred by the Parent Company to the SPE, guaranteeing the holders of covered bonds issued as described in detail in the section D.4 Prudential consolidation - Covered bond transactions, contained in Part E - Section 1 of these Notes;
- 13,937.4 million euro (14,109.8 million euro in 2018) in loans serving to guarantee financing operations with central banks (Abaco);
- 12,552 million euro (13,992 million euro in 2018) in securities underlying repurchase agreements and securities lending;
- 4,050.2 million euro (3,196 million euro in 2018) in securities serving as deposits/guarantees for other operations, mainly associated with refinancing operations with central banks (pooling);
- 786 million euro in assets serving to guarantee financing operations received from Cassa Depositi e Prestiti;
- 752.2 million euro in guarantee deposits for the securitisation of Master Agreements signed by Group companies.

With regard to financing received from the European Central Bank, which amounted to a nominal value of 20.9 billion euro as at 31 December 2019, in addition to the guarantees provided through Abaco, illustrated above, the following assets are noted, used as collateral for said financing, which, in accounting terms, is not represented under the Balance sheet assets:

- securities deriving from own asset securitisation transactions for 3,958.6 million euro (4,099.8 million euro in 2018);
- covered bond issues repurchased for a nominal value of 6,735.6 million euro (8,618.2 million euro in 2018);
- securities from reverse repurchase agreements for a residual nominal value of 226.6 million euro.

Lastly, we note that at the reporting date there were covered funding operations represented by repurchase agreements payable with underlying securities acquired in the context of reverse repurchase agreements. The book value of these reverse repurchase agreements, recognised among amounts due from banks and customers, based on the counterparty, amounted to 1,548.7 million euro (1,495.2 million euro in 2018), with nominal value of 1,458.6 million euro (1,519.6 million euro in 2018).

4. Breakdown of investments against unit-linked and index-linked policies

At 31 December 2019 the Group had no investments against unit-linked or index-linked policies.

5. Management and brokering for third parties

Type of services	Amount 31/12/2019
1. Execution of customer orders	
a) purchases	63,037,701
1. settled	62,895,837
2. not settled	141,864
b) sales	52,002,252
1. settled	51,870,976
2. not settled	131,276
2. Portfolio management	
a) individual	2,678,972
b) collective	-
3. Securities custody and administration	
a) third party securities under custody: associated with custodian bank services (excluding portfolio management)	-
1. securities issued by companies included in the scope of consolidation	-
2. other securities	-
b) third party securities under custody (excluding portfolio management): other	61,666,846
1. securities issued by companies included in the scope of consolidation	5,610,539
2. other securities	56,056,307
c) third party securities under custody with third parties	59,577,834
d) own securities under custody with third parties	39,654,516
4. Other transactions	14,174

Financial assets and liabilities subject to offsetting in financial statements, or subject to master netting arrangements or similar arrangements

This section provides the information required under standard IFRS 7 relative to "offsetting of financial assets and liabilities" for financial instruments which:

- were offset in the balance sheet pursuant to IAS 32;
- could potentially be offset, given certain conditions, but presented in the balance sheet as open balances, as they are governed by "master netting arrangements or similar arrangements", which do not meet the criteria established in IAS 32 for offsetting.

In providing disclosure on these agreements, the standard also requires that the effects of real financial collateral (including guarantees in cash equivalents) received or granted be taken into effect.

More specifically, instruments offset in the balance sheet pursuant to IAS 32 refer to certain repurchase agreements entered into by the Parent Company with banks or institutional counterparties and some over-the-counter (OTC) financial derivatives entered into by individual Group companies with the counterparty London Clearing House (LCH) and several credit derivatives entered into by Banca Akros with the counterparty ICE Clear Europe Clearing.

In particular, the amount of the amounts offset shown tables 6 and 7 below, corresponding to the columns "Amount of financial liabilities offset in the balance sheet (b)" and "Amount of financial assets offset in the balance sheet (b)", amounted to 3,161.9 million euro, of which 2,756.5 million euro relative to repurchase agreements the effect of which decreases the following balance sheet items:

- 40. Financial assets at amortised cost
  a) due from banks - offset for 2,654 million euro;
  b) loans to customers - offset for 102.5 million euro.
- 10. Financial liabilities at amortised cost
  a) due to banks - offset for 836.1 million euro;
  b) due to customers - offset for 102.5 million euro;
  c) debt securities issued - offset for 1,817.9 million euro.

The effect of the offset decreasing "debt securities issued" is due to the representation used for funding repurchase agreements with the use of repurchased own issues.

The remaining 405.4 million euro relating to derivative instruments offset at the level of individual Group company are represented as a decrease of the following balance sheet items:

- 20. Financial assets at fair value through profit and loss Financial assets held for trading – offset for 326.5 million euro;
- 50. Hedging derivatives – offset for 78.9 million euro.
- 20. Financial liabilities held for trading – offset for 326.5 million euro;
- 40. Hedging derivatives – offset for 78.9 million euro.

For instruments that could potentially be offset, should certain events occur and that would be presented in tables 6 and 7 below in the column "Related amounts not subject to offsetting in the financial statements", note that the Group has the following agreements in place:

- for derivative instruments: "ISDA Master Agreement" and netting arrangements with clearing houses;
- for repurchase agreements and reverse repurchase agreements: "Global Master Repurchase Agreements (GMRA)" and netting arrangements with the "Cassa di Compensazione e Garanzia (CC&G)";
- for securities lending transactions: "Global Master Securities Lending Agreements (GMSLA)".

With regards to derivatives, whether for trading or hedging, note that:

- those with a positive fair value amount to 2,063.3 million euro (recognised under items 20 and 50 of the balance sheet) of which, net of offsetting, 1,770.1 million euro (2,175.5 million euro gross) is supported by netting agreements (85.8% in percentage terms), as indicated in table 6 (columns c and a);
- those with a negative fair value amount to 3,194.5 million euro (recognised under items 20 and 40 of the balance sheet liabilities) of which, net of offsetting, 2,351.8 million euro (2,757.1 million euro gross) is supported by netting agreements (73.6% in percentage terms), as indicated in table 7 (columns c and a). Positions not covered by netting agreements for the most part refer to certificates contracts signed by customers and issued by the subsidiary Banca Akros, which as at 31 December 2019 had a fair value of 794.3 million euro.

With reference to securities lending transactions, it should be noted that tables 6 and 7 below include operations which involve the payment of cash guarantees which are fully available to the lender, as these are single operations recognised in the balance sheet. For the purposes of reconciliation with the balance sheet figures for securities lending transactions and repurchase agreements falling under netting or similar arrangements, note that these operations are represented under the items "reverse repurchase agreements/repurchase agreements" indicated in the tables showing the breakdown of amounts due to and from banks and customers and financial assets and liabilities held for trading, based on the type of counterparty and the purpose of the transactions, found in Part B - Information on the consolidated balance sheet. Note that table 7 does not include several securities lending transactions with collateral in the form of cash in relation to customers without netting arrangements for 2.4 million euro, which is the only difference from that set out in the tables under Part B.
The tables include reverse repurchase agreements for 834.3 million euro and repurchase agreements for 3,581.2 million euro, classified under the accounting portfolios of financial assets and liabilities held for trading. The remaining repurchase agreements and loans, which comprise the majority of this type of transaction, i.e. 88.9% of the net amount of assets and 73.1% of the net amount of liabilities, are measured at amortised cost.

For the purposes of creating tables 6 and 7 below, in line with standard IFRS 7 and the instructions contained in Circular 262, note that:

- the effects of potential offsetting of financial statement values for financial assets and liabilities are indicated in column (d) "Financial instruments", together with the fair value of the real financial guarantees represented by securities;
- the effects of potential offsetting for the exposure with the relative cash guarantees are shown under column (e) "Cash deposits received/given as guarantee".

These effects are calculated for each individual counterparty supported by a master netting agreement within the limits of the net exposure indicated under column (c).

Based on the methods identified above, netting agreements between financial instruments and the relative financial guarantees make it possible to significantly decrease the creditor/debtor exposure relative to the counterparty, as indicated in column (f) "Net amount" in tables 6 and 7 below.

6. Financial assets subject to offsetting in financial statements, or subject to master netting arrangements or similar arrangements

Technical forms	Gross amount of financial assets (a)	Amount of financial liabilities offset in the financial statements (b)	Net amount of financial assets presented in the financial statements (c=a-b)	Related amounts not subject to offsetting in the financial statements		Net amount (f=c-d-e)	Net amount (f=c-d-e)
				Financial instruments (d)	Cash deposits received as guarantee (e)	31/12/2019	31/12/2018
1. Derivatives	2,175,513	405,379	1,770,134	1,431,118	249,043	89,973	54,083
2. Repurchase agreements	10,201,205	2,756,565	7,444,640	7,443,641	442	557	-
3. Securities lending	85,434	-	85,434	81,584	-	3,850	31,365
4. Other	-	-	-	-	-	-	-
Total 31/12/2019	**12,462,152**	**3,161,944**	**9,300,208**	**8,956,343**	**249,485**	**94,380**	**X**
Total 31/12/2018	**9,770,714**	**1,462,837**	**8,307,877**	**8,015,811**	**206,618**	**X**	**85,448**

7. Financial liabilities subject to offsetting in the financial statements, or subject to master netting arrangements or similar arrangements

Technical forms	Gross amount of financial liabilities (a)	Amount of financial assets offset in the financial statements (b)	Net amount of financial liabilities presented in the financial statements (c=a-b)	Related amounts not subject to offsetting in the financial statements		Net amount (f=c-d-e)	Net amount (f=c-d-e)
				Financial instruments (d)	Cash deposits pledged as collateral (e)	31/12/2019	31/12/2018
1. Derivatives	2,757,134	405,379	2,351,755	1,431,118	879,547	41,090	146,225
2. Repurchase agreements	15,147,995	2,756,565	12,391,430	12,385,108	5,605	717	-
3. Securities lending	924,204	-	924,204	890,236	-	33,968	57,629
4. Other transactions	-	-	-	-	-	-	-
Total 31/12/2019	**18,829,333**	**3,161,944**	**15,667,389**	**14,706,462**	**885,152**	**75,775**	**X**
Total 31/12/2018	**18,917,253**	**1,462,837**	**17,454,416**	**16,351,800**	**898,762**	**X**	**203,854**

8. Securities lending transactions

The table below provides information about Group securities lending transactions (receivable and payable), broken down by the type of securities (government, bank, other), market counterparty (bank, financial brokers, customers) and the relative technical forms (loan guaranteed by cash or by other securities).
These are mainly carried out by the Parent Company Banco BPM and the subsidiary Banca Akros. Securities obtained as a loan are, as a rule, used for mirrored securities lending transactions (where the Group is the lender) or as underlying assets for repurchase agreements for funding.
Note that securities lending transactions that involve the payment of cash guarantees that are fully available to the lender are represented in the balance sheet in the amounts due to/from banks or customers, in the technical form of "repurchase agreements". Securities lending transactions with guarantees consisting of other securities or cash, which are not fully available to the lender, are not indicated in the balance sheet, but are included among off-balance sheet exposures with regards to the relative counterparty risk.

The table below provides information about receivables and payables recognised in the financial statements at 31 December 2019 against securities received and given in cash-backed loans. Transactions not included in the balance sheet, as noted in the previous paragraph, are exposed on the basis of the fair value of the securities loaned, whether received or given.

Type of securities lending transaction	Type of securities		
	Government securities	Bank securities	Other securities
Cash-backed loaned securities received - Due from:			
a) Banks	-	14,788	45,520
b) Financial intermediaries	-	9,778	15,348
c) Customers	-	-	-
Total receivables for securities lending	**-**	**24,566**	**60,868**
Security or cash-backed loaned securities received not available to the lender from:			
b) Financial intermediaries	-	-	-
c) Customers	-	35,953	127,091
Total (fair value)	**-**	**35,953**	**127,091**
Cash-backed loaned securities given - Due to:			
a) Banks	-	247,290	607,148
b) Financial intermediaries	-	13,316	56,450
c) Customers	-	618	1,772
Total payables for securities lending	**-**	**261,224**	**665,370**
Security-backed or non-guaranteed loaned securities given:			
a) Banks	1,726,770	563	1,280
b) Financial intermediaries	-	213	-
c) Customers	-	-	-
Total (fair value)	**1,726,770**	**776**	**1,280**

The 1,726.8 million euro under “Security-backed or non-guaranteed loaned securities given” (569.1 million euro in 2018), refers to transactions on government securities loaned by the Parent Company, without guaranteed received.

9. Information on joint operations

As at the reporting date, as in the previous year, there were no joint control agreements classifiable as “joint operations” pursuant to accounting standard IFRS 11, on the basis of which the parties holding joint control have rights over the assets and obligations regarding the liabilities relative to the agreement.

PART C – INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

Section 1 - Interest – Items 10 and 20

1.1 Interest and similar income: breakdown

Items/Technical forms	Debt securities	Loans	Other transactions	Total 2019	Total 2018
1. Financial assets at fair value through profit and loss:	61,466	4,991	3,984	70,441	74,834
1.1 Financial assets held for trading	39,913	-	3,984	43,897	55,245
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily at fair value	21,553	4,991	-	26,544	19,589
2. Financial assets at fair value through other comprehensive income	273,560	-	X	273,560	309,139
3. Financial assets at amortised cost:	256,656	1,931,750	X	2,188,406	2,472,639
3.1 Due from banks	7,915	17,658	X	25,573	40,718
3.2 Loans to customers	248,741	1,914,092	X	2,162,833	2,431,921
4. Hedging derivatives	X	X	(156,630)	(156,630)	(135,836)
5. Other assets	X	X	6,731	6,731	6,095
6. Financial liabilities	X	X	X	131,416	134,716
Total	**591,682**	**1,936,741**	**(145,915)**	**2,513,924**	**2,861,587**
of which: interest income on impaired financial assets	654	204,316	-	204,970	464,492
of which: interest income on finance leases	-	30,257	-	30,257	33,899

Item 1 "Financial assets held for trading – Other transactions" include the spreads of the derivative contracts operationally connected with the financial assets issued by the Bank measured at fair value (FVO).

Item 4 "Hedging derivatives – Other transactions" include the spreads accrued of the financial hedging derivative contracts for transactions on balance sheet assets.

Item 5 "Other assets – Other transactions", equal to 6.7 million euro, include 4.7 million euro in interest income on tax credits.

Item 6 "Financial liabilities" refers to interest income accruing on ECB funding operations for 86.1 million euro (87.0 million euro in 2018), represented by TLTRO II loans payable.
To that end, note that this interest is calculated at the negative rate of 0.4%, given that Banco BPM S.p.A. reached the benchmark level established for accessing the most favourable interest rate on deposits with the ECB.

Interest income on impaired assets is calculated with the methods established under accounting standard IFRS 9. In particular, this item includes the effect attributable to "time reversal", due to recoveries from discounting of impaired loans.

1.2 Interest and similar income: other information

1.2.1 Interest income on financial assets in foreign currency

Items	2019	2018
Interest income on financial assets in foreign currency	170,258	167,176

1.3 Interest and similar expense: breakdown

Items/Technical forms	Payables	Securities	Other transactions	Total 2019	Total 2018
1. Financial liabilities at amortised cost	(204,932)	(300,517)	X	(505,449)	(533,405)
1.1 Due to central banks	-	X	X	-	(402)
1.2 Due to banks	(136,046)	X	X	(136,046)	(90,809)
1.3 Due to customers	(68,886)	X	X	(68,886)	(73,485)
1.4 Debt securities issued	X	(300,517)	X	(300,517)	(368,709)
2. Financial liabilities held for trading	(7,965)	-	-	(7,965)	(50,684)
3. Financial liabilities at fair value	-	(7,568)	-	(7,568)	(12,517)
4. Other liabilities and provisions	X	X	(898)	(898)	(720)
5. Hedging derivatives	X	X	44,309	44,309	65,090
6. Financial assets	X	X	X	(38,401)	(36,789)
Total	**(212,897)**	**(308,085)**	**43,411**	**(515,972)**	**(569,025)**
of which: interest expense related to lease payables	(9,706)	-	-	(9,706)	

The change in "Interest expense related to lease payables" compared to the previous year is attributable to the application of the new standard IFRS 16 as of 1 January 2019. For further details please refer to the paragraph "Changes in 2019 in the accounting standards applied by the Group", set out in "Part A – Accounting Policies" of these Notes.

1.4 Interest and similar expense: other information

1.4.1 Interest expense on financial liabilities in foreign currency

Items	2019	2018
Interest expense on financial liabilities in foreign currency	(17,686)	(24,575)

1.5 Hedging spreads

Items	2019	2018
A. Positive hedging spreads:	312,247	355,339
B. Negative hedging spreads:	(424,568)	(426,085)
C. Balance (A-B)	**(112,321)**	**(70,746)**

Section 2 - Fees and commissions – Items 40 and 50

2.1 Fee and commission income: breakdown

Service type/Amounts	Total 2019	Total 2018
a) guarantees given	77,402	78,577
b) credit derivatives	-	-
c) management, brokerage and advisory services	859,500	910,741
1. financial instrument trading	30,485	34,913
2. foreign currency trading	3,517	3,466
3. portfolio management	29,140	28,294
3.1 individual	29,140	28,294
3.2 collective	-	-
4. securities custody and administration	9,682	7,911
5. custodian bank	1,428	14,367
6. placement of securities (*)	7,520	9,045
7. receipt and transmission of orders	42,689	39,075
8. advisory activities	10,538	8,475
8.1 concerning investments	7,739	2,622
8.2 concerning financial structure	2,799	5,853
9. distribution of third party services	724,501	765,195
9.1 portfolio management	511,644	578,538
9.1.1 individual	2,450	2,961
9.1.2 collective (*)	509,194	575,577
9.2 insurance products	137,382	105,805
9.3 other products	75,475	80,852
d) collection and payment services	174,922	179,519
e) servicing for securitisation transactions	-	13
f) services for factoring transactions	-	-
g) tax collection and treasury services	-	-
h) management of multilateral trading facilities	-	-
i) keeping and managing current accounts	213,572	222,274
j) other services	545,583	558,437
Total	**1,870,979**	**1,949,561**

(*) The figures relating to the previous year have been restated to guarantee a like-for-like comparison.

Sub-item j) "other services" includes fees relative to ATM and credit card services for 110.7 million euro (105.1 million euro as at 31 December 2018), the fee for making funds available (Credit Availability Fee) for 271.6 million euro (291.4 million euro the previous year) and fee income from loans to customers for 124.7 million euro (122.2 million euro in 2018).

It should be specified that, in relation to Group operations, cash flows associated with fees recognised in the income statement for 2019 involve limited uncertainties, in that these are mainly fees received against the provision of financial services which are now complete. Operating receivables relative to services provided but not yet received are, in fact, of an insignificant amount, as illustrated in Section 4 - Financial assets at amortised cost, in Part B of the Balance sheet assets in these Notes.
For certain revenues associated with the placement of certain single premium insurance policies, the risk of returning a portion of the commissions received to the insurance company against early termination of said policies by the customers is protected against through the allocation of adequate provisions, as illustrated in Section 10 – Provisions for risks and charges, in Part B – Liabilities of these Notes.
To that end, also note that adjustments in fees recognised in 2019, against services rendered in previous years amounted to a negative 10.5 million euro, equal to the difference between the verification of greater revenues totalling 3.5 million euro (of which 1.8 million euro relating to the distribution of insurance products) and lower

revenues for 14 million euro (comprising 5.2 million euro relating to the distribution of insurance products, 4.5 million euro to the distribution of credit cards and 3 million euro to the distribution of third party loan products).

2.2 Fee and commission expense: breakdown

Services/Amounts	Total 2019	Total 2018
a) guarantees received	(7,244)	(5,198)
b) credit derivatives	-	-
c) management and brokerage services:	(50,452)	(26,554)
1. financial instrument trading	(10,171)	(11,552)
2. foreign currency trading	(10)	(3)
3. portfolio management:	-	-
3.1 own	-	-
3.2 delegated to third parties	-	-
4. securities custody and administration	(9,144)	(7,966)
5. placement of financial instruments	(17,377)	(1,485)
6. off-site offer of financial instruments, products and services	(13,750)	(5,548)
d) collection and payment services	(10,269)	(9,338)
e) other services	(65,910)	(59,711)
Total	**(133,875)**	**(100,801)**

The sub-item e) “other services” includes fees relative to ATM and credit card services for 50.0 million euro (38.0 million euro as at 31 December 2018).

Section 3 - Dividends and similar income - Item 70

3.1 Dividends and similar income: breakdown

Items/Income	Total 2019		Total 2018	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	40,972	-	25,834	-
B. Other financial assets mandatorily at fair value	13,328	-	10,686	-
C. Financial assets at fair value through other comprehensive income	15,311	-	15,436	-
D. Equity investments	-	-	-	-
Total	**69,611**	**-**	**51,956**	**-**

Section 4 - Profits (losses) on trading - Item 80

4.1 Profits (losses) on trading: breakdown

Transactions/Income components	Capital gains (A)	Profits on trading (B)	Capital losses (C)	Losses on trading (D)	Net result [(A+B) - (C+D)]
1. Financial assets held for trading	**150,769**	**233,401**	**(67,495)**	**(100,215)**	**216,460**
1.1 Debt securities	52,186	141,856	(44,097)	(64,379)	85,566
1.2 Equity instruments	98,496	88,963	(23,347)	(35,674)	128,438
1.3 UCIT units	35	251	(8)	(74)	204
1.4 Loans	52	-	(43)	-	9
1.5 Other	-	2,331	-	(88)	2,243
2. Financial liabilities held for trading	**26,629**	**28,529**	**(119,035)**	**(98,872)**	**(162,749)**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	1,918	23,944	(7,436)	(26,688)	(8,262)
2.3 Other	24,711	4,585	(111,599)	(72,184)	(154,487)
Financial assets and liabilities: exchange rate differences	**X**	**X**	**X**	**X**	**48,277**
3. Derivative instruments	**1,312,843**	**2,472,105**	**(1,146,227)**	**(2,855,019)**	**(280,404)**
3.1 Financial derivatives:	1,312,743	2,467,860	(1,144,103)	(2,848,278)	(275,884)
- On debt securities and interest rates	781,801	1,665,879	(817,188)	(1,981,437)	(350,945)
- On equity instruments and share indices	527,397	640,533	(323,114)	(705,721)	139,095
- On currencies and gold	X	X	X	X	(64,106)
- Other	3,545	161,448	(3,801)	(161,120)	72
3.2 Credit derivatives	100	4,245	(2,124)	(6,741)	(4,520)
of which: natural hedges associated with the fair value option	X	X	X	X	-
Total	**1,490,241**	**2,734,035**	**(1,332,757)**	**(3,054,106)**	**(178,416)**

It must be specified that, based on the provisions set out in the Bank of Italy Circular n. 262, the specification regarding "of which: natural hedges associated with the fair value option" refers to a specific type of hedge set out in IFRS 9. In that regard, there were no amounts to include therein, as Banco BPM Group opted to continue applying the hedge accounting regime set out in IAS 39.

Section 5 - Fair value adjustments in hedge accounting - Item 90

5.1 Fair value adjustments in hedge accounting: breakdown

Income components/Amounts	Total 2019	Total 2018
A. Income from:		
A.1 Fair value hedging derivatives	226,712	175,315
A.2 Hedged financial assets (fair value)	551,132	385,121
A.3 Hedged financial liabilities (fair value)	65,132	55,912
A.4 Cash flow hedging derivatives	-	-
A.5 Assets and liabilities in foreign currency	1,263	1,318
Total income from hedging activities (A)	**844,239**	**617,666**
B. Charges related to:		
B.1 Fair value hedging derivatives	(326,858)	(108,393)
B.2 Hedged financial assets (fair value)	(449,536)	(440,641)
B.3 Hedged financial liabilities (fair value)	(60,348)	(71,098)
B.4 Cash flow hedging derivatives	-	-
B.5 Assets and liabilities in foreign currency	-	(191)
Total charges from hedging activities (B)	**(836,742)**	**(620,323)**
C. Fair value adjustments in hedge accounting (A - B)	**7,497**	**(2,657)**
of which: profit/(loss) of hedging on net positions	-	-

Section 6 - Profits (losses) on disposal or repurchase - Item 100

6.1 Profits (losses) on disposal or repurchase: breakdown

Items/Income components		Total 2019			Total 2018	
	Profits	Losses	Net result	Profits	Losses	Net result
Financial assets						
1. Financial assets at amortised cost	681,276	(604,766)	76,510	617,082	(855,144)	(238,062)
1.1 Due from banks	-	-	-	-	-	-
1.2 Loans to customers	681,276	(604,766)	76,510	617,082	(855,144)	(238,062)
2. Financial assets at fair value through other comprehensive income	270,231	(4,799)	265,432	225,944	(95,004)	130,940
2.1 Debt securities	270,231	(4,799)	265,432	225,944	(95,004)	130,940
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**951,507**	**(609,565)**	**341,942**	**843,026**	**(950,148)**	**(107,122)**
Financial liabilities at amortised cost	**-**	**-**	**-**	**-**	**-**	**-**
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Debt securities issued	31,728	(36,119)	(4,391)	6	(4,514)	(4,508)
Total liabilities (B)	**31,728**	**(36,119)**	**(4,391)**	**6**	**(4,514)**	**(4,508)**

The result shown under item "1.2. Loans to customers" includes profits of 117.4 million euro deriving from the sale of securities classified in the portfolio of loans to customers, almost fully represented by Italian government securities. For more details, please see the section "Other significant aspects relating to Group accounting policies", found in Part A - Accounting Policies, Section A.1 - General Part of these Notes.

Net of those components, the loss on disposal of loans to customers came to 41.1 million euro. That result reflects the derisking actions carried out during 2019, with specific reference to the disposals of portfolios of bad loans ("ACE", and "ACE Leasing") and unlikely to pay loans (Clessidra and Cuvée).

For more details on the above loans and securities, please see the section "Other significant aspects relating to Group accounting policies", found in Part A - Accounting Policies, Section A.1 - General Part of these Notes.

Gains from the sale of financial assets at fair value through other comprehensive income mainly refer to profits from sales of government securities.

Section 7 - Profits (losses) on other financial assets and liabilities measured at fair value through profit and loss – Item 110

7.1 Net change in value of other financial assets and liabilities measured at fair value through profit and loss: breakdown of financial assets and liabilities at fair value

Transactions/Income components	Capital gains (A)	Profits on disposal (B)	Capital losses (C)	Losses on disposal (D)	Net result [(A+B) - (C+D)]
1. Financial assets	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-
1.2 Loans	-	-	-	-	-
2. Financial liabilities	**1,837**	**1,509**	**-**	**(381)**	**2,965**
2.1 Debt securities issued	1,837	1,509	-	(381)	2,965
2.2 Due to banks	-	-	-	-	-
2.3 Due to customers	-	-	-	-	-
3. Financial assets and liabilities in foreign currency: exchange rate differences	**X**	**X**	**X**	**X**	**-**
Total	**1,837**	**1,509**	**-**	**(381)**	**2,965**

7.2 Net change in value of other financial assets and liabilities measured at fair value through profit and loss: breakdown of other financial assets mandatorily at fair value

Transactions/Income components	Capital gains (A)	Profits on disposal (B)	Capital losses (C)	Losses on disposal (D)	Net result [(A+B) - (C+D)]
1. Financial assets	**112,033**	**52,335**	**(56,040)**	**(4,133)**	**104,195**
1.1 Debt securities	49,383	4,567	(7,937)	(1,000)	45,013
1.2 Equity instruments	30,624	42,772	(6,410)	(1,705)	65,281
1.3 UCIT units	23,336	4,806	(14,924)	(427)	12,791
1.4 Loans	8,690	190	(26,769)	(1,001)	(18,890)
2. Financial assets in foreign currency: exchange rate differences	**X**	**X**	**X**	**X**	**2,508**
Total	**112,033**	**52,335**	**(56,040)**	**(4,133)**	**106,703**

Section 8 - Net losses/recoveries on credit risk – Item 130

8.1 Net value adjustments for credit risk related to financial assets at amortised cost: breakdown

Transactions/Income components	Value adjustments (1)			Recoveries (2)		Total 2019	Total 2018
	First and second stage	Third stage		First and second stage	Third stage		
		Write-offs	Other				
A. Due from banks	**(550)**	**-**	**-**	**454**	**5**	**(91)**	**2,640**
- loans	(13)	-	-	270	5	262	2,637
- debt securities	(537)	-	-	184	-	(353)	3
of which: originated or acquired impaired credit	-	-	-	-	-	-	-
B. Loans to customers	**(9,003)**	**(54,418)**	**(1,420,217)**	**50,020**	**708,968**	**(724,650)**	**(1,677,415)**
- loans	(7,372)	(54,418)	(1,420,217)	45,327	708,968	(727,712)	(1,681,820)
- debt securities	(1,631)	-	-	4,693	-	3,062	4,405
of which: originated or acquired impaired credit	-	-	-	-	-	-	-
Total	**(9,553)**	**(54,418)**	**(1,420,217)**	**50,474**	**708,973**	**(724,741)**	**(1,674,775)**

8.2 Net value adjustments for credit risk related to financial assets at fair value through other comprehensive income: breakdown

Transactions/Income components	Value adjustments (1)			Recoveries (2)		Total 2019	Total 2018
	First and second stage	Third stage		First and second stage	Third stage		
		Write-offs	Other				
A. Debt securities	(2,224)	-	-	5,012	-	2,788	(3,754)
B Loans	-	-	-	-	-	-	-
- to customers	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-
of which: originated or acquired impaired financial assets	-	-	-	-	-	-	-
Total	**(2,224)**	**-**	**-**	**5,012**	**-**	**2,788**	**(3,754)**

Section 9 - Profit/loss from contractual changes without derecognition - Item 140

9.1 Profit/loss from contractual changes: breakdown

Items/Income components	Total 2019			Total 2018		
	Profits	Losses	Net result	Profits	Losses	Net result
Financial assets at FV recognised in other components of the statement of comprehensive income						
Contractual changes on financial assets at FV recognised through comprehensive income	-	-	-	-	-	-
Financial assets at amortised cost						
Contractual changes on financial assets at amortised cost	-	(1,997)	(1,997)	-	(1,843)	(1,843)
Total	**-**	**(1,997)**	**(1,997)**	**-**	**(1,843)**	**(1,843)**

Section 10 - Net premiums - Item 160

This item is of no significance for the Group.

Section 11 - Balance of other income and expenses from insurance activities - Item 170

This item is of no significance for the Group.

Section 12 - Administrative expenses – Item 190

12.1 Personnel expenses: breakdown

Type of expense/Sector	Total 2019	Total 2018
1) Employees	**(1,683,221)**	**(1,718,822)**
a) wages and salaries	(1,173,863)	(1,206,731)
b) social security contributions	(313,469)	(316,006)
c) severance indemnities	(64,532)	(68,527)
d) pension expenses	(274)	(265)
e) provisions for employee termination indemnities	(5,292)	(5,039)
f) provisions for pension fund and similar commitments:	(2,508)	(4,045)
- defined contribution	-	-
- defined benefit	(2,508)	(4,045)
g) payments to external supplementary pension funds:	(42,460)	(44,019)
- defined contribution	(42,460)	(44,019)
- defined benefit	-	-
h) costs deriving from share-based payment agreements	(4,619)	(2,917)
i) other employee benefits	(76,204)	(71,273)
2) Other personnel in service	**(358)**	**(172)**
3) Directors and statutory auditors	**(8,331)**	**(9,416)**
4) Retired personnel	**(212)**	**(200)**
Total	**(1,692,122)**	**(1,728,610)**

12.2 Average number of employees per category

	2019	2018
1) Employees	**20,995**	**21,834**
a) executives	317	335
b) total middle managers	8,328	8,582
of which: 3rd and 4th level	4,376	4,557
c) remaining employees	12,350	12,917
2) Other personnel	**18**	**12**
Average number of personnel	**21,013**	**21,846**

The average number of employees does not include directors and statutory auditors. In the case of employees, part-time is conventionally considered as 70%.

12.3 Defined benefit company pension funds: costs and revenues

	Total 2019	Total 2018
- Social security costs relative to current work provided	(639)	(2,146)
- Financial expense	(1,910)	(1,905)
- Expected return on plan assets	-	-
- Actuarial gains and losses	-	-
- Social security costs relative to past work provided	-	-
- Gains and losses from reductions or extinctions	41	6
Total	**(2,508)**	**(4,045)**

12.4 Other employee benefits

Other employee benefits, the costs of which are shown in table 12.1 above, under the item "i) other employee benefits", amounted to 76.2 million euro (71.3 million euro in 2018). This amount refers to contributions for lunch vouchers, costs for insurance policies stipulated for employees, costs for professional development courses for employees and seniority bonuses.

12.5 Other administrative expenses: breakdown

Type of expense/Sector	Total 2019	Total 2018
a) Expenses relating to real estate	(65,534)	(207,874)
- rents	(11,363)	(145,206)
- maintenance of premises	(14,164)	(20,896)
- cleaning expenses	(9,330)	(9,391)
- electricity, water and heating	(30,677)	(32,381)
b) Indirect taxes and duties	(311,841)	(330,799)
c) Postal charges, telephone charges, printed materials and other office expenses	(26,787)	(32,998)
d) Maintenance and fees for furniture, machines and systems	(67,272)	(59,467)
- fees	(18,303)	(15,135)
- maintenance	(48,969)	(44,332)
e) Professional and advisory services	(87,943)	(110,997)
f) Fees for surveys and information	(14,457)	(12,395)
g) Security and armoured cars	(20,488)	(21,248)
h) Services from third parties	(211,641)	(226,780)
i) Advertising, entertainment and gratuities	(16,700)	(16,313)
l) Insurance premiums	(8,821)	(12,428)
m) Transport, hiring and travel	(13,671)	(15,597)
- hiring	(4,216)	(5,249)
- other expenses	(9,455)	(10,348)
n) Other costs and sundry expenses	(202,408)	(199,236)
Total	**(1,047,563)**	**(1,246,132)**

The item "a) Expenses relating to real estate – rents" for 2019 includes rents of properties that were not included in the scope of IFRS 16 as they related to short-term contracts (less than 12 months). The reduction on the previous year is attributable to the effects of the first-time adoption of IFRS 16 "Leases". As illustrated in the paragraph "Changes in 2019 in the accounting standards applied by the Group", set out in "Part A – Accounting Policies", starting from 2019 the rental payments relating to lease contracts are no longer recorded on an accruals basis among administrative expenses, but replaced, on one side, by the depreciation of the rights of use and, on the other, the recognition of the interest accrued on the lease liability. The evidence of these latter effects is provided in Section 1 and Section 14, respectively, of this Part C, to which, therefore, reference should be made for further details.

The items "d) Maintenance and fees for furniture, machines and systems" and "m) Transport, hiring and travel – hiring" include the hiring of software, short-term or low value hiring of machinery and automobiles and support fees relating to hiring.

The item n) "Other costs and sundry expenses" included charges relative to the banking system totalling 137.6 million euro (138.8 million euro as at 31 December 2018), as well as the fee to maintain DTA convertibility for 25.4 million euro (25.2 million euro as at 31 December 2018), as better detailed in the following sections.

Contributions to deposit guarantee schemes and resolution mechanisms

Following transposition into the national legislation of Directives 2014/49/EU (Deposit Guarantee Schemes Directive –"DGSD") of 16 April 2014 and 2014/59/EU (Bank Recovery and Resolution Directive – "BRRD") of 15 May 2014, starting from financial year 2015, credit institutions are obliged to provide the financial resources necessary for the financing of the Interbank Deposit Guarantee Fund and the National Resolution Fund (merged into the Single Resolution Fund starting from 2016), through payment of ex ante ordinary contributions to be paid annually, until a certain target level is reached. If the available financial resources of the Interbank Deposit Guarantee Fund and/or of the Single Resolution Fund are insufficient, respectively to guarantee reimbursement to protected depositors or to fund the resolution, it is envisaged that the credit institutions must then make extraordinary contributions.
The contributions for this item, "190. b) Other administrative expenses" in application of IFRIC 21 interpretation "Levies", on the basis of which the liability relating to the payment of a levy arises at the time the "obligating event" occurs, namely at the time of the obligation to pay the annual fee. In the case in question, for accounting purposes the contributions are considered similar to a levy and the moment of the obligating event was identified during the first quarter for the Single Resolution Fund and the third quarter for the Interbank Deposit Guarantee Fund.
The ordinary contribution to the Single Resolution Fund for 2019 amounted to 61.7 million euro (the contribution was 68 million euro in 2018). In this regard, please note that in 2019, as in the previous year, the Group did not avail itself of the option of fulfilling the request by entering into an Irrevocable Payment Commitment (IPC).
The ordinary contribution to the Interbank Deposit Guarantee Fund, indicated in the income statement for 2019, amounted to 53.4 million euro (the contribution requested for 2018 was 45.2 million euro, recognised in the third quarter of 2018).
Lastly, we can note that in May 2019, the Bank of Italy called in additional contributions to the National Resolution Fund for 22.6 million euro, in relation to the financial requirements connected with the resolution measures carried out prior to the launch of the Single Resolution Fund. In detail, these were measures launched in November 2015 by the Bank of Italy, as the national resolution authority - under the terms of Italian Legislative Decree no. 180 of 16 November 2016, - in relation to the following four banks: Cassa di Risparmio di Ferrara S.p.A., Banca delle Marche S.p.A., Banca popolare dell'Etruria e del Lazio - Società cooperativa and Cassa di Risparmio della Provincia di Chieti S.p.A., said amount was also charged to item "190. b) Other administrative expenses" (in 2018 additional contributions of 25.5 million euro were requested).

Fee to guarantee the convertibility of DTAs - legislative changes to Decree Law no. 59/2016

Please note that art. 11 of Italian Decree Law no. 59 of 3 May 2016, converted with amendments into Italian Law no. 119 of 30 June 2016, introduced an optional regime by virtue of which the guarantee on the convertibility into tax credits of deferred tax assets (DTAs) which meet the requirements laid out in Law no. 214 of 22 December 2011 is subject to the payment of a fee, due for the years starting from 31 December 2015 until 31 December 2029, to be determined on an annual basis.
On 21 February 2017, the law (Law no. 15 of 17 February 2017) converting the "Salva Risparmio" Decree Law was published in the Official Gazette. In detail, art. 26-bis, paragraph 4 amended art. 11 of Decree Law 59/2016, postponing the period for which the annual fee is due, which is now from 31 December 2016 until 31 December 2030.
Pursuant to these regulatory references, the exercise of this option, which was carried out in 2016 by both groups involved in the merger, is considered irrevocable.
In more detail, the annual fee to be paid to ensure the convertibility of the above-mentioned deferred tax assets into tax credits must be determined on an annual basis by applying the rate of 1.5% to a base obtained by adding the difference between the convertible deferred tax assets recognised in the financial statements for the previous year and the corresponding deferred tax assets recognised in the 2007 financial statements, to the amount of conversions of the same deferred tax assets carried out from 2008 until the previous year, and subtracting the taxes set forth in

the Decree and paid with reference to the above-mentioned tax periods (base also referred to as "type 2 DTAs"). The fees are deductible for both IRES and IRAP purposes in the year in which they are paid.
In virtue of the cited regulatory provisions, in the income statement item in question ("190. b) Other administrative expenses"), the charges accruing during 2019 were added, which came to 25.4 million euro (25.2 million euro was indicated in the income statement in 2018).

Section 13 - Net provisions for risks and charges - Item 200

13.1 Net provisions for risks and charges relating to commitments to disburse funds and financial guarantees given: breakdown

	Allocations	Reallocations	Total 2019	Total 2018
Commitments to disburse funds and financial guarantees given	(416)	22,409	21,993	10,727

13.2 Net provisions for other commitments and guarantees given: breakdown

	Allocations	Reallocations	Total 2019	Total 2018
Other commitments and guarantees given	(14,193)	32	(14,161)	1,433

13.3 Net provisions for other risks and charges: breakdown

	Allocations	Reallocations of surpluses	Total 2019	Total 2018
Risks and charges for legal disputes	(21,321)	29,969	8,648	(9,083)
Other risks and charges	(128,660)	5,142	(123,518)	(348,418)
Total	**(149,981)**	**35,111**	**(114,870)**	**(357,501)**

Net provisions for other risks and charges amounted to 114.9 million euro and were comprised of 65.0 million euro for the additional allocation made to the collective provision against charges which could derive from the conclusion, also with an eye to customer care, of the disputes and complaints, already received and expected, deriving from reports from customers interested in acquiring diamonds from Intermarket Diamond Business S.p.A., a company which was declared bankrupt by the Court of Milan on 10 January 2019.
The item also includes provisions recognised by the subsidiary Banca Aletti for 35.2 million euro for the risk connected with the pending dispute with the Swiss tax authorities regarding the request for refund of withholdings on dividends and 12.5 million euro for contractual commitments assumed in relation to Anima SGR on the sale to the latter in the previous year of the contracts relative to delegated insurance asset management mandates placed through Banco BPM Group.

Section 14 - Net adjustments to/recoveries on property, plant and equipment - Item 210

14.1 Net adjustments to property, plant and equipment: breakdown

Asset/Income components	Depreciation (a)	Write-downs for impairment (b)	Recoveries (c)	Net result (a + b - c)
A. Property, plant and equipment				
1. Used in operations	(197,653)	(11)	-	(197,664)
- owned	(78,338)	(11)	-	(78,349)
- Rights of use acquired through leases	(119,315)	-	-	(119,315)
2. Held for investment purposes	-	(25)	-	(25)
- Owned	-	(25)	-	(25)
- Rights of use acquired through leases	-	-	-	-
3. Inventories	X	-	-	-
Total	**(197,653)**	**(36)**	**-**	**(197,689)**

The depreciation for 2019 amounted to 197.7 million euro. In that regard, note that this figure is not comparable to that of the previous year (111.0 million euro), due to the joint effect of the higher depreciation of lease contracts and lower depreciation on property held for investment purposes recorded during 2019 following the change in the Group's accounting standard. For the same reason, the write-downs for impairment, equal to 36 thousand euro, are not comparable to those in the previous year, which amounted to 44.1 million euro.
For further details please refer to the paragraph "Changes in 2019 in the accounting standards applied by the Group", set out in "Part A – Accounting Policies" of these Notes.

Section 15 - Net adjustments to/recoveries on intangible assets - Item 220

15.1 Net adjustments to intangible assets: breakdown

Asset/Income components	Amortisation (a)	Write-downs for impairment (b)	Recoveries (c)	Net result (a + b - c)
A. Intangible assets				
A.1 Owned	(105,590)	(4,449)	-	(110,039)
- Internally generated	-	-	-	-
- Other	(105,590)	(4,449)	-	(110,039)
A.2 Rights of use acquired through leases	-	-	-	-
Total	**(105,590)**	**(4,449)**	**-**	**(110,039)**

Section 16 - Other operating expenses/income - Item 230

16.1 Other operating expenses: breakdown

	Total 2019	Total 2018
Expenses on leased assets	(15,968)	(15,662)
Amortisation of leasehold improvement costs	-	(17,775)
Other	(50,146)	(56,650)
Total	**(66,114)**	**(90,087)**

"Expenses on leased assets" relate to the costs incurred on assets used as collateral for non-performing exposures for the purchase and resale of assets under finance lease.

As a result of leasehold improvements being recorded as an increase in the right of use of property, plant and equipment, as illustrated in Part A.1 "Changes in 2019 in the accounting standards applied by the Group" of these Notes, the amortisation for 2019, previously recorded under this item, was recorded as an increase in "Net adjustments to/recoveries on property, plant and equipment".
The item "Other" includes legal settlement charges exceeding the provisions allocated for 20.5 million euro (23.8 million euro in the previous year), operating losses relative to branch management (robbery, fraud, theft and other damages) for 9.7 million euro (6.9 million euro in 2018), as well as contingent liabilities and other contingencies.

16.2 Other operating income: breakdown

	Total 2019	Total 2018
Income on current accounts and loans	16,156	36,096
Recoveries on tax	253,118	255,589
Recoveries on expenses	13,865	31,106
Rents receivable on real estate	39,068	51,381
Other	81,581	416,718
Total	**403,788**	**790,890**

The sub-item "income on current accounts and loans" refers to the "*commissione di istruttoria veloce*" (fast track fee) introduced by Decree Law 201 of 6 December 2011, converted by Law 214/2011.

The sub-item "other" includes sundry income for services rendered. In the previous year, the sub-item in question also included 313.6 million euro in capital gains generated by the sale to BNP Paribas Securities Services of the custodian bank and fund administration business line for 200.0 million euro, and the sale to Anima SGR for 113.6 million euro of the delegated insurance assets management mandates carried out on behalf of the insurance joint-ventures tied to the bancassurance network of former Banco Popolare.

Section 17 - Profits (losses) on investments in associates and companies subject to joint control - Item 250

17.1 Profits (losses) on investments in associates and companies subject to joint control: breakdown

Income components/Sectors	Total 2019	Total 2018
1) Companies under joint control		
A. Income	**-**	**-**
1. Revaluations	-	-
2. Profits on disposal	-	-
3. Recoveries	-	-
4. Other income	-	-
B. Charges	**-**	**-**
1. Write-downs	-	-
2. Losses on impairment	-	-
3. Losses on disposal	-	-
4. Other expenses	-	-
Net result	-	-
2) Companies subject to significant influence		
A. Income	**132,542**	**330,255**
1. Revaluations	132,542	159,552
2. Profits on disposal	-	170,703
3. Recoveries	-	-
4. Other income	-	-
B. Charges	**(2,101)**	**(95)**
1. Write-downs	(1,287)	(95)
2. Losses on impairment	-	-
3. Losses on disposal	(814)	-
4. Other charges	-	-
Net result	**130,441**	**330,160**
Total	**130,441**	**330,160**

The items Revaluations and Write-downs include profits and losses deriving from measurement of equity investments in companies subject to significant influence using the equity method. In particular, profits comprise: 103.1 million euro referring to Agos Ducato, 8.6 million euro referring to Vera Vita, 6.6 million euro referring to Vera Assicurazioni, 7.2 million euro to Bipiemme Vita, 2 million euro referring to Factorit, 1.6 million euro referring to SelmaBipiemme, 1.9 million euro referring to Alba Leasing and 1.1 million euro referring to Etica SGR. The losses are mainly represented by Aosta Factor.

Losses on disposal (0.8 million euro) mainly refer to the capital loss recorded as a price adjustment for the sale of Popolare Vita in the previous year.

The previous year, profits on disposal (170.7 million euro) referred to the overall economic effects of the sale of 65% of Avipop Assicurazioni and Popolare Vita, net of costs to sell.

Section 18 - Profits (losses) from the fair value designation of property, plant and equipment and intangible assets - Item 260

18.1 Profits (losses) from the fair value designation (or revalued value) or estimated realisable value of property, plant and equipment and intangible assets: breakdown

Asset/Income components	Revaluations (a)	Write-downs (b)	Exchange rate differences		Net result (a-b+c-d)
			Positive (c)	Negative (d)	
A. Property, plant and equipment	**30,498**	**(189,031)**	**-**	**-**	**(158,533)**
A.1 Used in operations:	2,794	(51,824)	-	-	(49,030)
- Owned	2,794	(51,824)	-	-	(49,030)
- Rights of use acquired through leases	-	-	-	-	-
A.2 Held for investment purposes:	27,704	(137,207)	-	-	(109,503)
- Owned	27,704	(137,207)	-	-	(109,503)
- Rights of use acquired through leases	-	-	-	-	-
A.3 Inventories	-	-	-	-	-
B. Intangible assets	**-**	**-**	**-**	**-**	**-**
B.1 Owned	-	-	-	-	-
B1.1 Internally generated	-	-	-	-	-
B1.2 Other	-	-	-	-	-
B.2 Rights of use acquired through leases	-	-	-	-	-
Total	**30,498**	**(189,031)**	**-**	**-**	**(158,533)**

This item, totalling 158.5 million euro (the balance in the previous year was 0), includes the results of the fair value measurement of “revalued property, plant and equipment used in operations” and “property, plant and equipment held for investment purposes”, represented by owned real estate assets and valuable works of art.
The write-downs of property, plant and equipment used in operations include an amount of 1.9 million euro referring to valuable works of art. The remaining changes were fully attributable to owned real estate.
For further details please refer to that illustrated in the paragraph “Changes in 2019 in the accounting standards applied by the Group”, set out in “Part A – Accounting Policies” of these Notes.

Section 19 - Value adjustments to goodwill - Item 270

19.1 - Value adjustments to goodwill: breakdown

The results of recoverability checks on goodwill recognised in the financial statements did not lead to adjustments during the year.

For a description of the methods used to perform impairment tests on goodwill, please see that indicated in Section 10 - Intangible assets in Part B of these Notes to the consolidated financial statements.
Please see that set out in Part A - Accounting Policies for a description of the methods used to determine the impairment of goodwill.

Section 20 - Profits (losses) on disposal of investments - Item 280

20.1 Profits (losses) on disposal of investments: breakdown

Income components/Sectors	Total 2019	Total 2018
A. Real estate	**(214)**	**10,985**
- Profits on disposal	6,135	12,870
- Losses on disposal	(6,349)	(1,885)
B. Other assets	**334,179**	**(8,330)**
- Profits on disposal	334,277	3,660
- Losses on disposal	(98)	(11,990)
Net result	**333,965**	**2,655**

The profits and losses on disposal of real estate refer to disposals carried out during the year, mainly by the Parent Company and the subsidiaries Bipielle Real Estate and Release.

Profits on disposal of other assets included gross capital gains achieved through reorganisation of the consumer loan segment (189.5 million euro) and establishment of the partnership with Credito Fondiario to manage recovery activities for non-performing loans (142.7 million euro). During the previous year, losses on disposal almost entirely referred to the price adjustment regarding an equity investment sold in past years.

Section 21 - Taxes on income from continuing operations – Item 300

21.1 Taxes on income from continuing operations: breakdown

Income components/Sectors	Total 2019	Total 2018
1. Current taxes (-)	(54,552)	(66,977)
2. Changes in current taxes for previous years (+/-)	8,809	5,649
3. Decreases in current taxes for the year (+)	15,904	33,929
3.bis Decreases in current taxes for the year due to tax credits pursuant to Italian Law no. 214/2011 (+)	45,933	65,699
4. Change in deferred tax assets (+/-)	(140,575)	95,020
5. Change in deferred tax liabilities (+/-)	59,805	69,508
6. Income taxes for the year (-) (-1+/-2+3+3bis+/-4+/-5)	**(64,676)**	**202,828**

Note that deferred tax assets connected with prior tax losses decreased in 2019 due to the taxable income generated, for a total of 94 million euro.

21.2 Reconciliation between theoretical tax charge and actual tax charge

IRES	2019		2018	
Profit (loss) before tax from continuing operations		**846,113**		**(272,820)**
Negative components of gross income (loss) not definitively significant (+)		**129,574**		**438,974**
Non-deductible interest expense	1,405		1,900	
Capital losses from disposal/valuation of equity investments/OCI	2,000		277,779	
Non-deductible taxes other than income taxes	18,773		28,663	
Non-deductible loan losses	96		2,067	
Administrative expenses with limited deductibility	6,850		7,042	
Other non-deductible expenses	45,702		49,319	
Goodwill impairment	-		-	
Losses of foreign companies	2,844		-	
Consolidation effects of intragroup equity investments	-		1,918	
Allocations	37,313		2,266	
Other	14,591		68,020	
Positive components of gross income (loss) not definitively significant (-)		**(530,230)**		**(662,258)**
Insignificant portion of capital gains from disposal/valuation of equity investments/OCI	(384,874)		(524,647)	
Insignificant portion of dividends before consolidation entries	(224,228)		(527,805)	
Cancellation of intragroup dividends	218,554		533,219	
Consolidation effects of intragroup equity investments	(131,255)		-	
Other	(8,427)		(143,025)	
Definitive increases not associated with gross income (loss) elements (+)		**1,548**		**89**
Other	1,548		89	
Definitive decreases not associated with gross income (loss) elements (-)		**(102,960)**		**(107,008)**
Lump sum 10% IRAP deduction and cost of labour for employees IRAP deduction	(222)		(23)	
Portion of ACE subsidisable income	(73,829)		(53,778)	
Other	(28,909)		(53,207)	
IRES calculation base, income statement		**344,045**		**(603,023)**
IRES nominal rate	24%		24%	
Actual IRES		**(82,571)**		**144,726**
IRES tax rate		**(9.76%)**		**53.05%**

IRAP	2019		2018	
Profit (loss) before tax from continuing operations		**846,113**		**(272,820)**
Negative components of gross income (loss) not definitively significant (+)		**444,390**		**960,964**
Non-deductible interest expense	2,329		2,209	
Non-deductible portion of amortisation/depreciation of assets used in operations	32,857		44,611	
Other non-deductible administrative expenses	153,690		188,240	
Personnel expenses net of deductions allowed (tax wedge reduction, disabled, etc.)	3,651		-	
Other value adjustments pursuant to item 130 of the income statement	-		-	
Net provisions for risks and charges	135,631		364,180	
Other operating expenses	25,792		17,216	
Losses on equity investments	7,672		324,595	
Goodwill impairment	-		-	
Consolidation effects of intragroup equity investments	-		1,918	
Other	82,768		17,995	
Positive components of gross income (loss) not definitively significant (-)		**(491,475)**		**(838,898)**
Profits from equity investments	(348,751)		(495,510)	
Insignificant portion of dividends before consolidation entries	(142,276)		(219,590)	
Cancellation of intragroup dividends	218,554		533,219	
Other operating income	(48,333)		(102,033)	
Profits on disposal of insignificant investments	(3,463)		(14,261)	
Consolidation effects of intragroup equity investments	(131,255)		-	
Other	(35,951)		(540,723)	
Definitive increases not associated with gross income (loss) elements (+)		**58,515**		**1,206,222**
Adjustments to neutralise negative value of production	-		1,206,222	
Other	58,515		-	
Definitive decreases not associated with gross income (loss) elements (-)		**(788,358)**		**(879,504)**
Other	(788,358)		(879,504)	
IRAP calculation base, income statement		**69,185**		**175,964**
Nominal average weighted IRAP rate	4.273%		5.134%	
Actual IRAP		**(2,956)**		**(9,034)**
IRAP tax rate		**(0.35%)**		**(3.31%)**

IRES and IRAP not accruing during the year and other taxes	2019		2018	
Total impact		**20,851**		**67,136**
IRES - Current taxes and deferred tax assets and liabilities from previous years	28,186		(13,950)	
IRES - Additional 3.5% rate	(15,951)		19,734	
IRAP - Current taxes and deferred tax assets and liabilities from previous years	8,844		61,580	
Foreign taxes - other	(228)		(228)	
IRES and IRAP tax rate not accruing during the year and other taxes		**2.47%**		**24.61%**

Total taxes on gross income (loss)	2019	2018
Total IRES + IRAP + Other taxes	**(64,676)**	**202,828**
Total tax rate	**(7.64%)**	**74.34%**

Section 22 - Profit (loss) from discontinued operations, net of taxes - Item 320

22.1 Profit (loss) from discontinued operations, net of taxes: breakdown

Income components/Amounts	Total 2019	Total 2018
1. Income	-	-
2. Charges	-	(4)
3. Result of valuations of groups of assets and associated liabilities	-	-
4. Profit (loss) on disposal	-	940
5. Taxes and duties	-	-
Profit (loss)	**-**	**936**

For 2018, the item included the contribution to the income statement for the year of the subsidiary Mariner and capital gains realised following its disposal.

22.2 Breakdown of income taxes relative to discontinued operations

This item was blank for the current year and the previous year. Therefore, the related table is omitted.

Section 23 - Income (loss) attributable to minority interests - Item 340

23.1 Breakdown of item 340 "Income (loss) attributable to minority interests"

Company names	2019	2018
Consolidated equity investments with significant minority interests	-	-
Other equity investments	(15,564)	(9,623)
Total	**(15,564)**	**(9,623)**

The amount mainly refers to the minority share of profit (loss) of the subsidiary Release.

Section 24 - Other information

There is no other significant information other than that already provided in the above sections.

Section 25 - Earnings per share

	31/12/2019		31/12/2018	
	Basic EPS	Diluted EPS	Basic EPS	Diluted EPS
Weighted average of ordinary shares (number)	1,511,339,224	1,511,339,224	1,510,954,842	1,510,954,842
Attributable income (loss) (in thousands of euro)	793,001	793,001	(59,432)	(59,432)
EPS (euro)	**0.525**	**0.525**	**(0.039)**	**(0.039)**
Attributable income (loss) without impairment (thousands of euro)	793,001	793,001	(56,503)	(56,503)
EPS (euro)	**0.525**	**0.525**	**(0.037)**	**(0.037)**

25.1 Average number of ordinary shares with diluted capital

As at 31 December 2019, Basic EPS coincides with Diluted EPS as there were no financial instruments with potential dilutive effects.

25.2 Other information

There is no other significant information other than that already provided in the above sections.

PART D – STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

Analytic statement of consolidated comprehensive income

Items		31/12/2019	31/12/2018
10.	**Net income (loss) for the year**	**781,437**	**(69,055)**
	Other comprehensive income without reclassification to the income statement	334,319	(219,348)
20.	Equity instruments designated at fair value through other comprehensive income:	**151,291**	**(247,275)**
	a) fair value change	154,832	(245,994)
	b) transfers to other shareholders' equity components (*)	(3,541)	(1,281)
30.	Financial liabilities at fair value through profit and loss (changes to its own credit risk):	**(9,819)**	**7,145**
	a) fair value changes	(9,819)	7,058
	b) transfers to other shareholders' equity components	-	87
40.	Hedges of equity instruments designated at fair value through other comprehensive income:	**-**	**-**
	a) fair value change (hedged instrument)	-	-
	b) fair value change (hedging instrument)	-	-
50.	Property, plant and equipment	**366,971**	**-**
60.	Intangible assets	**-**	**-**
70.	Defined benefit plans	**(39,092)**	**7,446**
80.	Non-current assets and asset disposal groups held for sale	**-**	**-**
90.	Share of valuation reserves related to investments in associates carried at equity	**(365)**	**197**
100.	Income taxes relative to other income components without reclassification to the income statement	**(134,667)**	**13,139**
	Other income components with reclassification to the income statement	**192,440**	**(299,351)**
110.	Foreign investment hedges:	**(1,263)**	**(754)**
	a) fair value changes	(1,263)	(754)
	b) reclassification to income statement	-	-
	c) other changes	-	-
120.	Exchange rate differences:	**2,497**	**2,721**
	a) change in value	-	-
	b) reclassification to income statement	-	-
	c) other changes	2,497	2,721
130.	Cash flow hedges:	**193**	**1,715**
	a) fair value changes	193	1,715
	b) reclassification to income statement	-	-
	c) other changes	-	-
	of which: result of net positions	-	-
140.	Hedging instruments (non-designated items):	**-**	**-**
	a) change in value	-	-
	b) reclassification to income statement	-	-
	c) other changes	-	-
150.	Financial assets (other than equity instruments) at fair value through other comprehensive income:	**267,072**	**(442,100)**
	a) fair value changes	199,053	(287,182)
	b) reclassification to income statement	68,019	(154,400)
	- losses on credit risk	(5,932)	2,399
	- profit/loss from disposal	73,951	(156,799)
	c) other changes	-	(518)
160.	Non-current assets and asset disposal groups held for sale	**-**	**-**
	a) fair value changes	-	-
	b) reclassification to income statement	-	-

Items	31/12/2019	31/12/2018
c) other changes	-	-
170. Share of valuation reserves related to investments in associates carried at equity:	**17,212**	**(8,670)**
a) fair value changes	17,212	(8,670)
b) reclassification to income statement	-	-
- impairment adjustments	-	-
- profit/loss from disposal	-	-
c) other changes	-	-
180. Income taxes relative to other income components with reclassification to the income statement	**(93,271)**	**147,737**
190. Total other comprehensive income	**526,759**	**(518,699)**
200. Comprehensive income (Item 10+190)	**1,308,196**	**(587,754)**
210. Consolidated comprehensive income attributable to minority interests	(15,563)	(9,599)
220. Consolidated comprehensive income attributable to the parent company	**1,323,759**	**(578,155)**

(*) This item includes cumulative profits and losses, already accounted for in the statement of comprehensive income in previous years, transferred to other shareholders' equity reserves following the disposal of certain equity instruments.
For that shown above, in order to render this transfer neutral within comprehensive income for financial year 2019, it was conventionally shown as a positive component under sub-item 20 a) "Fair value changes".

The change in item "50. Property, plant and equipment", whose balance as at 31 December 2019 gross of taxes amounted to 367.0 million euro compared to a zero balance in the previous year, is attributable to the effects of the remeasurement of the fair value of owned properties used in operations and valuable works of art, resulting from the change in the measurement criteria for said assets starting from 31 December 2019. For further details please refer to the paragraph "Changes in 2019 in the accounting standards applied by the Group", set out in "Part A – Accounting Policies" of these Notes.

PART E – INFORMATION ON RISKS AND RELATED HEDGING POLICIES

This Part E provides information on the Group's risk profiles, relating to the management and hedging policies for risk (credit, market, liquidity and operational) implemented by the Group, and operations in derivative financial instruments.
For more information on the monitoring and management of risk of Banco BPM Group (capital adequacy, exposure to risk and the general characteristics of the systems set in place to manage and control them) refer to the document "Disclosure to the Public by Entities - Pillar III", drawn up in accordance with that set out in Bank of Italy Circular no. 285 of 17 December 2013 and, specifically, in Part Eight of the EU CRR Regulation no. 575/2013, and made available within the terms provided by the regulations in the Investor Relations section of the website www.bancobpm.it.

Section 1 - Risks of the consolidated book

QUANTITATIVE INFORMATION

A. Credit quality

Introduction

The Bank of Italy Circular no. 262 and the IFRS 3 accounting standard require that, in the case of business combinations, the assets acquired are stated at their fair value on the acquisition date; as a result, the acquired loans should be recognised at their purchase price, which represents the gross value of the relevant exposure.

As shown in the financial statements from previous years, this provision applies, in theory, to receivables acquired as a result of the business combination with the former Bipiemme Group on 1 January 2017.
The above accounting representation is difficult to achieve from an operational point of view, as it would require the implementation of an *ad hoc* detection system capable of tracing its evolution over time. Such implementation would entail significant costs, potentially rendering less effective the credit management and monitoring activities that take the nominal value of the credit as a reference.
In addition, it is considered that the previously indicated method of accounting representation ("closed balances") does not provide better information than a representation that shows as gross value the nominal value of receivables, including the difference with respect to the purchase value in the adjustment funds ("open balances").
The latter method of presentation ensures a more immediate understanding of the current loan coverage ratios, particularly non-performing loans.
Taking into account the provisions of the IAS/IFRS accounting standards, it is considered that, in this case, there is an exceptional circumstance that allows a derogation from the expected method of presentation, as it is excessively burdensome and not useful for the readers of the financial statements.
In addition to the considerations above, it is noted that, following the derisking transactions carried out in the period starting from the merger, and the reversal effect of Purchase Price Allocation, the representation at "closed balances" is not particularly significant.
In that regard, it can be estimated that the remaining share as at 31 December 2019 of the adjusting provisions on non-performing loans within the scope of the former BPM, already in place as at 1 January 2017, both equal to around 10% of the opening amount (including the effect of Purchase Price Allocation).
Consequently, the tables in this section and in section 2 below have been drawn up using the "open balance" representation.

For the purposes of quantitative information on credit quality, the term "credit exposures" does not include equity instruments or UCIT units.

A.1 Non-performing and performing credit exposures: outstanding amounts, value adjustments, changes and economic distribution

A.1.1 Distribution of financial assets by portfolio and by credit quality (book values)

Portfolio/quality	Bad loans	Unlikely to pay	Non-performing past-due exposures	Performing past due exposures	Performing exposures	Total
1. Financial assets at amortised cost	1,559,660	3,911,791	72,996	1,298,375	126,304,295	133,147,117
2. Financial assets at fair value through other comprehensive income	-	-	-	-	11,895,173	11,895,173
3. Financial assets designated at fair value	-	-	-	-	-	-
4. Other financial assets mandatorily at fair value	430	123,676	74	4,706	503,813	632,699
5. Financial assets held for sale	93,744	-	-	-	-	93,744
Total 31/12/2019	**1,653,834**	**4,035,467**	**73,070**	**1,303,081**	**138,703,281**	**145,768,733**
Total 31/12/2018	**2,925,166**	**5,183,770**	**88,197**	**1,775,437**	**130,806,617**	**140,779,187**

Information on the portfolio to which forborne credit exposures belong

As at 31 December 2019, forborne exposures amounted to 5,001.7 million euro (of which 2,985.6 million euro non-performing and 2,016.1 million euro performing) and were mainly attributable to the portfolio of "Financial assets at amortised cost - loans to customers". For further information on these exposures, reference should be made to table A.1.5 below.

A.1.2 Distribution of financial assets by portfolio and by credit quality (gross and net values)

Portfolio/quality	Non-performing				Performing			Total (net exposure)
	Gross exposure	Total value adjustments	Net exposure	Total partial write-offs*	Gross exposure	Total value adjustments	Net exposure	
1. Financial assets at amortised cost	10,086,886	(4,542,439)	5,544,447	512,582	127,937,584	(334,914)	127,602,670	133,147,117
2. Financial assets at fair value through other comprehensive income	-	-	-	-	11,898,694	(3,521)	11,895,173	11,895,173
3. Financial assets designated at fair value	-	-	-	-	X	X	-	-
4. Other financial assets mandatorily at fair value	336,811	(212,631)	124,180	-	X	X	508,519	632,699
5. Financial assets held for sale	313,305	(219,561)	93,744	2,603	-	-	-	93,744
Total 31/12/2019	**10,737,002**	**(4,974,631)**	**5,762,371**	**515,185**	**139,836,278**	**(338,435)**	**140,006,362**	**145,768,733**
Total 31/12/2018	**18,295,201**	**(10,098,068)**	**8,197,133**	**1,043,921**	**132,603,376**	**(390,285)**	**132,582,054**	**140,779,187**

(*) Value to be shown for disclosure purposes

Portfolio held for trading and derivatives

The following table shows the credit quality of credit exposures classified as financial assets held for trading (securities and derivatives) and hedging derivatives (not shown in the table above):

Portfolio/quality	Assets of evident poor credit quality		Other assets
	Cumulative capital losses	Net exposure	Gross exposure
1. Financial assets held for trading	(21,838)	6,976	4,626,189
2. Hedging derivatives	-	-	103,614
Total 31/12/2019	**(21,838)**	**6,976**	**4,729,803**
Total 31/12/2018	**(61,559)**	**6,353**	**4,057,252**

Poor credit quality exposures, with a book value of 7.0 million euro, refer exclusively to derivative instruments with customers.

B. Disclosure of structured entities (other than the companies for securitisation)

B.1 Consolidated structured entities

As at 31 December 2019, there were no structured entities consolidated in the accounts other than the securitisation entities, included in the scope of Banco BPM Group.

B.2 Unconsolidated structured entities

B.2.1 Prudentially consolidated structured entities

As at 31 December 2019, there were no structured entities prudentially consolidated in the accounts, included in the scope of Banco BPM Group.

B.2.2 Other structured entities

The Group holds interests in UCITs (funds and SICAVs), primarily in order to meet its investment needs. These also include fund units held following sales of multi-originator non-performing credit exposures of the Group.
Total exposure to these investments amounted to 605.0 million euro (492.4 million euro as at 31 December 2018).
For further details please refer to:

- the information provided in the tables breaking down items 20 a) and 20 c) of the balance sheet assets, contained in Part B of these Notes;
- the Section "Risks of prudential consolidation - D.3 Sale transactions - Financial assets sold and fully derecognised" below.

Additional involvement in structured entities, which goes beyond the mere holding of units, is represented by the activity of placing UCIT units.
The Group's net revenues deriving from the placement of investment funds in 2019 amounted to 509.2 million euro (575.5 million euro in 2018).

Section 2 - Risks of prudential consolidation

Group Risk Appetite Framework (RAF)

During the first quarter of 2019, the Board of Directors of the Parent Company Banco BPM approved the new Risk Appetite Framework (hereinafter, also "RAF"), on a consolidated level and as an individual legal entity, and instrument through which the Body with Strategic Supervision Functions approves the level of risk that the Group is willing to accept in pursuing its strategic objectives.
The new framework consists of the following basic elements:

1. Governance, which defines the roles and responsibilities of the players involved and the information flows between them;
2. the system of metrics, which summarises risk exposure;
3. the system of thresholds, which defines the risk appetite;
4. the escalation process, activated with different levels of intensity and players involved when the various thresholds defined are exceeded;
5. the Risk Appetite Statement (RAS), in which the metrics and methods for calculating the thresholds are analysed;
6. instruments and procedures, which support the representation and operational management of the RAF, including Significant Transactions (ST) and leveraged operations.

The RAF is the tool that makes it possible to establish, formalise, communicate, approve and monitor the risk objectives that the Group and the individual relevant Legal Entities intend to assume. To this end, it is divided into thresholds and risk areas that make it possible to identify in advance the levels and types of risk that the Group intends to assume, stating the roles and responsibilities of the corporate bodies and functions involved in the process of managing these risks. The Group must ensure that the RAF, in its operational version, is used and internalised and constitutes an element of guidance for the preparation of processes such as, for example, the Strategic Plan and the Budget, as well as the internal processes of self-assessment of capital adequacy (ICAAP) and liquidity adequacy (ILAAP). The framework is also used as an operational tool within the Recovery Plan and when defining Remuneration Policies.
The general principles that guide the Group's risk assumption process can be summarised as follows:

- the activities carried out take into account the risks assumed and the measures set in place to mitigate them over the short and medium-long term;
- particular attention is paid to capital and liquidity adequacy and to the credit quality of the portfolio, also in the light of the introduction of new legislation and of regulatory restrictions imposed by the Supervisory Body.

The RAF's set of indicators is based on the Risk Identification process and takes into account the most recent regulatory guidance on Risk Governance. All significant risks identified at the end of this process are considered when defining the Risk Appetite Framework, and specific indicators are identified, which must be monitored throughout the year. In particular, the Group's RAF has identified a set of indicators for the main risk areas: First and Second Pillar Capital Adequacy, Liquidity Adequacy, Credit Quality, Profitability, Operational/Conduct and Other Significant Issues.
The indicators that summarise the Group's risk profile in these areas have been divided into 3 levels, differentiating between strategic indicators, which enable the Board of Directors to guide the Group's strategic decisions, and operational indicators, in order to integrate and anticipate the dynamics - where possible - of the strategic indicators.
More specifically:

- the Strategic RAF is a set of metrics and thresholds that enable the Group's risk strategy to be defined and monitored. It includes a limited and exhaustive number of indicators which express the risk appetite approved by the Board of Directors and represent the summary performance of the overall risk profile;
- the Operational RAF is a set of metrics that supplement and provide more detail on the strategic indicators and anticipate the trend of the risk profile. These metrics enable specific aspects of the main business processes to be encompassed and are usually monitored with greater frequency in line with their task of anticipating critical situations;
- the Operational – Early Warning RAF is a set of metrics that enables the strategic and managerial indicators to be integrated and broken down and the evolution of the risk profile to be anticipated. These metrics enable specific aspects of the main business processes to be encompassed and are usually monitored with greater frequency in line with their task of anticipating critical situations.

The system of thresholds for the strategic indicators envisages the definition of the following limits:

- Risk Target (Medium to Long Term Objective): normally the risk objective defined in the Industrial Plan at Group level. It indicates the level of risk (overall and by type) to which the Group is willing to be exposed to pursue its strategic objectives;
- Risk Trigger: this is the threshold, differentiated by indicator, the exceeding of which activates the various escalation processes envisaged by the Framework. The Risk Trigger is also determined with stress tests. The system of limits used for operational purposes is defined in accordance with the Risk Limits;
- Risk Alert: this is the threshold for Early Warning indicators, the exceeding of which does not activate the various escalation processes envisaged by the Framework, but an information flow to the Committees and Corporate Bodies. The Risk Alert is also determined by the use of stress tests, and in line with the Trigger values of the Operational or Strategic Indicators which anticipate their trends;
- Risk Tolerance: this is the maximum permitted deviation from the Risk Appetite; the tolerance threshold is set in such a way so as to ensure that the Group has sufficient margins to operate, even in conditions of stress, within the maximum risk that may be assumed;
- Risk Capacity: this is the maximum level of risk that the Group is able to assume without infringing regulatory requirements or other restrictions imposed by the shareholders or by the Supervisory Authority.

As regards the Operational Indicators, only the Risk Trigger is established: exceeding the risk limits triggers the prompt activation of specific escalation processes.
Instead, as regards the Early Warning Managerial indicators, only the Alert threshold is established, and exceeding the risk limits does not trigger the activation of specific escalation processes, but a prompt information flow is prepared for the Committees and Corporate Bodies.

The Risk Function, in collaboration with the Planning and Control Function and the other relevant Functions, develops the RAF, providing support to the Managing Body (MB), from a legislative and operating perspective, consistent with strategy, business plans and capital allocation in ordinary conditions and in stress situations. The RAF is updated at least once a year, also in the event of changes in the internal and external conditions in which the Group operates.
From an operating perspective, risk prevention activities are also found in the process to manage the Most Significant Transactions (relating to credit, finance, disposal of loans, etc.) and the leveraged transactions which primarily involve the Risk Function, which must express a prior and non-binding opinion on all transactions categorised as such based on criteria established and regulated internally.

Working with the top management of Banca Akros, the Parent Company’s Risk Function defined an individual RAF approved by the Corporate Bodies in the first half of 2019. The RAF indicators are monitored as part of the integrated risk report specific for the Bank as well as quarterly as part of the integrated risk report of the Group.

The Group also provides specific and dedicated training activities and courses with a view to disseminating and promoting a solid and robust risk culture within the Bank. Particular mention should be made of certain initiatives, in recent years, aimed at all Group personnel, carried out through specific courses (in the classroom and online) concerning, for example, operational risks, compliance, safety, the banks' administrative responsibilities, the MiFID regulation, anti-money laundering, health and safety at work and work-related stress.

Monitoring and reporting activities

Risk monitoring and control activities carried out by the Risk Function are meant to ensure, at the Group and individual company levels, unitary oversight over the applicable risks, guaranteeing appropriate and timely information to the Corporate Bodies and the Organisational Units involved in risk management, ensuring the development and continuous improvement of risk measurement methodologies and models.

To this end, the Parent Company prepares monthly reports for the Corporate Bodies in line with the Group’s internal policies. Risk monitoring and control activities carried out by the Risk Function are meant to ensure, at the Group and individual company levels, unitary oversight over the applicable risks, guaranteeing appropriate and timely information to the Corporate Bodies and the Organisational Units involved in risk management, ensuring the development and continuous improvement of risk measurement methodologies and models.

Benchmarking analysis of the main Italian and European banks allows Corporate Bodies and top management to gain a more integrated view of Group risks.

A verification of current and future capital adequacy, both from a Pillar I (regulatory) perspective and from a Pillar II (economic) perspective, in accordance with the provisions of the ECB ICAAP Guidelines, is also reported quarterly to the Committees and Corporate Bodies.

First and second pillar capital adequacy

To provide its management team and the Supervisory Authority with a complete and informed disclosure, which confirms the adequacy of its own funds, the first defence against the risks assumed, Banco BPM Group assesses its capital situation from a current and future perspective, both as regards Pillar I and Pillar II, based on Basel III rules (which are applied through CRR/CRD IV) and the specific guidelines that the banks receive from the Supervisory Authority.

As regards Pillar I, the Group's capital adequacy entails continuously monitoring and managing the capital ratios, calculated on the basis of the information provided by the Administration and Financial Statements Function through the application of the rules established by Supervisory Regulations, in order to verify compliance with regulatory limits and to ensure that the minimum capitalisation levels required by Supervisory Regulations are maintained. These ratios are also estimated during the Budget or Strategic Plan preparation process and their consistency with the thresholds established in the Risk Appetite Framework and the estimates made in the Capital Plan is verified.

As regards Pillar II, the Risk Function is tasked with coordinating the internal process to determine the Group's capital adequacy, in accordance with regulatory provisions, and with making the current and forward-looking estimates, in both a baseline and stressed scenario, reported periodically to the Corporate Bodies and included annually in the ICAAP (Internal Capital Adequacy Assessment Process) report submitted to the Supervisory Authorities alongside the ICAAP package.

Within ICAAP, capital adequacy is assessed by verifying compliance with both Pillar I and Pillar II capital constraints (capital reserve calculated as the difference between Available Financial Resources (AFR) and capital requirements, calculated using advanced methods developed internally and validated by the competent corporate function), using the Risk Appetite Framework, as well as qualitative elements.

The outcome of the self-assessment of capital adequacy, conducted on a multi-year basis, takes into consideration both the simulations made from a regulatory perspective and via the application of internal management methods (economic perspective). The simulations are conducted under normal operating conditions and also consider the results of the application of stress scenarios.

In accordance with the purposes of analysis and the principle of proportionality, the Group regularly conducts stress tests with specific purposes concerning the main company processes, specifically:

- Risk Identification, as regards defining the materiality of risks, which is verified under ordinary and stressed conditions;
- Drafting the Risk Appetite Framework (RAF);
- Strategic and operational planning;
- Quantifying operational limits in stress scenarios (where envisaged);
- Calculation of IFRS 9 ECL;
- Internal Capital Adequacy Assessment Process (ICAAP);
- Internal Liquidity Adequacy Assessment Process (ILAAP);
- Liquidity Contingency Plan;
- Recovery Plan.

Vertical stress tests are also included in these tests and conducted at the for portfolio and individual risks, based on sensitivity or scenario analyses, also aimed at identifying potential concentrations of risks.
During 2019, the process of strengthening the overall stress testing framework continued, with a view to achieving complete alignment with the regulatory indications provided by the Supervisory Authority, as well as in relation to that required by the Control Functions, also leveraging the periodic ICAAP reports.
In that area, during the first half of 2019 the Scenario Council was established, a team composed of the Chief Financial Officer and the heads of the Planning and Control, Risk and Administration and Financial Statements Functions, with the participation of the head of the Audit Function as auditor. This Council meets periodically. It is tasked with confirming or proposing a review of the scenarios used in Group processes, in light of external events or

the bank's specific vulnerabilities, also taking account of any considerations from top management deriving, for example, from substantial changes in the risk and profitability estimates, changes in the market or reference context, the introduction of new regulatory standards or specific indications of the Supervisory Authority, also identifying the related processes impacted and assessing their potential update.

The adequacy check is carried out quarterly and reported to the Corporate Bodies, guaranteeing the continuous execution of the ICAAP process and making it possible to take account of the changes in the external context and the bank's specific vulnerabilities.

Outcomes of the internal validation activity

The Internal Validation Function conducts qualitative and quantitative analyses to assess the soundness and accuracy of the Pillar I and Pillar II risk estimates used for the purposes of calculating the capital requirements.
Furthermore, as regards ICAAP, the Function expresses an opinion on the regular functioning, on the predictive capacity, on the performance and on the prudence of the internal risk measurement methods.

First and second pillar liquidity adequacy

Banco BPM Group manages the adequacy of the liquidity profile both from a current and future perspective, with regard to the First and Second Pillar, on the basis of the regulatory framework of Basel 3 and the guidelines of the Supervisory Authority.

As regards the First Pillar, the Group's liquidity adequacy is continuously monitored by two indicators: the Liquidity Coverage Ratio (LCR), which seeks to enhance the short-term resilience of the bank's liquidity risk profile by ensuring that it has sufficient high quality liquid resources to overcome an acute situation of stress that lasts for one month; and the Net Stable Funding Ratio (NSFR), which seeks to improve longer term resilience by providing the bank with greater incentives to fund its own activities by drawing from more stable sources of funding on a structural basis. This structural indicator has a timeline of one year and has been drawn up to guarantee that assets and liabilities have a sustainable structure by maturity. As part of the Second Pillar, these indicators are supplemented by metrics developed internally, complementary to the regulatory liquidity indicators, and by stress tests.
The Group has also set in place an Internal Liquidity Adequacy Assessment Process (ILAAP) and strategy. In fact, the ILAAP is the internal process through which Banco BPM Group manages and monitors liquidity risk at Group level and assesses liquidity adequacy in both the short and medium-long term. The ILAAP also envisages an annual internal self-assessment of the overall liquidity risk management framework, with a view to the continuous improvement of this process.

Other risks considered by the Group

The process of identifying risks (Risk Identification) represents the starting point for all the Group's strategic processes. This process represents a structured and dynamic process that is carried out annually at Group level by the Risk function, with the involvement of the top management of the Bank and of the main Group companies and makes it possible to identify the main risk factors and emerging risks to which it is or could be exposed, ensuring that the process itself is actually acted upon and known within the Group. The output of the process takes the form of a Risk Inventory, which is a list of all the risks identified by the Group, for which suitable organisational controls are defined for their prevention and mitigation, and a Risk Map, which comprises a list of risks considered significant for Banco BPM Group and, therefore, quantified using internal models. The latter represents the basis for defining the RAF indicators and the risks contained in it must be considered in the ICAAP.
The Parent Company, Banco BPM, guarantees the measurement, monitoring and management of the capital requirements for each type of significant risk and guarantees the supervision and quantification of the capital resources available to the Group to cover risk exposure, in order to fulfil the regulatory obligations of the First and Second Pillar of Basel 2. More specifically, the centralised management of Group capital adequacy, which entails a comparison between the amount of available capital resources and the capital requirements resulting from the risks to which the Group is exposed, from a current and future perspective, in normal and stressed conditions, is performed by implementing the ICAAP process, as required by the "Supervisory Provisions for banks" (Circular 285/2013 and subsequent amendments).

In addition to the First Pillar risks (credit risk, counterparty risk, market risk, operational risk) the risks identified by Banco BPM Group following implementation of the Risk Identification process (Risk Inventory) are listed below:

SECURITISATION	This is the risk that the economic substance of a securitisation transaction performed by a Group company is not fully reflected in risk assessment and management decisions.
COMMERCIAL	This is the current and future risk associated with a potential fluctuation of the interest margin with respect to the objectives established due to low customer satisfaction with the products and services offered by the Group due to adverse market conditions.
CONCENTRATION OF RISKS	This represents the risk that the exposure towards a single counterparty may lead to different types of risk at the same time.
CONDUCT	That risk is included in operational risk. This is defined as the current and future risk of loses caused by the inadequacy of the financial services provided, including the risk of misconduct and incorrect treatment of customers.
OUTSOURCING	This is the risk that derives from outsourcing/service contracts with partners outside the Group.
EXECUTION	Losses due to shortcomings in the settlement of transactions or in process management, as well as losses due to relations with commercial counterparties, sales agents and suppliers.
ICT	This is the risk of financial, reputational and market share losses due to the use of information and communication technology (ICT).
PROPERTY	Current and future risk resulting from changes in the value of the property held by the Group caused by fluctuations in the Italian property market.
FINANCIAL LEVERAGE	This is the risk that a particularly high level of debt with respect to own funds could make the Bank vulnerable, requiring it to take corrective measures in its business plan, including selling assets at a loss, which could require recognising value adjustments on other assets as well.
MARKET RISK IN THE BANKING BOOK	This is the risk of loss due to transactions on the market of financial assets classified in the banking book.
MODEL	This is the risk that the model used in a measurement process or which strategic decisions are based on gives an erroneous output due to an erroneous specification, flawed processing or the improper use of the model.
COMPLIANCE	The risk of incurring legal or administrative sanctions, significant financial losses or reputational damage as a result of the violation of binding rules (laws, regulations) or self-regulatory systems (e.g., Articles of Association, codes of conduct, corporate governance codes). This includes the risk of money laundering and financing terrorism.
COUNTRY	This is the risk of losses caused by events taking place outside Italy. The concept of country risk is wider than that of sovereign risk as it refers to all exposures regardless of the nature of the counterparties, which may be natural persons, enterprises, banks or the public administration.
INVESTMENTS	This is the risk resulting from changes in the value of equity investments held in the banking book due to market volatility or the status of the issuer.
REGULATORY	The risk resulting from current regulatory developments which could influence the pursuit of the strategies identified by the Group.
REPUTATIONAL	This is the risk associated with a negative perception of the bank's image by its customers, shareholders, investors, financial analysts and the Supervisory Authorities, which could have a negative influence on the bank's ability to maintain or develop new business opportunities or to continue to have access to funding.
RESIDUAL	This is the risk that generally accepted techniques to mitigate credit risk used by the Group may be less effective than expected. To quantify it, the significance of the various types of Credit Risk Mitigation (CRM) tools is assessed in terms of reducing the capital requirement resulting from their use.
STRATEGIC	This is the current and future risk associated with a potential fluctuation of profits or of capital due to an inadequate market positioning or flawed managerial decision making. More specifically, it represents the risk that the competitive/strategic positioning choices do not produce the expected results, penalising the achievement of short and medium to long-term economic and capital objectives, or even provoking unwanted decreases in profitability levels and capital soundness. In this view, strategic risk related to the possibility of failure of company projects, which results in disruption to bank management and inertia when faced with unforeseen market dynamics.
INTEREST RATE IN THE BANKING BOOK	Risk of changes in the net interest margin (Funding Cost Risk) and the economic value of Banco BPM Group as a result of unexpected changes in interest rates which affect positions classified in the banking book for regulatory purposes. The risk arises mainly from acting as intermediary in the process of transforming maturities. In particular, the fair value of issued fixed-rate securities, the provision of fixed-rate commercial loans and receivables, and collection via current accounts presents a source of interest rate risk. Cash flows from assets and liabilities subject to floating rates also represent a source of interest rate risk. That risk includes the Basic risk component.
TRANSFER	This is the risk that a bank exposed to a party that obtains funding in a currency other than the currency of its main revenue sources may incur losses due to the debtor's difficulty in converting its currency into the currency in which the exposure is denominated.

Lease risk

With regard to the risks associated with financial lease transactions, save for that more generally referred to on the management of credit risk by the Group, it is important to note that, considering the run-off situation of the lease segment, the risks associated with the underlying assets are moderately significant and gradually decreasing.

Among other aspects, as numerous years have now passed since the last contracts were entered into, the portfolio is almost exclusively comprised of "finished property" lease transactions, which typically have longer terms, but which are nearing their terms.

In relation to the mitigation of risk attributable to the assets, and specifically properties, the Group pays specific attention to verifying appropriate insurance coverage of the properties, in relation to both amortising contracts, providing for secondary cover that protects the Bank also in the event that the tenant has not contracted his/her own cover, and in relation to contracts terminated due to breach, also where the Bank has repossessed the property.

Regardless of the ordinary protections provided by contract, which assign liability regarding the compliance with and safety of the leased assets to the tenants, the Group significantly focuses on issues regarding the safety of properties, especially those that it once again takes possession of, with the resulting greater direct liability.

In particular, specific works are carried out on properties in order to minimise the risks and damages deriving from external factors, such as pollution, natural events or acts of vandalism, and internal factors, such as precarious stability, lack of security systems or the presence of parts made of asbestos.

Based on the organisational model adopted by the Group, the specialised oversight of those issues is guaranteed by the Leases structure of Banco BPM, which reports to the Chief Lending Officer, coordinating with Bipielle Real Estate as regards the management of properties that are once again available to the Group.

Risks arising from the Brexit negotiations

As indicated in the Report on Operations, the uncertain results of the negotiations relating to Brexit have influenced and will continue to influence the macroeconomic framework in which the Group operates and will continue to operate.
The main points of attention in relation to Brexit are related to the uncertainty about the legal aspects of cross-border financial contracts and access to UK markets, which will depend on the evolution of the ongoing negotiations at the date of preparation of this financial report.
In this regard, however, it is considered that the effects of these negotiations are not such as to significantly influence the Group's operations.
The Parent Company implemented a plan of measures that entail the renegotiation of the master agreements of the leading counterparties with offices in the UK with the same entities with offices in the European Union. Access to the Eurex clearing house was also activated.

Stress testing

Banco BPM Group has implemented a detailed stress testing framework, meaning the set of quantitative and qualitative techniques used by the bank to assess its vulnerability to exceptional, but plausible events. As part of the framework, guidelines have also been established regarding the application of stress scenarios as well as the roles and responsibilities of the company functions and the Corporate Bodies. The framework for long-term forecasting and for stress testing adopted by Banco BPM therefore represents a coordinated set of methods, processes, controls and procedures that establish the main variables to use for forecasting purposes for estimates in ordinary and adverse conditions, with a view to planning and risk management purposes as well as for regulatory and operational purposes.
Stress tests seek to verify the effects on the bank's risks due to specific events (sensitivity analysis) or joint changes in a series of economic-financial variables in cases of adverse scenarios (scenario analysis), with reference to individual risks (specific stress tests) or in an integrated manner on several risks (joint stress tests).
The process of analysis is based on quantifying the impacts relating to form-wide stress tests, which enables a global assessment of the Bank's risk profile to be made.

These tests allow identification of the risk factors that contribute more than others to this negative result and consequently allow implementation of loss-limiting strategies when these scenarios occur.
In accordance with the purposes of analysis and the principle of proportionality, the Group regularly conducts stress tests with specific purposes concerning the main company processes, specifically:

- Risk Identification, as regards defining the materiality of risks, which is verified under ordinary and stressed conditions;
- Drafting the Risk Appetite Framework (RAF);
- Strategic and operational planning;
- Quantifying operational limits in stress scenarios (where envisaged);
- Calculation of IFRS 9 ECL;
- Internal Capital Adequacy Assessment Process (ICAAP);
- Internal Liquidity Adequacy Assessment Process (ILAAP);
- Liquidity Contingency Plan;
- Recovery Plan.

Vertical stress tests are also included in these tests and conducted at the for portfolio and individual risks, based on sensitivity or scenario analyses, also aimed at identifying potential concentrations of risks.
Specific stress tests are also conducted for management and regulatory purposes. Known as Supervisory Stress Tests, they are conducted in accordance with the timescales dictated regularly by the Supervisory Authority. Specifically, in 2019 the Group was involved in the Liquidity Stress Testing exercise (LIST), coordinated by EBA/ECB, which aimed to verify the Group's resilience in both baseline and adverse scenarios.
In the last quarter of 2019, activities were begun to prepare for the EU-Wide Stress Test 2020 exercise, coordinated by EBA/ECB, which will be launched on 31 January 2020 and will conclude on 31 July 2020 with the presentation of the results to the market. The exercise will consist of the assessment of the impacts of the application of a common macroeconomic scenario, both baseline and adverse, as at 31 December 2019 (starting point), projected over a time horizon of 3 years, based on the assumption, *inter alia*, of static financial statements, using the methods indicated by the Supervisory Authorities. The type, complexity and level of detail of the stress test methods are defined in accordance with the Group's strategic guidelines and business model, taking into consideration the performance of the macro-economic cycle.

The Group uses these tools to support other risk management and measurement techniques, with a view to:

- providing a forward-looking vision of risk, of the relative economic and financial impacts, evaluating the overall solidity of the bank in the event that adverse scenarios or alternative ones with respect to those of reference occur, therefore providing support to the preparation of the budget and of the business plan;
- overcoming the limits of the risk management models based on historical data (i.e., the Historical VaR model with reading of the last 250 observations);
- contributing to the most important planning and risk management processes, as regards setting RAF thresholds and establishing the Group's risk/return objectives;
- assessing the development of risk mitigation and recovery plans in certain stress situations. In fact, the stress tests are used to establish specific internal trigger thresholds, which once reached trigger the resolution plans as envisaged by the BRRD (Bank Recovery and Resolution Directive) regarding the prevention and management of banking and investment company crises.

The internal risk control system

The following paragraphs illustrate the structures and the tasks allocated to the corporate control functions of the new Banco BPM Group. The main corporate functions of the Parent Company, Banco BPM, responsible for controlling risk, are as follows:

- Audit Function;
- Risk Function;
- Compliance Function.

The Audit Function reports directly to the Board of Directors, it performs the Internal Auditing activities envisaged by Supervisory Provisions by conducting auditing and monitoring exercises - in loco and remotely - at the Group Banks and Product Companies, under a specific outsourcing agreement, namely as Parent Company. The head of the Audit Function has direct access to the Body in charge of the control function and enjoys unrestricted communication with the same, without the need for mediation.

The job of the Audit Function, on one hand, in terms of third level control, including on-site audits, is to oversee the regular performance of operations and the evolution of risk and, on the other hand, to assess the completeness, the adequacy, the functioning and the reliability of the organisational structure and of the other components of the internal control system. The Function brings possible improvements, with specific reference to the RAF, the risk management process and the tools to measure and control the same, to the attention of the Corporate Bodies. Based on the results of its analyses, it makes recommendations to the Corporate Bodies.
In accordance with the Group's Governance Model, the Parent Company carries out internal auditing activities in a centralised manner also on behalf of Subsidiaries.
In performing its tasks, the Audit Function takes the provisions of widely accepted professional standards into account. The Audit Function directly communicates the results of assessments and evaluations to the Corporate Bodies. In order to carry out its duties properly, the Audit Function has access to all the activities of the Parent Company and the Group Companies, including outsourced activities carried out both at the central offices and at the peripheral structures. The Audit Function liaises with the Supervisory Authorities in accordance with internal regulations.

The Risk Function reports directly to the Chief Executive Officer of Banco BPM. The head of the function has direct access to the Body with Strategic Supervision Functions and the Body in charge of the control function and communicates with them without restrictions or intermediaries.
The Parent Company's Risk Function is assigned the role of control function pursuant to Circular 285/2013 of the Bank of Italy, guarantees the functional coordination of risk control measures of Group Companies and oversees - at Group level and in an integrated manner - the governance and control (Enterprise Risk Management), development and risk management (Risk Models) processes and the validation process of internal risk measurement models (Internal Validation).
The Risk Function and its internal structures are independent from operational functions and activities. In particular, they are responsible for:

- proposing and developing guidelines and policies regarding the management of the relevant risks, in accordance with the company's strategies and objectives;
- coordinating the implementation of the guidelines and the policies regarding the management of the relevant risks by the units assigned by the Group, also in different corporate areas;
- guaranteeing the measurement and control of the Group's exposure to the different types of risk and of the relative capital absorption, verifying the implementation of the guidelines and the policies established for the management of the relevant risks and the compliance with the thresholds established within the Group's Risk Appetite Framework;
- guaranteeing the development and continuous improvement of the models and metrics for the measurement of risk - of the First and Second Pillar in base and stressed conditions - also through projects to implement and enact advanced models, to align with the standards that are gaining recognition at international level over time, to implement supervisory regulations and directives, and to develop increasingly effective controls;
- overseeing the validation process of the internal models used to calculate capital requirements;
- overseeing the process to verify, through second level controls, that the trends of individual exposures are being correctly monitored, as well as to assess the consistency of the classifications, the appropriateness of provisions and the adequacy of the recovery process;
- ensuring that the information used for measurement, monitoring and reporting of the risks under their responsibility were subject to a robust Data Quality and Aggregation framework;
- formulating mitigation proposals, specifically through the use of insurance or financial cover, in order to externalise the risk, assigning the assessment and execution thereof to the functions in charge, monitoring the performance.

The head of the Risk Function is also responsible for assisting the Corporate Bodies in performing their respective duties in terms of the Internal Control System, by:

- intercepting all the relevant information required to quantify and manage risk promptly and in a coordinated manner;
- ensuring a more integrated ability to process, organise and contextualise the information acquired and to make assessments (both in terms of risk and asset value) separately from other cases;
- drawing up a summarised (integrated) report on company risks and, therefore, enabling the Corporate Bodies to gain a better understanding of the main problems identified by the second-level internal control system;

- promptly implementing corrective measures, in accordance with the problems and the relative priorities indicated by the second-level Internal Control Functions.

The Internal Validation Function, which reports directly to the Risk Function, is tasked with independently overseeing the internal validation processes of the risk measurement and management systems, assessing the model risk implicit in the methods used to measure risk, conducting controls to validate the calculation of capital requirements and validating pricing models.

The Compliance Function of the Parent Company reports to the Chief Executive Officer and oversees compliance risk management with regard to all company activities, adopting a risk-based approach, verifying that internal procedures are adequate to prevent said risk. To this end, the Compliance Function usually has access to all of the activities of the Parent Company and of central and peripheral Group Companies, and to any information needed, also by directly talking to personnel. It has direct access to the Body with Strategic Supervision Functions and the Body in charge of the control function and enjoys unrestricted communication with the same, without the need for mediation.
The Compliance Function is directly responsible for managing compliance risk in terms of the most important regulations and laws that regard the banking and brokerage business, the management of conflicts of interest, transparency towards customers, and more generally, regulations set in place to safeguard consumers, and with regard to all laws and regulations for which no specific specialised structure is in place within the Parent Company or Group Companies. With regard to other laws and regulations for which a specific specialised structure has been envisaged to oversee the same, the tasks of the Compliance Function - based on an assessment of the adequacy of the specific control to manage compliance risk profiles - are graded and the Compliance Function is in any event responsible (in collaboration with the specialised functions assigned) for:

- establishing the compliance risk assessment methods;
- identifying the relative procedures;
- verifying the adequacy of said procedures to prevent compliance risk.

The Compliance Function also undertakes the responsibilities established in the Joint Regulation of the Bank of Italy and Consob dated 29 October 2007 and subsequent amendments and additions in terms of compliance control and relating reporting in terms of investment and collective asset management services (art. 16).
The Parent Company's Anti-Money Laundering Function is located within the Compliance Function and reports directly to the Corporate Bodies within its scope of responsibility. It is fully independent and oversees the risk of money laundering and terrorism financing, as well as reports of suspicious transactions. It performs the activities envisaged by the regulation through the head of the Anti-Money Laundering Function and the party Delegated to manage Reports of Suspicious Transactions (RST).

Improvement activities for the risk control and management system

Over time, Banco BPM Group has launched numerous projects to improve its risk management and control system. Specifically, to date the Group has been authorised to use its internal models to calculate regulatory capital absorption with regard to the following Pillar I risks:

- credit risk (starting with the measurement at 30 June 2012): the scope concerns advanced internal ratings-based models (PD, for both monitoring and acceptance and LGD) relating to loans to Banco BPM enterprises and retail. The standard regulatory approach will continue to be adopted, for prudential reasons, for loans portfolios that are not included in the scope of first validation AIRB. In 2017, Banco BPM Group submitted a request to the European Central Bank for the extension of the advanced internal models (AIRB) to the Corporate and Retail portfolio of BPM S.p.A. and the use of the EAD model limited to the Retail scope, for the relative calculation of the capital requirement for credit risk, together with a model change for the definition of default and updating of historical series. In this context, the Group was authorised by the ECB to use these templates for reporting purposes in the first quarter of 2018, starting from January 2018. In June 2019, as requested following a TRIM inspection, two add ons were sent: on the PD of the Mid Corporate portfolio and on the LGD Corporate Performing model. The historical series underlying the estimate of the LGD Performing, ELBE and Defaulted Asset parameters was updated on the month of December 2019. An inspection stage, which began in the last quarter of 2019, is currently under way, for the purpose of validating the new PD, LGD (Performing, ELBE and Defaulted Asset) and EAD models containing significant methodological changes in relation to the risk parameters currently used by the Group for Corporate and Retail customers, in compliance with the new legislative provisions and

fulfilling specific ECB obligations. With regard to only the EAD approach, the request for validation also includes a new model for Corporate customers, which have used a Standard CCF to date. Note that for regulatory purposes, Akros uses the standardised approach;
- market risk (starting from the recognition of 30 June 2007 for Banca Akros and of 30 June 2012 for Banco BPM). In 2018, the Parent Company's internal model was extended to Banca Akros. The scope is currently the general and specific risk of equity instruments and the general risk of debt securities for the trading book. In 2019, the request was submitted to extend the internal model to the specific risk of debt securities and to the exchange rate risk of the Banking Book;
- operational risk: the former Banco Popolare Group adopted the AMA (Advanced Measurement Approach) for segments relating to the former Parent Company Banco Popolare (and all the companies that have been merged into it over time, as well as for Banca Aletti. The former Bipiemme Group has adopted the Traditional Standardised Approach for the relevant Group companies (Parent Company and all the companies that have been merged into it over time, Banca Akros and ProFamily) since 2008. The other residual companies of the two former-Groups have adopted the BIA (Basic Indicator Approach) since 2008.

From the date of the merger, Banco BPM Group was authorised by the European Supervisors to use for regulatory purposes a combination of the AMA (Advanced Measurement Approach), relating to the validated scope of the former Banco Popolare Group (former Banco Popolare segments of the Parent Company and Banca Aletti), the TSA (Traditional Standardised Approach) on the scope of the former Banca Popolare di Milano Group (segments of the former Parent Company BPM S.c.a r.l., former BPM S.p.A., ProFamily and Banca Akros) and the BIA (Basic Indicator Approach) for the other remaining companies making up Banco BPM Group. In 2017, Banco BPM Group launched a project to extend the advanced methods to the former BPM component. Since the date of the report of 30 June 2018, in line with the decision adopted by the ECB on the matter, the private banking segments of the former BPM SpA and Banca Akros, which merged with Banca Aletti, have adopted the advanced method. Since the reporting date of 31 December 2018, in line with the decision adopted by the ECB on the matter, Banca Aletti's Corporate & Investment banking segments, which have been merged into Banca Akros, have been subject to the traditional standardised approach (TSA).

1.1 Credit risk

QUALITATIVE INFORMATION

1. General aspects

Banco BPM Group pursues lending policy objectives that seek to:
- support the growth of the business activities operating in its market territories, with the goal of overseeing and governing the evolution of the Group's positioning, in line with the policies of the RAF and budget and business plan objectives, focusing on the support and development of customer relationships;
- diversify its portfolio, limiting loan concentration on single counterparties/groups and on single sectors of economic activity or geographical areas;
- adopt a uniform and unique credit management model based on rules, methods, processes, IT procedures and internal regulations harmonised and standardised for all Group banks and companies.

With the aim of optimising credit quality and minimising the global credit risk cost for both the Group and the single companies, under the organisational model the Parent Company's Loans Function is in charge of lending policy guidelines for both the banks and companies of the Group.
Guidelines have also been set at Group level, defining conduct with respect to assuming credit risk, to avoid excessive concentrations, limit potential losses and guarantee credit quality. In particular, in the loan approval phase, the Parent Company exercises the role of management, direction and support for the Group.
The loan portfolio monitoring, carried out by the Function, is focused on the performance analysis of risk profile of economic sectors, geographical areas, customer segments and types of granted credit lines, as well as on other analysed spheres of action, allowing the definition of possible corrective actions at central level.
The role of the Parent Company's Risk Function is to support to Top Management in planning and controlling the risk of exposure and capital absorption, in order to maintain the stability of the Group, checking capital adequacy forecasts and in stress conditions and compliance with the RAF thresholds, the Group's risk limits and its propensity

for risk. In particular, the Function's task is to develop, manage and optimise internal rating models (Pillar I), the loan portfolio model (Pillar II) over time, and to supervise - as part of second level controls - the calculation of risk-weighted assets using advanced methods.
Portfolio risk monitoring is based on a default model that is applied on a monthly basis to credit exposures of Banco BPM Group.

2. Credit risk management policies

2.1 Organisational aspects

The Group governs credit risk by assigning specific responsibilities to the Bodies, functions and Committees of the Parent Company and its Subsidiaries, in line with its Internal Control System and on the basis of an organisational model that provides for the centralised control within the Parent Company to convey a consistent policy and governance when managing the risks.
The credit risk management policies represent the reference framework for the operations of the structures allocated with risk management, they are updated annually as part of the RAF and they guide credit policies in terms of the evolution of the company's activities, the expected risk profile and the external scenario.
As required by supervisory regulations, the Group has drawn up an internal ex-ante management process for Significant Transactions (ST) and for the supervision of large exposures, controlled by specific company regulations in this regard.
The Parent Company draws up Group credit policies, in parallel with the budget process and in line with the strategies, the risk appetite and the economic objectives approved by the Board of Directors.

To measure the different aspects and components of credit risk, the Group adopts models and metrics developed in accordance with supervisory regulations, with a view to guaranteeing the sound and prudent management of the risk positions assumed and to comply with regulatory requirements, also assessing the effect of changes in the scenario to which the credit portfolio is exposed.
These models must periodically undergo backtesting and stress testing in order to guarantee their statistical and prudential robustness, validated by an operational unit that is independent to the function responsible for developing them, reviewed at least annually by the Audit Function.

From a regulatory perspective, risk-weighted assets (RWA) are calculated by a method based on internal ratings (AIRB Approach), risk segments/parameters validated by the Supervisory Bodies and using the Standard Approach for the other exposures, in accordance with the Group's roll-out plan. As regards the scope of Banca Akros, the standardised regulatory approach is applied.

The risk parameters of the models are periodically calibrated.
The development and updating "model change" process for the rating models entails a series of activities and procedures, the aim of which is to define, initially or when updated, the rating models applicable to credit exposures, namely statistical or empirical models to confirm the credit assessments made by the Companies of the Banking Group and to enable the capital requirements of the same against the risk of unexpected losses to be calculated.
With regard to the segments validated, these include:

- five rating models (4 for Business customers, 1 for Private customers), which use financial statement, performance and qualitative information (Business) and sociological/performance (Private), calibrated adopting a long-term approach (Through-the-Cycle), in order to neutralise the possible impacts of an expansive or recessive phase of the economic cycle;
- two LGD performing models (1 for Business, 1 for Private customers);
- two LGD non performing ELBE (Expected Loss Best Estimate) and Defaulted Asset models, separate for Corporate and Private customers;
- an EAD model for Retail customers.

From an operational perspective, the unexpected loss on credit risk is measured by quantifying the economic capital through the application of a Credit VaR portfolio model.

The key component of the credit risk measurement models is the Rating System, namely a structured and documented set of methods, organisational and control processes and procedures to organise databases, which enables the relevant information to be collected and processed, to reach summary assessments of the risk level of a counterparty and of individual credit transactions.
The rating system is incorporated in the decision-making processes and in the management of the company's operations, playing an important role in the following Group processes:

- Lending policies;
- Business planning;
- Capital planning;
- Risk Appetite Framework;
- Product pricing;
- Granting loans;
- Monitoring and managing loans;
- Provisioning;
- Risk measurement and control;
- ICAAP and ILAAP;
- Management of the bonus system;
- A.Ba.Co. (other funding instruments).

The procedures for the operational use of the rating system in the various company processes are regulated by regulations issued over time in the above-mentioned areas. The regulatory framework set in place to oversee credit risk, developed in accordance with company standards, is based on specific Regulations and Process Rules, specifically the Regulations on counterparty credit risk and the Regulations for Limits of Autonomy and powers in the granting and management of loans.
The principles established in the Regulations issued have been applied and included in the wording of the regulations, for the processes included in company taxonomy.
The processes for the granting of loans guarantee an adequate, objective and harmonised assessment of creditworthiness and of risk, through the use of the rating system to guide the decision-making steps.
More specifically, the ratings are used to define the scope of decision-making, by means of a weighting method based on an assessment of the creditworthiness of each counterparty, summarised by the rating, as well as on the measures to mitigate the risk assumed.
An assessment of the risks already assumed or to be assumed is conducted for each individual customer and Risk Group, namely the set of parties related through the ties considered for the registration of Economic Groups, as well as joint account holders and those with a joint-obligation, as regards the entire Banking Group.
The criteria for the allocation of responsibilities to the various parties/organisational units that take part in the loan granting process are based on principles of separation in order to guarantee independence of judgement and prudence in the assumption of risk.
To this end, with regard to the activities envisaged in the loan granting process, the roles of "Proponent", of "Decision-maker" and of any "Intermediate body that gives an opinion" are clearly separated.
In the case of "non-resident" customers, compliance with the authorised maximum limit for "Country Risk" must first be checked, before the assumption of "Credit Risk", "Delivery Risk", "Placement Risk" and "Evidence Risk".
The "Authorisation, monitoring and management of overdrafts and/or past due loans" Rules establish the continuous monitoring activities that the Manager must perform when managing the account, with regard to overdrafts, past due instalments not paid and drawdowns on expired or reduced loans.
The management of overdrafts is accompanied by a specific procedure that has made access to data regarding positions classified as "becoming past due" more efficient, enabling the both current and historical information available to be consulted, right down to the details of an individual account, as well as obtaining lists based on selection criteria entered by the user.
Forborne exposures are identified as part of the loan granting process and, therefore, through the ELA (Electronic Loan Application) function.
The identification of forborne exposures is carried out for both performing loan positions included in the watchlist, and for those classified as non-performing loans, for which a status of financial difficulty has been found (said status is objective for the positions classified as non-performing) and the granting of a tolerance.
The Account Manager, in the role of "Proponent", is responsible for:

- assessing the customer's situation of financial difficulty. To reach an opinion, all of the information from the preliminary check used to analyse creditworthiness in the ELA, including a specific additional checklist that differentiates between Corporate and Private customers;

- assessing the proposed award of forbearance measures;
- entering the Account Manager's assessment of the customer's situation of financial difficulty or otherwise in the information system and identifying award or otherwise of the proposed forbearance measures.

The Intermediate Body that gives an opinion is required to share the Proponent's assessments.
The Decision-making Bodies are responsible for ascertaining the consistency or otherwise of the assessment made by the Proponent.

The evidence expressed at the time of the decision on the individual line of credit automatically identifies all accounts related to it as "forborne".
Once classified as forborne, the exposures are managed in accordance with the relevant processes ("Monitoring and managing non-performing loans" for "Forborne exposures" and "Monitoring and managing loans: watch list" for "Other forborne exposures").
Decisions regarding situations in which the exposure is no longer forborne, or the reclassification of "Forborne Exposures" as "performing" are assisted by the information system.
In this regard, all positions that surpass the objective parameters established by EBA regulations are automatically highlighted and the proposals are subject to a structured process which enables all of the available assessment elements to be examined and historicised.
The reclassification of a "performing" exposure, already the subject of forbearance measures, to a higher risk category, is automatic if the events established by EBA regulations occur.

Country Risk, which identified the risk factors relating to the political, macroeconomic, institutional and legal situation of a foreign country, is considered, with regard to all business and financial transactions, if the counterparty is resident or has registered offices in a foreign country. Country risk is based on two main elements:

- *political risk*, namely the set of factors regarding the political and institutional system that may influence the country's willingness to honour its commitments;
- *transfer risk*, namely the set of economic factors that can influence the possibility that a certain country may establish, as an element of its economic policy, limits to the transfer of capital, dividends, interest, commission or royalties to foreign creditors and/or investors.

In the case of "non-resident" customers, compliance with the authorised maximum limit for "Country Risk" must first be checked, before the assumption of "Credit Risk", "Delivery Risk", "Placement Risk" and "Evidence Risk".
With regard to Transfer Risk, note that this risk is included in the credit portfolios that used ECAI ratings (exposures towards Governments and Central Administrations, Supervised Intermediaries and non-resident Corporate customers). The residual limited scope (non-resident customers without ECAI), is monitored periodically by the Parent Company's Risk Function.
The organisational structures of the Credit and Loans Function of the Territorial Departments are defined in accordance with the credit granting, monitoring and management processes.
Furthermore, the Head of the Loans structure of the Territorial Departments reports functionally to the Head of the Loans Function and the Head of Loans for the Business Area, who, in turn, reports functionally to the Head of the Loans structure of the Territorial Department.
In terms of procedures and tools to support the processes, attention is drawn to the following:

- in "Loan Granting" processes, the Electronic Loan Application (ELA) procedure provides support to the Network in the preliminary examination, proposal, approval and finalisation stages and automatically calculates decision-making scope;
- the web-based Electronic Loan Application provides support to the loan granting process through a specific work flow based on parameters and enables each step of the process of preliminary examination - proposal - forwarding to higher Bodies and approval to be traced, as well as automatically checking the documents required and the validity of the assessment elements;
- as regards measures to assist "Private", "Small Business" and "Small Business Operator" customers, decision-making engines are used (ScoPri, Transact), to establish the financial feasibility of the proposed transaction, which make a summary assessment of the increasing risk;
- the process of monitoring and managing performing loans is assisted by a special procedure on a web platform that also permits the automatic interception of positions and classification on the watchlist, as well as the following of their management and verification of compliance with the decisions made. Positions are intercepted both when the thresholds for specific parameters are exceeded and via the use of an automatic indicator, which is calculated monthly, capable of producing a summary assessment of the performance of

the account. This indicator can be searched both with reference to the month of processing and as an average indicator for the period (last six months) and can be integrated within credit processes as a parameter of evidence;

- to support the monitoring and management processes of non-performing loans, broken down by status (Past Due and Substandard; Restructured; Bad Loans) a new procedure "Electronic Management Procedure - EMP" has been created;
- the credit assessment processes are conducted using the "IFRS9 SUITE" IT procedure.

The Loans Function prepares a quarterly report—in conjunction with the publication of the quarterly financial statements data—which includes a series of summary views on the main dimensions of loans. Specifically, the report focuses on the national scenario, the distribution of Group loans, the distribution of loans by sector, the distribution by rating classes, the development of loans and mortgages to private customers – consumer households.
The Risk Function produces monthly reports on "Credit Risk – Portfolio Model", which include evidence with group, company, economic sector and geographical area views.
In addition, a summary document has been introduced, with a monthly frequency, relating to the overall First and Second Pillar risk trend, to support the periodic integrated Group risk report, with a view to monitoring the evolution of economic capital and to report the appropriate figures to the Corporate Bodies.

2.2 Management, measurement and control systems

Banco BPM Group uses an elaborate set of instruments to grant and manage credit and to monitor portfolio quality.
Rating plays a key role in loan granting, credit product disbursement, monitoring and management processes. In particular, it plays a role in defining the Credit policy guidelines and in deciding on the competent bodies to approve loans, influences the mechanism for the automatic renewal of uncommitted credit facilities, and contributes to determining automatic interception in the monitoring and management process (Watchlist).
The methodologies underlying the risk parameters PD (Probability of Default), LGD (Loss Given Default) and EAD (Exposure at Default), is used not only to assess the counterparty when granting, monitoring and renewing credit lines, but also to collectively write down receivables in the financial statements, in compliance with the IFRS 9 accounting standard that has been in force since January 2018.
The credit assessment made to establish the amount of expected loss relating to non-performing loans establishes different procedures depending on the status and the size of the exposure. Expected losses evaluated analytically by the manager are periodically reviewed.
The situation of the Group's non-performing loans as at 31 December 2019 has already been illustrated in the previous section, which commented on the Results for the period.
Portfolio risk monitoring is also based on a default model that is applied on a monthly basis to credit exposures of Banco BPM Group. For more information on the general features of this model, please refer to paragraph "E. Prudential consolidation - Credit risk measurement models", below.
For exposures - other than performing loans with ordinary and financial resident customers - risk is controlled through the use of supervisory regulatory metrics (Standard).

2.3 Measuring methods for expected losses

According to IFRS 9, all financial assets not measured at fair value through profit or loss, represented by debt securities and loans, and off-balance sheet exposures (commitments and guarantees given) must be subject to the impairment model based on expected losses (ECL – Expected Credit Losses).

Specifically, the IFRS 9 impairment model is based on the concept of forward-looking valuation, i.e. on the concept of Expected Credit Loss, whether calculated at 12 months (Stage 1) or for the entire residual lifetime of the instrument (lifetime loss for Stage 2 and Stage 3). In particular, the model establishes that financial assets should be classified into three separate stages, corresponding to different measurement criteria:

- Stage 1: to be measured on the basis of an estimate of expected forward-looking loss with reference to a time horizon of one year. Stage 1 includes performing financial assets for which no significant impairment of credit risk has been observed with respect to the date of initial recognition;
- Stage 2: to be measured on the basis of an estimate of expected forward-looking loss with reference to a time horizon corresponding to the entire residual life of the financial assets. Stage 2 includes the financial assets that have undergone significant impairment of credit risk with respect to initial recognition;

- Stage 3: to be measured on the basis of an estimate of expected forward-looking loss, based on a 100% probability of default. Stage 3 includes financial assets that are considered non-performing.

According to the Expected Credit Losses calculation model, losses must be recorded not only with reference to objective evidence of impairment losses that had already occurred at the reporting date, but also on the basis of expectations of future impairment that is not yet manifest, which must reflect:
- the likelihood of different scenarios occurring;
- the effect of discounting using the effective interest rate;
- historical experience and current and future valuations.

Detailed information is provided below on the model used by the Group to verify whether there is a significant deterioration in credit risk (known as "Framework Stage Assignment") and to calculate the forward-looking expected loss.

Framework stage assignment

In order to allocate exposures to the various stages, Banco BPM Group has classified them as follows:
- performing loans in Stages 1 and 2;
- non-performing loans in Stage 3. The analyses conducted led to the conclusion that the relative scope is aligned to that of non-performing exposures, determined in accordance with the definitions contained in current supervisory provisions[1] (bad loans, unlikely to pay, past due exposures), as they are deemed to be consistent with accounting regulations in terms of objective evidence of impairment. For further details on this scope, please refer to Part "A.2 – Key financial statement items" of these Notes to the Consolidated Financial Statements.

An illustration of the quantitative and qualitative criteria defined by the Group in order to classify a performing exposure in Stage 1 or Stage 2 are illustrated below.
With reference to quantitative criteria, the model developed by the Group uses as reference the parameter of lifetime probability of default (LPD), measured at the reference date, and the same parameter measured at the origination date. The ratio between said parameters is defined as the "Lifetime PD Ratio" (LPDR).
The development of the model has also led to the identification of specific internal thresholds of variation between the two aforementioned probabilities, which are differentiated by the following drivers:
- risk segment;
- rating class;
- residual life.

Thus, the change in credit risk is measured by comparing the "Lifetime PD Ratio – LPDR" of individual exposures, as defined above, and the specific estimated internal thresholds. Exceeding these thresholds represents a significant increase in credit risk and the consequent transfer of the individual line of credit from Stage 1 to Stage 2. That methodology is thus based on a relative approach, as the allocation between Stage 1 and Stage 2 is guided by the change in credit risk since the origination date.
In developing its operational model, after calculating the LPDR thresholds representing an SICR based on the lifetime PD, the Group verified whether said thresholds were consistent, in terms of the discrimination between Stage 1 and Stage 2, with those calculated using as reference the LPDR parameter calculated among 12-month PD[2].
That move is justified by the opportunity, in operational terms, to coordinate the stage allocation model with the internal rating model adopted for the purpose of credit management and monitoring. In that regard, it is noted that the internal rating system classifies exposures in 11 rating classes, which, for the purpose of the credit disbursement processes, are grouped into 5 homogeneous risk bands ("Low", "Medium-low", "Medium", "Medium-high" and "High").

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[1] Definitions contained in the Bank of Italy Circular no. 272 of 30 July 2008 and subsequent updates, on the basis of which the scope of non-performing loans corresponds to that of the Non-Performing Exposures of Implementing Regulation (EU) 680/2014, with which the EBA's ITS was incorporated (EBA/ITS/2013/rev1 of 24/07/2014).

[2] Based on the intersections considered significant for the model adopted, the threshold values permitted are all those contained in a range starting from the LPDR of the highest rating class belonging to the risk band with the highest risk among those that do not generate an SICR to the LPDR of the lowest rating class belonging to the risk band with the lowest risk among those that generate an SICR.

The use of the risk bands indicated above thus guarantees the integration and consistency of the process of measuring performing credit exposures with the other internal credit management processes (disbursement, pricing, monitoring and classification).
That being established, the quantitative stage allocation model entails the grouping of the exposures with homogeneous risk into 5 risk bands. More specifically:

- for the exposures classified in the "Low" risk band at the origination date, an increase in credit risk is considered significant when, at the reference date, the migration of the exposure to a "Medium-High" or "High" risk band is observed (migration of at least three risk bands);
- for the exposures classified in the "Medium-Low" risk band at the origination date, an increase in credit risk is considered significant when, at the reference date, the migration to a "Medium-High" or "High" risk band is observed (migration of at least two risk bands);
- for the exposures classified in the "Medium" risk band at the origination date, an increase in credit risk is considered significant when, at the reference date, the migration to the "High" risk band is observed (migration of at least two risk bands);
- for the exposures classified in the "Medium-High" risk band at the origination date, an increase in credit risk is considered significant when, at the reference date, the migration to the "High" risk band is observed (migration of one risk band);
- for exposures which were already classified in the "High" risk band at the origination date, it is not possible to recognise any significant increases in credit risk, based on the quantitative model, as the only worsening possible is effectively a change to default status. In that regard, for all customer segments, exclusively exposures that belong to rating classes 10 and 11 are classified in the "High" band.

The stage allocation methodology described above is applied to all exposures to customers, excluding debt securities.
Regarding debt securities, the Group applies the Low Credit Risk Exemption, i.e. the practical expedient of assuming that credit risk has not increased significantly compared to the initial recognition of the instrument, classifying it at Stage 1. This exemption applies to securities rated as investment grade at the valuation date, in compliance with IFRS 9.
For debt securities for which the Low Credit Risk Exemption is not used, the methodology developed by the Group is also based on the calculation of the LPDR[1], but different to loans, it does not use risk bands.
Considering the presence of several purchase transactions occurring on different dates for the same fungible security (ISIN), for the purposes of the SICR, the risk at the origin is measured separately for each tranche purchased. It was thus necessary to specify a method for identifying the tranches sold and, as a result, the remaining quantities to which to assign the credit quality at the date of initial recognition, to be compared with that at the measurement date: that movement methodology is based on the FIFO method (First In – First Out).
With regard to exposures due to banks, the methodology developed is also based on the calculation of the LCDR, but different to loans, it does not use the risk banks.

In addition to the quantitative criteria illustrated above, the stage allocation model adopted by the Group is also founded on qualitative criteria. In greater detail, the following entails classification in Stage 2:

- the presence of a consecutive number of days past due (at counterparty level) exceeding the threshold of 30 days, without prejudice to the application of the materiality thresholds set out in the supervisory provisions, save for exceptional cases attributable to specific types of counterparties, such as the Public Administration;
- the granting of forbearance measures. In greater detail, this includes all exposures affected by forbearance measures which have this attribute still active, regardless of whether the current probation period is regular;
- the inclusion of the counterparty in watchlist exposures subject to strict monitoring, in the presence of situations that suggest high risk (e.g. synthetic judgement of the degree of risk of the individual customer above a certain threshold, prejudicial events);
- the classification of the counterparty in the rating classes 10 or 11, i.e. in the "High" risk band, illustrated above, save for the option of override by the competent company functions, which must be suitably justified;
- lack of rating at the origination date, save for the case where the counterparty was assigned a rating on the measurement date that classifies in the exposure in the "Low", "Medium-low" or "Medium" risk band, as illustrated above.

[1] Data from the CreditEdge platform of the Moody's rating agency.

With regard to the functioning of the model, Banco BPM Group has decided to adopt a symmetrical model of reclassification from Stage 2 to Stage 1: in cases in which the conditions triggering the significant deterioration of credit risk cease to exist on a later valuation date, the financial instrument returns to being measured on the basis of the expected loss measured on a time horizon of twelve months. It should also be noted that in the event of a return amongst the performing exposures under Stage 3, there is no mandatory transfer of the counterparty's relationships to Stage 2. The classification of performing exposures into stages (Stage 1 or Stage 2) will depend on the automatic application of the stage assignment framework.
In the case of forborne exposures, any return to the calculation of the expected loss at one year is made in accordance with the probation period, in line with the time frames set out in the supervisory provisions.

Expected Credit Loss – Stage 1 and Stage 2

The model for calculating Expected Credit Loss (ECL) for measuring the impairment of performing instruments, differentiated based on the classification of the exposure in Stage 1 or Stage 2, is based on the following formula:

$$ECL = \sum_{t=1}^{T} PD_t * EAD_t * LGD_t * (1+r)^{-t}$$

Where:

PDt	represents the probability of default at each cash flow date. This is the probability of moving from performing status to non-performing status over the course of a year (1-year PD) or over the entire lifetime of the exposure (lifetime PD)
EADt	represents the counterparty’s exposure at each cash flow date
LGDt	represents the associated loss by counterparty at each cash flow date. This is the percentage of loss in the event of default on the basis of historical experience over a given observation period, as well as the forward-looking evolution over the entire lifetime of the exposure;
R	represents the discount rate
T	represents the number of cash flows
T	represents the total number of cash flows, limited to the following 12 months for accounts in Stage 1, and referring to the entire residual life for those in Stage 2

The models used to estimate said parameters leverage the equivalent parameters used for capital requirements for credit risk, making specific adaptations to take account of the different requirements and purposes of the IFRS 9 impairment model and the prudential impairment model.
The definition of said parameters, compared to the regulatory parameters, considered the following objectives:

- removal of the conservative margins required only for prudential purposes, such as the downturn component considered in calculating the regulatory LGD to take account of the adverse economic cycle;
- inclusion of the conditions of the current economic cycle (Point-in-Time risk measures) instead of the measurement of the parameters through the economic cycle (TTC - Through the cycle), which is required for regulatory purposes;
- introduction of forecast information regarding future trends in macroeconomic factors (forward-looking risk) considered potentially capable of influencing the debtor's situation;
- extend risk parameters to a long-term perspective, accounting for the lifetime of the credit exposure to be assessed.

As noted, the definition of default adopted is in line with that used for regulatory purposes.

More detailed information on the way in which the Group has determined the aforementioned IFRS 9 compliant risk parameters, with specific reference to the methods used to include the forward-looking factors is provided below.
In that regard, it must be noted that the update of the time series of the parameters and, as a result, their recalibration, is carried out on an annual basis.

Estimating the PD parameter
The PD parameters are obtained on the basis of the regulatory PDs, which account for the entire TTC economic cycle, appropriately calibrated, by means of satellite models to reflect the default rates based on current (PiT) and prospective (forward-looking) conditions. Said parameters must be estimated not only with reference to the time

horizon of the twelve months following the reporting date, but also in the future years, for the purpose of calculating lifetime provisions.
For the Group, the lifetime PD curves were constructed by multiplying, using a Markov approach, the migration matrices of the rating at 12 months, separately by internal segment (Large Corporate, Mid Corporate, Mid Corporate Plus, Small Business, Private) impacted by the forward-looking macroeconomic scenarios. Each rating class assigned to the counterparties using the AIRB internal models is associated with its related lifetime PD curve.
The main methodological steps used to estimate the lifetime PD parameter are provided below:

- the construction of historical Point in Time (PiT) migration matrices for each risk segment defined by the rating models and on the basis of the average of these matrices and the attainment of the long-term Through The Cycle (TTC) migration matrices for each risk segment;
- the determination of future PiT matrices for the first three years following the reporting date, obtained on the basis of PiT matrices conditioned on the basis of selected macroeconomic scenarios, to which the respective probability of occurrence is associated, using satellite models (the Merton method) capable of expressing the sensitivity of the PD measures to changes in the main income statement items. These satellite models are differentiated by sector-based clusters (e.g. manufacturing, financial companies, consumer households) and use cluster-specific variables;
- obtaining cumulative PDs by rating class and scenario, via a matrix product (Markov chain techniques) of the future PiT migration matrices for the first three years, as previously calculated, while from the fourth year onwards so-called smoothed matrices are used, which allow for the gradual smoothing with the TTC migration matrix;
- the generation of the cumulative lifetime PD curve as the average of the cumulative PD curves of each selected macroeconomic scenario weighted by the respective probability of occurrence.

Refer to the paragraph "Inclusion of forward-looking factors", below, for more details on the method of constructing the PD.

Estimating the LGD parameter
LGD values are assumed to be equal to the regulatory recovery rates calculated through the economic cycle (TTC) and suitably adjusted in order to remove some of the conservativism margins of the regulatory models, which are represented by indirect costs and the component associated with the adverse economic cycle (the down turn component), as well as to reflect the most current recovery rates (PiT) and expectations concerning future (forward-looking) trends. In detail, the forward-looking estimate of the parameter takes account of the impact on the economic cycle of the components represented by the probability of non-performance and the Loss Given Non-Performance (LGNP) using specific forward-looking scaling factors to obtain the lifetime LGD.

EAD Estimation
For on-balance sheet exposures, the EAD is represented, at each future payment date, by the remaining payable based on the repayment plan, plus any unpaid and/or past due instalments.
For off-balance sheet exposures, represented by guarantees and irrevocable or revocable commitments to disburse funds, the EAD is equal to the nominal value weighted by a specific credit conversion factor (CCF), determined in compliance with the previously validated internal modes and using the standardised approach for the remaining exposures.

Inclusion of forward-looking factors
For the purpose of determining expected losses, the forward-looking information is included by considering the effects on the parameters PD and LGD, deriving from different macroeconomic scenarios. In detail, multiple alternative macroeconomic scenarios were attributed to a limited number of scenarios (3), which comprise the input of the "satellite" models. The use of these models makes it possible to define, through statistical regression techniques, the relationship between a limited number of significant macroeconomic variables used as reference and the decay rates of the various business segments (e.g. "industry", "financial companies", "consumer households"). The result of these estimates is used to create stress factors, known as "delta scores", that are distinct for each scenario and risk segment. Using the Merton method, those delta scores are applied to the average Point in Time (PiT) matrix for the risk segment, represented by the most recent three years of internal data available on migrations between ratings, in order to obtain three stressed future matrices based on the macroeconomic forecasts. From the fourth year onwards, to calculate the PD curves, the long-term matrix was used as reference. If substantial differences should arise between the forward-looking matrix and the long-term Through The Cycle (TTC) matrix, the Group applies a smoothing procedure, aimed at gradually realigning the values, avoiding possible jumps in the curves. As

a result of this procedure, the possible impact of future scenarios can be absorbed, guaranteeing alignment with the long-term values estimated based on the bank's historical data.
Subsequently, the PD curves are constructed for each of the 3 scenarios by applying the Markov chain statistical procedure (product of the annual matrices described above). Lastly, the cumulative PiT and lifetime PD curves are generated as the average of the cumulative PD curves of each selected macroeconomic scenario weighted by the respective probability of occurrence.
The information on the macroeconomic scenarios are defined internally by the Group, also using as reference the forecasts formulated by external providers. In that regard, it must be noted that during 2019 the process of selecting macroeconomic scenarios was revised, in line with those used by the Group for planning processes (ICAAP and RAF). This also resulted in a change in the methodology, due to the inclusion of forward-looking factors, which limited the macroeconomic scenarios considered to three, instead of the five used for the purposes of drawing up the financial statements as at 31 December 2018.
In greater detail, along with the "base" scenario, deemed more likely (with probability of 50%), an alternative "negative" scenario (with probability of 30%) and a "positive" scenario (with probability of 20%) were also drawn up.
The same calculation mechanism is applied to the LGD. The move from a TTC approach to a PiT and forward-looking approach is carried out through the development of the main parameters of the LGD model - represented by the LGNP (loss rate of non-performing positions) and the danger rate (probability of non-performance) – obtained using suitable satellite models, capable of putting together the historical changes in those parameters with the volatility of macroeconomic factors. In particular, for each parameter (LGS, danger rate), the dependence on future macroeconomic scenarios is obtained using specific scaling factors, distinct for businesses and private customers and variable over time. In detail, the scaling factor curves, obtained through a procedure aimed at simulating forward development of the time series of the parameters LGS and danger rate, are used to modify those parameters, in order to obtain the development of the LGD component over time.

The following table provides evidence of the minimum and maximum values ("range of values") referring to annual changes in the main macroeconomic factors for each of the three scenarios, included in the satellite models, considered most capable of influencing the expected losses of the Group's performing credit exposures, and the relative probability of occurrence.

Macroeconomic indicators ***% Quarterly changes***	**Scenario**					
	negative		**baseline**		**positive**	
	range of values		**range of values**		**range of values**	
GDP Italy	-0.1%	0.2%	0.0%	0.3%	0.0%	0.4%
Domestic consumption	0.1%	0.2%	0.1%	0.3%	0.1%	0.3%
Construction investments	-0.1%	0.7%	0.4%	0.7%	0.5%	1.3%
Index of residential property prices	-0.3%	0.2%	-0.3%	0.4%	-0.1%	0.7%
Unemployment rates	-2.0%	0.5%	-2.0%	-0.1%	-2.8%	-0.6%
Probability of occurrence		30.00%		50.00%		20.00%

Sensitivity analysis of expected losses

As illustrated in the paragraph "Significant accounting policies and uncertainties regarding the use of estimates in the preparation of consolidated financial statements", contained in "Part A – Accounting policies", the determination of expected losses on performing loans entails significant judgments, with specific reference to the model used to measure losses and the related risk parameters, the triggers deemed expressive of significant loan impairment, and the selection of macroeconomic scenarios.
In particular, the inclusion of forward-looking factors is a highly complex exercise, as it requires formulating macroeconomic forecasts, selecting scenarios and their probability of occurrence and defining a model capable of expressing the relationship between said macroeconomic factors and the default rates of the exposures assessed, as illustrated in the paragraph above.
In order to assess how the forward-looking factors can influence the expected losses, it is deemed reasonable to conduct a sensitivity analysis in the context of various scenarios based on forecasts consistent with the development of the various macroeconomic factors. The numerous interrelations between single macroeconomic factors effectively render a sensitivity analysis of the expected loss based on single macroeconomic factor insignificant.

To that end, for performing exposures (Stage 1 and Stage 2) relating to loans granted to customers, evidence is provided below:

- of the expected losses as at 31 December 2019, quantified based on the scenarios/probability of occurrence reported in the table above;
- of the percent changes that would be recorded in the above losses assuming a 100% probability of occurrence for the "negative" and "positive" scenarios:

Performing loans to customers (Stage 1 and Stage 2)	***figures in millions of euro***
Total value adjustments as at 31.12.19	328.4.
% Change in value adjustments assuming:	
100% negative scenario	+7%
100% positive scenario	-9%

<u>Expected Credit Loss – Stage 3</u>

With regard to the models used to determine the expected losses on exposures classified under Stage 3, i.e. non-performing exposures, reference should be made to the section "Methods for determining impairment losses on IFRS 9 Financial Instruments" in Part "A.2 - Key financial statement items".

As stated in the paragraph "Significant accounting policies and uncertainties regarding the use of estimates in the preparation of consolidated financial statements", contained in "Part A – Accounting policies", the determination of the expected losses on non-performing loans entails significant judgments, with specific reference to the estimate of flows deemed recoverable and the related timing of recovery.

In greater detail, as at 31 December 2019 the expected losses on non-performing loans were determined analytically, based on the recovery forecasts formulated by the manager or resulting from the application of the "lump-sum" calculation method, discounted based on the original effective interest rates and the relating timing of recovery. Considering that the recovery forecasts use the debtor's specific situation as reference, it is deemed impossible to prove any reasonable sensitivity analysis of the expected losses.
However, it cannot be ruled out that a deterioration in the debtor's credit situation, also as a result of possible negative effects on the economy correlated with the uncertainty of the international spread of the coronavirus, may result in the recognition of additional, even significant, losses, in relation to those considered as at 31 December 2019 based on the conditions existing at the reporting date.

2.4 Credit risk mitigation techniques

The Group has always kept a watchful eye on the acquisition of loan collaterals and securities, i.e. the use of applications and techniques that mitigate credit risk. When deemed necessary, the typical bank guarantees are acquired, namely mortgages on properties, collaterals on securities in addition to personal guarantees issued by the guarantors.
In general, the decision on the acquisition of a guarantee is based on the customer's creditworthiness and on the characteristics of the transaction. Following this analysis, it may be deemed appropriate to obtain additional guarantees to mitigate credit risk, considering the estimated recoverable value offered by the collateral.
The system for the recording of collateral property used to guarantee lending transactions enables an automatic periodic assessment of the property's value and identifies which properties require updated appraisals, in line with the criteria established by current legislation.
The value of the financial collaterals is constantly and automatically monitored, enabling a comparison between the present value of the collateral and the initial one, and to allow the manager to act promptly in the event that the collateral incurs a significant impairment loss.
As regards collateral represented by a pledge on securities, an automatic warning system is in place, which is triggered when impairment goes beyond a certain threshold value, reporting the same to the customer relationship manager so that the same may take prompt action.
With regard to derivative transactions with market counterparties, we favour entities with which we have entered into agreements requiring the provision of collateral, especially ISDA - Credit Support Annex, to obtain a significant credit risk mitigation.

3. Non-performing credit exposures

3.1 Management strategies and policies

The classification of non-performing exposures is conducted in line with the criteria established by the EBA. More specifically, the classification as non-performing is made:

- automatically, for exposures that reach the thresholds envisaged by the provisions of the Supervisory Authority as regards Past Due;
- by means of a decisions taken by an authorised Body (i) on a proposal generated automatically by the IT system, for exposures that reach the envisaged thresholds, on each occasion, by internal credit monitoring and management processes, or (ii) on the proposal of a proponent Body, for exposures that indicate the occurrence of events that may prejudice the "performing" status of the same.

The management of non-performing loans in Banco BPM Group is based, to a great extent, on a model that assigns the management of a specific set of loans (portfolio) to specialist resources. During 2019 an in-depth reorganisation of the management of the Group's non-performing loans was completed, which led to the transfer of a business segment focused on credit collection to a specialised partner, with the subsequent assignment of a management mandate for most of the new flows of bad loans for the following ten years. Thus, as a result of that agreement, the management of bad loans is now mainly conducted by a leading player in the sector, while the management of the remaining non-performing exposures is handled by specialised internal personnel.
Also, in 2019, and as a result of the transfer of the business segment mentioned above, management of all the non-performing exposures was unified within the newly-established CLO area.
Management responsibility changes depending on the classification status of the exposure:

- the management of exposures classified as Past Due and Unlikely to Pay is assigned, with the exception of exposures under a certain threshold, to specialist managers, who may work, depending on the importance of the exposure, for the CLO area or for the Loans offices of the Network (Divisions and Business Areas). For these exposures, the managers of non-performing loans are responsible for the operating decisions relating to the loans assigned to the respective portfolios, in accordance with their decision making authority, and are assisted, as regards the administrative part, by (business) managers from the Network, where the portfolio containing the exposure is placed, as well as the related economic results;
- management of positions classified as Bad Loans is conducted by the specialised internal structures of the CLO area, assisted (as part of the agreement mentioned above) for most of this, by Credito Fondiario Liberty Servicing or by managers of Release S.p.A., coordinating with the structures of the CLO area.

In addition to the recovery process, the managers are responsible for assessing loans with a view to calculating the amount of expected losses for individual positions that have an overall exposure exceeding the threshold defined for collective provisioning. During 2019 the Bank raised that threshold from the previous 300 thousand euro to 1 million euro. When making said assessment, the manager must take the following into account:

- overall risk of the customer and of related accounts, as well as any Economic Group it belongs to;
- situation in the Italian Central Credit Register, with specific attention to any loans guaranteeing third parties;
- equity standing of the borrower and of any guarantors;
- value of the asset used as collateral;
- time needed to recover the debt.

To support the activities relating to the last two points, the bank has estimated Haircut parameters on a statistical basis, defined as the difference to apply to the value of the assets used as collateral, to align them to the amount that the bank is likely to collect after their sale, and the timeframe that the manager has to consider in order to make an analytical assessment of the bad loan. The expected losses obtained in this way are periodically reviewed and continuously monitored.
The process described above is not applied to bad loans with a total exposure equal to or less than the materiality threshold of 1 million euro (as mentioned above, the amount was raised in 2019 from the previous 300 thousand euro), for which the automatic valuation model was used, aimed at replicating the methodology applied by managers above the materiality threshold. That model, developed and maintained by the Credit Governance structure, is subject to validation by the Risk Functions.

Regarding Past Due and Unlikely to Pay (UTP) positions, the credit assessment for determining the amount of expected losses differs according to the status and size of the exposure:

- for Past Due positions, irrespective of their amount, as well as for UTP positions within pre-determined amount limits (equivalent to those applied for bad loans, the collective valuation model is applied;
- for UTP positions that exceed the above threshold, the loss forecasts are evaluated analytically by the manager using a similar process to the one described above for the non-performing portfolio.

Expected losses evaluated analytically by the manager are periodically reviewed.

System of controls for credit processes

The structure of the control system relating to credit processes is based on:

- 1st level controls (or line controls), addressed to ensuring that the processes are correctly carried out. First level controls include so-called "automatic" controls, namely performed directly by applications procedures, controls performed directly by operating structures and hierarchical controls, performed within the same chain of responsibility. 2nd level controls are also implemented, through the CLO Areas of Monitoring and Control and Credit Governance;
- second-level controls (or controls on risks and compliance), under the "Second-Level Controls" structure located within the Risk - Enterprise Risk Management function. The controls are conducted constantly via immense analysis of the Group's credit portfolios and through the review of individual positions—statistically sampled or based on the specific risk profile, independent of the functions responsible for carrying out the activities subject to verification—are aimed at ensuring the correct implementation of the risk management process (set up by the operating structures) by verifying performance monitoring for individual exposures, especially non-performing loans, and the assessment of the consistency of classifications, the congruity of provisions and the adequacy of the recovery process, in line with internal and external regulations. Since December 2019, following the aforementioned change to the Regulations, the structure has provided opinions on the following Significant Transactions (ST) in the credit area: proposals to i) change provisions; ii) assign forbearance measures, and iii) increase or decrease the risk of the administrative classification status.

3.2 Write-offs

For all positions classified as bad loans, the Group assesses whether it is appropriate to continue to maintain the non-performing loan because the out-of-court or judicial actions underway allow a reasonable expectation of recovery, even partial, or whether it is appropriate to proceed with a derecognition or write-off, total or partial, by virtue, respectively, of the conclusion of the recovery process or the circumstance that there is no reasonable prospect of recovery.
The write-off, in compliance with IFRS 9, in force since 1 January 2018, and the "Guidelines for Banks on Non-Performing Loans (NPL)" issued by the ECB, is the reduction in the gross book value of the loan following the acknowledgement that there are no reasonable expectations of its recovery for amounts exceeding those considered collectable or already received.
It does not imply a waiver by the bank of its legal right to recover the debt and must be carried out if all the information available indicates that the debtor is unable to repay all or part of the amount of the debt.
The criteria that the Group has identified to determine whether a position falls within the category of those to be assessed for the purposes of any write-off depend on the possible presence of bankruptcy procedures, the levels of cover and the seniority of the position in the non-performing status.

3.3 Acquired or originated impaired financial assets

With regard to the accounting treatment of these assets and the related presentation methods, reference should be made to that illustrated in part "A.2 - Key financial statement items" and in the Introduction to this section.

4. Financial assets subject to commercial renegotiations and forborne exposures

An analysis of the exposures relating to forborne assets at amortised cost is provided below, on the basis of seniority, distinguishing between non-performing and performing exposures.

Year of last forbearance	Performing exposures	Non-performing exposures	Total
2019	580,285	1,323,781	1,904,066
2018	636,331	857,095	1,493,427
2017	389,529	587,908	977,436
2016	202,526	623,702	826,227
2015	95,715	521,532	617,247
2014	49,635	392,772	442,407
2013	24,094	343,107	367,202
2012	1,992	15,007	16,999
2011	664	9,195	9,858
2010	1,017	16,540	17,557
2009	179	2,053	2,232
previous years	-	9,514	9,514
Total	**1,981,965**	**4,702,207**	**6,684,172**

The above exposures are broken down in the following table according to the number of forbearance measures granted to the counterparty (one measure, two measures, more than two measures).

Number of forbearance measures	Performing exposures	Non-performing exposures	Total
1	1,010,360	2,734,220	3,744,580
2	480,617	998,833	1,479,450
>2	490,988	969,154	1,460,142
Total	**1,981,965**	**4,702,207**	**6,684,172**

QUANTITATIVE INFORMATION

A. Credit quality

In this part, for the purposes of quantitative information on credit quality, the term "on-balance sheet credit exposures" means all financial assets held on-balance sheet with banks or customers, regardless of their portfolio of accounting allocations (at fair value through profit and loss, at fair value through other comprehensive income, at amortised cost, financial assets held for sale), but excludes equity instruments and UCIT units.

For the purposes of representing the gross exposure and value adjustments of the receivables acquired as a result of the business combination with the former Bipiemme Group on 1 January 2017, to be indicated in the following tables, reference should be made to the information provided in the introduction to credit quality contained in the previous "Section 1 - Risks of the consolidated book".

A.1 Non-performing and performing credit exposures: outstanding amounts, value adjustments, changes and economic distribution

A.1.1 Prudential consolidation – Distribution of financial assets by past due bands (book values)

Portfolios/risk stages	Stage 1			Stage 2			Stage 3		
	From 1 day to 30 days	From more than 30 days to 90 days	Over 90 days	From 1 day to 30 days	From more than 30 days to 90 days	Over 90 days	From 1 day to 30 days	From more than 30 days to 90 days	Over 90 days
1. Financial assets at amortised cost	354,664	78,789	18,640	206,932	410,735	228,615	46,425	111,188	4,025,804
2. Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-	-	-	93,744
Total 31/12/2019	**354,664**	**78,789**	**18,640**	**206,932**	**410,735**	**228,615**	**46,425**	**111,188**	**4,119,548**
Total 31/12/2018	**584,965**	**125,587**	**20,439**	**278,374**	**459,085**	**348,300**	**58,311**	**186,420**	**4,699,798**

A.1.2 Prudential consolidation - Financial assets, commitments to disburse funds and financial guarantees given: changes in total value adjustments and total provisions

Causes/risk stages	Total value adjustments									
	Stage 1 assets					Stage 2 assets				
	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income	Financial assets held for sale	of which: individual write-downs	of which: collective write-downs	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income	Financial assets held for sale	of which: individual write-downs	of which: collective write-downs
Total value adjustments - opening balance	**127,643**	**7,529**	**-**	**-**	**135,172**	**256,793**	**1,986**	**-**	**-**	**258,779**
Increases in financial assets acquired or originated	-	-	-	-	-	-	-	-	-	-
Derecognitions other than write-offs	(469)	(2,807)	-	-	(3,276)	-	(337)	-	-	(337)
Net losses/recoveries on credit risk	3,352	(2,515)	-	-	837	(43,634)	(335)	-	-	(43,969)
Contract changes without derecognition	-	-	-	-	-	-	-	-	-	-
Changes in estimation methodology	-	-	-	-	-	-	-	-	-	-
Write-offs not recognised directly in the income statement	(2,754)	-	-	-	(2,754)	(2,479)	-	-	-	(2,479)
Other changes	(149)	-	-	-	(52)	(2,957)	-	-	-	(2,957)
Total value adjustments - closing balance	**127,623**	**2,207**	**-**	**-**	**129,927**	**207,723**	**1,314**	**-**	**-**	**209,037**
Recoveries from collections on financial assets subject to write-off	-	-	-	-	-	-	-	-	-	-
Write-off recorded directly in the income statement	-	-	-	-	-	-	-	-	-	-

Causes/risk stages	Total value adjustments						Total provisions for commitments to disburse funds and financial guarantees given			Total
	Stage 3 assets					Of which: originated or acquired impaired financial assets				
	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income	Financial assets held for sale	of which: individual write-downs	of which: collective write-downs		Stage 1	Stage 2	Stage 3	
Total value adjustments - opening balance	**5,111,452**	**-**	**-**	**5,083,540**	**27,912**	**755,059**	**27,640**	**9,127**	**25,608**	**5,567,778**
Increases in financial assets acquired or originated	-	-	-	-	-	-	-	-	-	**-**
Derecognitions other than write-offs	(195,580)	-	(135,597)	(331,129)	(48)	(71,500)	-	-	-	**(334,790)**
Net losses/recoveries on credit risk	654,157	-	44,075	689,709	8,523	(37,361)	(9,326)	(1,336)	(11,234)	**633,204**
Contract changes without derecognition	1,997	-	-	1,997	-	-	-	-	-	**1,997**
Changes in estimation methodology	-	-	-	-	-	-	-	-	-	**-**
Write-offs not recognised directly in the income statement	(588,816)	-	(11,471)	(596,611)	(3,676)	(91,184)	-	-	-	**(605,520)**
Other changes	(410,455)	-	322,554	(88,302)	401	(79,759)	(1)	(14)	-	**(91,022)**
Total value adjustments - closing balance	**4,572,755**	**-**	**219,561**	**4,759,204**	**33,112**	**475,255**	**18,313**	**7,777**	**14,374**	**5,171,647**
Recoveries from collections on financial assets subject to write-off	10,329	-	-	10,329	-	-	-	-	-	**10,329**
Write-off recorded directly in the income statement	(62,781)	-	(537)	(62,411)	(907)	(11,802)	-	-	-	**(63,318)**

A.1.3 Prudential consolidation - Financial assets, commitments to disburse funds and financial guarantees given: transfers between the different credit risk stages (gross and nominal values)

Portfolios/risk stages	Gross exposure/nominal value					
	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 2 and Stage 3	
	From Stage 1 to Stage 2	from Stage 2 to Stage 1	From Stage 2 to Stage 3	From Stage 3 to Stage 2	From Stage 1 to Stage 3	From Stage 3 to Stage 1
1. Financial assets at amortised cost	2,026,988	2,261,136	574,734	352,175	420,510	44,783
2. Financial assets at fair value through other comprehensive income	137,495	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-
4. Commitments to disburse funds and financial guarantees given	253,607	533,786	79,234	35,908	86,796	5,487
Total 31/12/2019	**2,418,090**	**2,794,922**	**653,968**	**388,083**	**507,306**	**50,270**
Total 31/12/2018	**3,473,714**	**6,362,670**	**875,833**	**582,913**	**636,317**	**103,886**

A.1.4 Prudential consolidation - On-balance sheet and off-balance sheet credit exposures to banks: gross and net values

Type of exposure/value	Gross exposure		Total value adjustments and total provisions	Net exposure	Total partial write-offs*
	Non-performing	Performing			
A. On-balance sheet credit exposures					
a) Bad loans	317	X	(254)	63	-
- of which: forborne exposures	-	X	-	-	-
b) Unlikely to pay	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
c) Non-performing past-due exposures	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
d) Performing past-due exposures	X	3,364	(2)	3,362	-
- of which: forborne exposures	X	-	-	-	-
e) Other performing exposures	X	13,428,513	(3,564)	13,424,949	-
- of which: forborne exposures	X	-	-	-	-
Total (A)	**317**	**13,431,877**	**(3,820)**	**13,428,374**	**-**
B. Off-balance sheet credit exposures					
a) Non-performing	-	X	-	-	-
b) Performing	X	4,270,912	(558)	4,270,354	-
Total (B)	**-**	**4,270,912**	**(558)**	**4,270,354**	**-**
Total (A+B)	**317**	**17,702,789**	**(4,378)**	**17,698,728**	**-**

(*) Value to be shown for disclosure purposes

A.1.5 Prudential consolidation - On-balance sheet and off-balance sheet credit exposures to customers: gross and net values

Type of exposure/value	Gross exposure		Total value adjustments and total provisions	Net exposure	Total partial write-offs*
	Non-performing	Performing			
A. On-balance sheet credit exposures					
a) Bad loans	3,883,606	X	(2,229,835)	1,653,771	515,143
- of which: forborne exposures	913,462	X	(449,044)	464,418	28,084
b) Unlikely to pay	6,789,746	X	(2,749,360)	4,040,386	42
- of which: forborne exposures	3,994,421	X	(1,488,530)	2,505,891	42
c) Non-performing past-due exposures	98,568	X	(25,498)	73,070	-
- of which: forborne exposures	20,084	X	(4,792)	15,292	-
d) Performing past-due exposures	X	1,341,475	(41,756)	1,299,719	-
- of which: forborne exposures	X	371,420	(16,564)	354,856	-
e) Other performing exposures	X	128,222,511	(293,544)	127,928,967	-
- of which: forborne exposures	X	1,718,119	(56,913)	1,661,206	-
Total (A)	**10,771,920**	**129,563,986**	**(5,339,993)**	**134,995,913**	**515,185**
B. Off-balance sheet credit exposures					
a) Non-performing	1,406,908	X	(80,110)	1,326,798	-
b) Performing	X	63,952,896	(35,418)	63,917,478	-
Total (B)	**1,406,908**	**63,952,896**	**(115,528)**	**65,244,276**	**-**
Total (A+B)	**12,178,828**	**193,516,882**	**(5,455,521)**	**200,240,189**	**515,185**

(*) Value to be shown for disclosure purposes

A.1.6 Prudential consolidation - On-balance sheet credit exposures to banks: changes in gross non-performing exposures

Causes/Categories	Bad loans	Unlikely to pay	Non-performing past-due exposures
A. Gross exposure: opening balance	**322**	**15,294**	**-**
- of which: exposures transferred but not derecognised	-	-	-
B. Increases	**-**	**-**	**-**
B.1 entries from performing exposures	-	-	-
B.2 revenues from originated or acquired impaired financial assets	-	-	-
B.3 transfers from other categories of non-performing loans	-	-	-
B.4 contract changes without derecognition	-	-	-
B.5 other increases	-	-	-
C. Decreases	**(5)**	**(15,294)**	**-**
C.1 exits to performing exposures	-	-	-
C.2 write-offs	-	-	-
C.3 collections	-	-	-
C.4 gains on disposal	-	-	-
C.5 losses on disposal	-	-	-
C.6 transfers to other categories of non-performing loans	-	-	-
C.7 contract changes without derecognition	-	-	-
C.8 other decreases	(5)	(15,294)	-
D. Gross exposure: closing balance	**317**	**-**	**-**
- of which: exposures transferred but not derecognised	-	-	-

A.1.6 bis Prudential consolidation - On-balance sheet credit exposures to banks: changes in gross forborne exposures, broken down by credit quality

As at 31 December 2019, as in the previous year, there were no forborne exposures to banks. The related table is therefore omitted.

A.1.7 Prudential consolidation - On-balance sheet credit exposures to customers: changes in gross non-performing exposures

Causes/Categories	**Bad loans**	**Unlikely to pay**	**Non-performing past-due exposures**
A. Gross exposure: opening balance	**10,109,179**	**8,100,468**	**107,066**
- of which: exposures transferred but not derecognised	88,974	22,355	2,110
B. Increases	**1,224,682**	**1,328,412**	**138,398**
B.1 entries from performing exposures	222,701	842,615	104,477
B.2 revenues from originated or acquired impaired financial assets	-	-	-
B.3 transfers from other categories of non-performing loans	898,255	51,161	966
B.4 contract changes without derecognition	-	-	-
B.5 other increases	103,726	434,636	32,955
C. Decreases	**(7,450,255)**	**(2,639,134)**	**(146,896)**
C.1 exits to performing exposures	(602)	(405,694)	(10,707)
C.2 write-offs	(514,056)	(139,294)	(377)
C.3 collections	(224,354)	(889,529)	(45,026)
C.4 gains on disposal	(1,486,416)	(166,847)	-
C.5 losses on disposal	(552,199)	(55,882)	-
C.6 transfers to other categories of non-performing loans	(337)	(865,387)	(84,658)
C.7 contract changes without derecognition	-	-	-
C.8 other decreases	(4,672,291)	(116,501)	(6,128)
D. Gross exposure: closing balance	**3,883,606**	**6,789,746**	**98,568**
- of which: exposures transferred but not derecognised	34,696	12,042	433

With reference to transactions for the assignment of non-performing loans, the item “other decreases” includes the gross amount of the exposures subject to transfer exceeding the sum of the realizable value and any loss on assignment.

A.1.7 bis Prudential consolidation - On-balance sheet credit exposures to customers: changes in gross forborne exposures broken down by credit quality

Causes/Quality	Forborne exposures: non-performing	Forborne exposures: performing
A. Gross exposure: opening balance	**5,517,380**	**2,163,535**
- of which: exposures transferred but not derecognised	11,382	19,378
B. Increases	**870,506**	**820,131**
B.1 entries from non-forborne performing exposures	176,603	456,703
B.2 entries from forborne performing exposures	115,204	X
B.3 entries from forborne non-performing exposures	X	346,639
B.4 entries from non-forborne non-performing exposures	38	-
B.5 other increases	578,661	16,789
C. Decreases	**(1,459,919)**	**(894,127)**
C.1 exits to non-forborne performing exposures	X	(585,798)
C.2 exits to forborne performing exposures	(346,639)	X
C.3 exits to forborne non-performing exposures	X	(115,204)
C.4 write-offs	(126,944)	-
C.5 collections	(411,047)	(138,463)
C.6 gains on disposal	(260,185)	-
C.7 losses on disposal	(113,421)	-
C.8 other decreases	(201,683)	(54,662)
D. Gross exposure: closing balance	**4,927,967**	**2,089,539**
- of which: exposures transferred but not derecognised	11,151	14,687

A.1.8 Prudential consolidation - Non-performing on-balance sheet credit exposures to banks: changes in total value adjustments

Causes/Categories	Bad loans		Unlikely to pay		Non-performing past-due exposures	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Total value adjustments - opening balance	**258**	**-**	**15,294**	**-**	**-**	**-**
- of which: exposures transferred but not derecognised	-	-	-	-	-	-
B. Increases	**1**	**-**	**-**	**-**	**-**	**-**
B.1 value adjustments to originated or acquired impaired assets	-	X	-	X	-	X
B.2 other value adjustments	-	-	-	-	-	-
B.3 losses on disposal	-	-	-	-	-	-
B.4 transfers from other categories of non-performing exposures	-	-	-	-	-	-
B.5 contract changes without derecognition	-	-	-	-	-	-
B.6 other increases	1	-	-	-	-	-
B.4 other increases	**(5)**	**-**	**(15,294)**	**-**	**-**	**-**
C.1 recoveries from valuation	(5)	-	-	-	-	-
C.2 recoveries from collection	-	-	-	-	-	-
C.3 gains on disposal	-	-	-	-	-	-
C.4 write-offs	-	-	-	-	-	-
C.5 transfers to other categories of non performing exposures	-	-	-	-	-	-
C.6 contract changes without derecognition	-	-	-	-	-	-
C.7 other decreases	-	-	(15,294)	-	-	-
D. Total value adjustments - closing balance	**254**	**-**	**-**	**-**	**-**	**-**
- of which: exposures transferred but not derecognised	-	-	-	-	-	-

A.1.9 Prudential consolidation - Non-performing on-balance sheet credit exposures to customers: changes in total value adjustments

Causes/Categories	Bad loans		Unlikely to pay		Non-performing past-due exposures	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Total value adjustments - opening balance	**7,184,077**	**520,653**	**2,903,751**	**1,611,281**	**18,869**	**2,102**
- of which: exposures transferred but not derecognised	59,964	828	4,002	1,494	866	21
B. Increases	**1,516,893**	**340,412**	**1,030,258**	**566,756**	**23,866**	**5,220**
B.1 value adjustments from originated or acquired impaired financial assets	-	X	-	X	-	X
B.2 other value adjustments	555,342	102,527	926,305	467,740	22,438	4,585
B.3 losses on disposal	552,204	83,961	55,882	29,460	-	-
B.4 transfers from other categories of non-performing exposures	292,831	129,046	7,255	1,577	127	39
B.5 contract changes without derecognition	-	-	1,997	1,997	-	-
B.6 other increases	116,516	24,878	38,819	65,982	1,301	596
C. Decreases	**(6,471,135)**	**(412,021)**	**(1,184,649)**	**(689,507)**	**(17,237)**	**(2,530)**
C.1 recoveries from valuation	(143,047)	(30,182)	(460,768)	(308,143)	(3,621)	(290)
C.2 recoveries from collection	(54,545)	(4,504)	(58,732)	(28,134)	(172)	(31)
C.3 gains on disposal	(538,727)	(51,585)	(23,464)	(7,217)	-	-
C.4 write-offs	(514,056)	(29,309)	(139,294)	(97,635)	(377)	-
C.5 transfers to other categories of non-performing exposures	(50)	-	(287,590)	(126,561)	(12,573)	(2,174)
C.6 contract changes without derecognition	-	-	-	-	-	-
C.7 other decreases	(5,220,710)	(296,441)	(214,801)	(121,817)	(494)	(35)
D. Total value adjustments - closing balance	**2,229,835**	**449,044**	**2,749,360**	**1,488,530**	**25,498**	**4,792**
- of which: exposures transferred but not derecognised	17,465	671	615	314	15	4

With regard to the assignment of non-performing loans, the item "Other decreases" includes the total amount of derecognitions other than accounting write-offs (i.e. for the amount equal to the difference between the gross credit exposure and the amount of the transfer).

A.2 Classification of exposures according to external and internal ratings

A.2.1 Prudential consolidation - Distribution of financial assets, commitments to disburse funds and financial guarantees issued by external rating classes (gross values)

Exposures	External rating classes						Unrated	Total
	AAA/A-	A+/A-	BBB+/BBB-	BB+/BB-	B+/B-	below B-		
A. Financial assets at amortised cost	**5,035,187**	**14,289,085**	**25,331,343**	**8,894,516**	**1,330,570**	**639,660**	**82,516,954**	**138,037,315**
- Stage 1	5,035,184	14,216,467	24,892,042	7,826,582	970,689	167,262	68,728,720	121,836,946
- Stage 2	3	72,618	423,579	1,000,446	313,473	241,657	4,026,471	6,078,247
- Stage 3	-	-	15,722	67,488	46,408	230,741	9,761,763	10,122,122
B. Financial assets at fair value through other comprehensive income	**2,546,802**	**2,976,765**	**5,993,141**	**125,042**	**95,675**	**-**	**161,270**	**11,898,695**
- Stage 1	2,546,802	2,823,530	5,961,831	95,409	95,675	-	127,969	11,651,216
- Stage 2	-	153,235	31,310	29,633	-	-	33,301	247,479
- Stage 3	-	-	-	-	-	-	-	-
C. Financial assets held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**313,305**	**313,305**
- Stage 1	-	-	-	-	-	-	-	-
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	313,305	313,305
Total (A+B+C)	**7,581,989**	**17,265,850**	**31,324,484**	**9,019,558**	**1,426,245**	**639,660**	**82,991,529**	**150,249,315**
of which: originated or acquired impaired financial assets	-	-	-	418	20,406	62,466	925,846	1,009,136
D. Commitments to disburse funds and financial guarantees given								
- Stage 1	1,358,111	9,658,182	9,883,090	3,102,139	410,973	64,379	24,565,883	49,042,757
- Stage 2	12,521	8,888	134,435	183,808	33,068	5,314	472,368	850,402
- Stage 3	-	-	5,379	22,300	12,317	48,575	930,443	1,019,014
Total (D)	**1,370,632**	**9,667,070**	**10,022,904**	**3,308,247**	**456,358**	**118,268**	**25,968,694**	**50,912,173**
Total (A+B+C+D)	**8,952,621**	**26,932,920**	**41,347,388**	**12,327,805**	**1,882,603**	**757,928**	**108,960,223**	**201,161,488**

Banco BPM Group adopts the credit assessments issued by the following external credit assessment agencies (ECAIs): Standard & Poor's ratings Services, Moody's Investors Service, Fitch Ratings and Cerved Rating Agency S.p.A.
These agencies apply to all banks belonging to the Group. It should be noted that, where there are two assessments of the same customer, the most prudent one is adopted, in the case of three assessments, the middle one.

The table below shows the reconciliation between the risk classes and ratings of the agencies used.

CLASS	Fitch Ratings	Moody's	Standard & Poor's	Cerved Rating Agency SpA
AAA/AA-	*AAA to AA-*	*Aaa to Aa3*	*AAA to AA-*	*A1.1 to A1.3*
A+/A-	*A+ to A-*	*A1 to A3*	*A+ to A-*	*A2.1 to A3.1*
BBB+/BBB-	*BBB+ to BBB-*	*Baa1 to Baa3*	*BBB+ to BBB-*	*B1.1 to B1.2*
BB+/BB-	*BB+ to BB-*	*Ba1 to Ba3*	*BB+ to BB-*	*B2.1 to B2.2*
B+/B-	*B+ to B-*	*B1 to B3*	*B+ to B-*	*C1.1*
Below B-	*CCC+ and below*	*Caa1 and below*	*CCC+ and below*	*C1.2 and below*

A.2.2 Prudential consolidation - Distribution of financial assets, commitments to disburse funds and financial guarantees issued by internal rating classes (gross values)

With the exception of the bank prospectus, the exposures shown in tables A.2.2 are associated with ratings also used to determine capital requirements for credit risks, limited to what can be traced back to the Business and Retail regulatory portfolios.
In particular, four separate rating models have been developed for corporate customers, based on the following customer segments: Large Corporate, Mid Corporate Plus, Mid Corporate and Small Business, and one for private customers. The counterparty rating system provides, at the level of each segment, twelve rating classes (eleven performing and one default) grouped below by risk category.

Due from banks	Internal rating classes								Unrated	Total
	AAA	AA	A	BBB	BB	B	CCC	Default		
A. Financial assets at amortised cost	**-**	**83,139**	**1,394,882**	**343,171**	**399,493**	**16,366**	**-**	**317**	**8,338,523**	**10,575,891**
- Stage 1	-	83,139	1,356,640	338,179	399,272	16,366	-	-	8,312,809	10,506,405
- Stage 2	-	-	38,242	4,992	221	-	-	-	25,714	69,169
- Stage 3	-	-	-	-	-	-	-	317	-	317
B. Financial assets at fair value through other comprehensive income	**9,142**	**38,734**	**472,576**	**172,826**	**607,556**	**-**	**-**	**-**	**636,012**	**1,936,846**
- Stage 1	-	38,734	443,819	152,165	542,457	-	-	-	636,012	1,813,187
- Stage 2	9,142	-	28,757	20,661	65,099	-	-	-	-	123,659
- Stage 3	-	-	-	-	-	-	-	-	-	-
C. Financial assets held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Stage 1	-	-	-	-	-	-	-	-	-	-
- Stage 2	-	-	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-	-	-
Total (A + B + C)	**9,142**	**121,873**	**1,867,458**	**515,997**	**1,007,049**	**16,366**	**-**	**317**	**8,974,535**	**12,512,737**
of which: originated or acquired impaired financial assets	-	-	-	-	-	-	-	-	-	-
D. Commitments to disburse funds and financial guarantees given										
- Stage 1	2,431	177,862	651,209	345,400	296,065	9,784	-	-	264,025	1,746,776
- Stage 2	-	-	-	-	-	-	-	-	12,726	12,726
- Stage 3	-	-	-	-	-	-	-	-	-	-
Total (D)	**2,431**	**177,862**	**651,209**	**345,400**	**296,065**	**9,784**	**-**	**-**	**276,751**	**1,759,502**
Total (A + B + C + D)	**11,573**	**299,735**	**2,518,667**	**861,397**	**1,303,114**	**26,150**	**-**	**317**	**9,251,286**	**14,272,239**

Exposures to customers	Internal rating classes							Total
	LOW	MEDIUM-LOW	MEDIUM	MEDIUM-HIGH	HIGH	Default	Unrated	
A. Financial assets at amortised cost	**20,562,685**	**28,992,039**	**18,381,980**	**6,713,391**	**3,797,871**	**7,793,457**	**178,659**	**86,420,082**
- Stage 1	20,518,539	28,587,614	17,860,588	5,430,817	613,487	-	150,054	73,161,099
- Stage 2	44,146	404,425	521,392	1,282,574	3,184,334	-	28,605	5,465,476
- Stage 3	-	-	-	-	50	7,793,457	-	7,793,507
B. Financial assets at fair value through other comprehensive income	**41,753**	**-**	**48,855**	**-**	**-**	**-**	**-**	**90,608**
- Stage 1	41,753	-	48,855	-	-	-	-	90,608
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
C. Financial assets held for sale	**-**	**-**	**-**	**-**	**-**	**111,552**	**-**	**111,552**
- Stage 1	-	-	-	-	-	-	-	-
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	111,552	-	111,552
Total (A + B + C)	**20,604,438**	**28,992,039**	**18,430,835**	**6,713,391**	**3,797,871**	**7,905,009**	**178,659**	**86,622,242**
of which: originated or acquired impaired financial assets	-	-	-	-	-	849,967	-	849,967
D. Commitments to disburse funds and financial guarantees given								
- Stage 1	19,255,246	11,573,623	8,830,374	1,541,571	194,921	-	215,658	41,611,393
- Stage 2	21,737	15,625	153,000	212,896	335,382	-	1,898	740,538
- Stage 3	-	-	-	-	-	950,383	-	950,383
Total (D)	**19,276,983**	**11,589,248**	**8,983,374**	**1,754,467**	**530,303**	**950,383**	**217,556**	**43,302,314**
Total (A + B + C + D) by segment	**39,881,421**	**40,581,287**	**27,414,209**	**8,467,858**	**4,328,174**	**8,855,392**	**396,215**	**129,924,556**
Grand total	**-**	**-**	**-**	**-**	**-**	**2,558,106**	**54,359,857**	**56,917,963**
Total	**39,881,421**	**40,581,287**	**27,414,209**	**8,467,858**	**4,328,174**	**11,413,498**	**54,756,072**	**186,842,519**

Exposures	Internal rating classes							Total
	LOW	MEDIUM-LOW	MEDIUM	MEDIUM-HIGH	HIGH	Default	Unrated	
Large Corporate	9,135,881	4,738,643	3,583,265	352,093	102,388	630,587	-	18,542,857
Mid Corporate Plus	8,047,545	6,671,442	4,906,668	1,613,747	619,750	1,800,987	41,490	23,701,629
Mid Corporate	7,442,478	8,150,219	7,181,027	3,327,512	1,140,959	2,603,970	63,709	29,909,874
Small Businesses	7,175,459	5,733,346	7,848,707	2,395,975	1,276,376	2,945,558	291,016	27,666,437
Private	8,080,058	15,287,637	3,894,542	778,531	1,188,701	874,290	-	30,103,759
Total Exposures by segment	**39,881,421**	**40,581,287**	**27,414,209**	**8,467,858**	**4,328,174**	**8,855,392**	**396,215**	**129,924,556**

A.3 Distribution of secured credit exposures by type of guarantee

A.3.1 Prudential consolidation - On-balance sheet and off-balance sheet secured credit exposures to banks

	Gross exposure	Net exposure	Collateral (1)				Personal guarantees (2)									Total (1)+(2)
							Credit derivatives					Unsecured loans				
								Other derivatives								
			Real estate - Mortgages	Real estate - Finance leases	Securities	Other collateral	CLN	Central counterparties	Banks	Other financial companies	Other entities	Public Administrations	Banks	Other financial companies	Other entities	
1. Secured on-balance-sheet credit exposures:	**1,650,885**	**1,650,823**	**-**	**1,688**	**1,623,528**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**18,562**	**1,643,778**
1.1. fully secured	1,649,958	1,649,899	-	1,688	1,623,528	-	-	-	-	-	-	-	-	-	18,293	1,643,509
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2. partially secured	927	924	-	-	-	-	-	-	-	-	-	-	-	-	269	269
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Secured off-balance sheet credit exposures:	**193,603**	**193,573**	**-**	**-**	**1,268**	**116,100**	**-**	**-**	**-**	**-**	**-**	**3,549**	**-**	**3,385**	**24,941**	**149,243**
2.1. fully secured	106,350	106,341	-	-	1,268	85,740	-	-	-	-	-	790	-	3,152	15,390	106,340
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2. partially secured	87,253	87,232	-	-	-	30,360	-	-	-	-	-	2,759	-	233	9,551	42,903
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.3.2 Prudential consolidation - On-balance sheet and off-balance sheet secured credit exposures to customers

	Gross exposure	Net exposure	Collateral (1)				Personal guarantees (2)									Total
							Credit derivatives					Unsecured loans				
								Other derivatives								
			Real estate - Mortgages	Real estate - Finance leases	Securities	Other collateral	CLN	Central counterparties	Banks	Other financial companies	Other entities	Public Administrations	Banks	Other financial companies	Other entities	(1)+(2)
1. Secured on-balance-sheet credit exposures:	**74,102,029**	**70,838,505**	**42,647,076**	**1,431,013**	**7,101,697**	**1,837,979**	**-**	**-**	**-**	**-**	**-**	**4,499,128**	**135,816**	**423,346**	**9,444,818**	**67,520,873**
1.1. fully secured	69,972,137	66,992,743	42,630,230	1,431,013	6,958,599	1,737,835	-	-	-	-	-	3,548,950	33,697	382,945	9,064,619	65,787,888
- of which non-performing	7,306,925	4,566,886	3,012,786	527,148	37,513	268,598	-	-	-	-	-	53,943	995	50,152	399,821	4,350,956
1.2. partially secured	4,129,892	3,845,762	16,846	-	143,098	100,144	-	-	-	-	-	950,178	102,119	40,401	380,199	1,732,985
- of which non-performing	456,186	186,328	11,078	-	12,077	2,078	-	-	-	-	-	21,721	1,946	12,076	59,407	120,383
2. Secured off-balance sheet credit exposures:	**12,760,415**	**12,731,123**	**1,629,804**	**211**	**2,448,442**	**719,053**	**-**	**-**	**-**	**-**	**-**	**313,817**	**72,578**	**387,034**	**6,083,323**	**11,654,262**
2.1. fully secured	10,923,627	10,897,696	1,595,714	211	2,332,751	517,725	-	-	-	-	-	237,412	58,862	368,701	5,471,736	10,583,112
- of which non-performing	182,931	166,275	25,226	-	2,349	4,005	-	-	-	-	-	15,985	-	5,211	110,668	163,444
2.2. partially secured	1,836,788	1,833,427	34,090	-	115,691	201,328	-	-	-	-	-	76,405	13,716	18,333	611,587	1,071,150
- of which non-performing	83,487	81,896	2	-	2,568	300	-	-	-	-	-	4,364	57	458	32,376	40,125

A.4 Prudential consolidation - Financial and non-financial assets obtained through the enforcement of guarantees received

	Derecognised credit exposure	Gross value	Total value adjustments	Book value	
					of which obtained during the year
A. Property, plant and equipment	**982,384**	**1,081,211**	**(344,474)**	**736,737**	**29,294**
A.1. Used in operations	-	-	-	-	-
A.2. For investment purposes	982,384	1,081,211	(344,474)	736,737	29,294
A.3. Inventories	-	-	-	-	-
B. Equity instruments and debt securities	**15,554**	**15,554**	**(5,298)**	**10,256**	**-**
C. Other assets	**-**	**-**	**-**	**-**	**-**
D. Non-current assets and asset disposal groups held for sale	**151**	**245**	**(25)**	**220**	**220**
D.1. Property, plant and equipment	151	245	(25)	220	220
D.2. Other assets	-	-	-	-	-
Total 31/12/2019	**998,089**	**1,097,010**	**(349,797)**	**747,213**	**29,514**
Total 31/12/2018	**1,054,731**	**1,145,230**	**(239,128)**	**906,102**	**196,899**

B. Breakdown and concentration of exposures

B.1 Prudential consolidation - Breakdown by sector of on- and off-balance credit sheet exposures to customers

Exposures/Counterparties	Public Administrations		Financial companies		Financial companies (of which: insurance companies)		Non-financial companies		Households	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. On-balance sheet credit exposures										
A.1 Bad loans	109	(330)	19,320	(49,273)	-	-	1,351,262	(1,944,290)	283,080	(235,942)
- of which: forborne exposures	-	-	1,759	(3,180)	-	-	384,211	(406,917)	78,448	(38,947)
A.2 Unlikely to pay	3,231	(1,713)	122,043	(239,901)	-	-	3,296,692	(2,382,443)	618,420	(125,303)
- of which: forborne exposures	-	-	58,207	(145,140)	-	-	2,128,514	(1,294,329)	319,170	(49,061)
A.3 Non-performing past-due exposures	2	(1)	2,368	(51)	-	-	45,616	(19,526)	25,084	(5,920)
- of which: forborne exposures	-	-	-	-	-	-	10,086	(3,540)	5,206	(1,252)
A.4 Performing exposures	28,289,216	(8,635)	18,102,255	(16,173)	220,713	(176)	51,632,271	(233,772)	31,204,944	(76,720)
- of which: forborne exposures	1,031	(1)	42,708	(1,853)	-	-	1,409,772	(57,045)	562,551	(14,578)
Total (A)	**28,292,558**	**(10,679)**	**18,245,986**	**(305,398)**	**220,713**	**(176)**	**56,325,841**	**(4,580,031)**	**32,131,528**	**(443,885)**
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	12,981	(12)	53,238	(416)	-	-	1,222,156	(77,091)	38,423	(2,591)
B.2 Performing exposures	7,524,424	(525)	5,283,387	(5,542)	151,288	(21)	45,195,377	(24,559)	5,558,487	(4,792)
Total (B)	**7,537,405**	**(537)**	**5,336,625**	**(5,958)**	**151,288**	**(21)**	**46,417,533**	**(101,650)**	**5,596,910**	**(7,383)**
Total (A+B) 31/12/2019	**35,829,963**	**(11,216)**	**23,582,611**	**(311,356)**	**372,001**	**(197)**	**102,743,374**	**(4,681,681)**	**37,728,438**	**(451,268)**
Total (A+B) 31/12/2018	**33,995,562**	**(13,638)**	**20,973,175**	**(395,339)**	**452,283**	**(383)**	**101,276,064**	**(8,631,808)**	**36,773,737**	**(1,575,933)**

B.2 Prudential consolidation - Breakdown by geographic area of on- and off-balance sheet credit exposures to customers

Exposures/Geographic areas	Italy		Other European countries		America		Asia		Rest of the world	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. On-balance sheet credit exposures										
A.1 Bad loans	1,644,154	(2,215,527)	8,346	(13,053)	543	(93)	487	(967)	241	(195)
A.2 Unlikely to pay	4,025,726	(2,690,945)	9,305	(27,510)	-	-	5,355	(30,905)	-	-
A.3 Non-performing past-due exposures	73,047	(25,495)	22	(3)	1	-	-	-	-	-
A.4 Performing exposures	115,469,597	(332,792)	9,807,294	(1,531)	3,684,940	(790)	244,663	(180)	22,192	(7)
Total (A)	**121,212,524**	**(5,264,759)**	**9,824,967**	**(42,097)**	**3,685,484**	**(883)**	**250,505**	**(32,052)**	**22,433**	**(202)**
B. Off-balance sheet credit exposures	-	-	-	-	-	-	-	-	-	-
B.1 Non-performing exposures	1,325,748	(80,110)	1,017	-	4	-	-	-	29	-
B.2 Performing exposures	59,877,208	(35,294)	3,351,290	(95)	66,742	(16)	54,556	(13)	211,879	-
Total (B)	**61,202,956**	**(115,404)**	**3,352,307**	**(95)**	**66,746**	**(16)**	**54,556**	**(13)**	**211,908**	**-**
Total (A+B) 31/12/2019	**182,415,480**	**(5,380,163)**	**13,177,274**	**(42,192)**	**3,752,230**	**(899)**	**305,061**	**(32,065)**	**234,341**	**(202)**
Total (A+B) 31/12/2018	**175,763,041**	**(10,538,590)**	**11,731,934**	**(49,482)**	**5,092,832**	**(7,896)**	**180,464**	**(20,528)**	**250,267**	**(222)**

In greater detail the exposures of Italy are broken down by geographic area as shown in the following table:

Exposures/Geographic areas	North West Italy		North East Italy		Central Italy		South Italy and Islands	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. On-balance sheet credit exposures								
A.1 Bad loans	715,366	(934,858)	271,867	(409,067)	460,959	(599,886)	195,962	(271,716)
A.2 Unlikely to pay	2,100,483	(1,335,457)	828,246	(620,764)	821,044	(630,024)	275,953	(104,700)
A.3 Non-performing past-due exposures	29,227	(11,300)	17,247	(4,643)	14,711	(5,969)	11,862	(3,583)
A.4 Performing exposures	48,715,483	(180,295)	21,675,989	(57,524)	39,729,229	(72,389)	5,348,896	(22,584)
Total (A)	**51,560,559**	**(2,461,910)**	**22,793,349**	**(1,091,998)**	**41,025,943**	**(1,308,268)**	**5,832,673**	**(402,583)**
B. Off-balance sheet credit exposures								
B.1 Non-performing exposures	499,854	(43,766)	407,043	(21,790)	375,483	(11,313)	43,368	(3,241)
B.2 Performing exposures	28,251,016	(22,313)	14,335,019	(4,515)	15,132,326	(7,648)	2,158,847	(818)
Total (B)	28,750,870	(66,079)	14,742,062	(26,305)	15,507,809	(18,961)	2,202,215	(4,059)
Total (A+B) 31/12/2019	**80,311,429**	**(2,527,989)**	**37,535,411**	**(1,118,303)**	**56,533,752**	**(1,327,229)**	**8,034,888**	**(406,642)**
Total (A+B) 31/12/2018	**78,665,290**	**(5,446,955)**	**37,339,159**	**(2,082,241)**	**51,976,811**	**(2,065,764)**	**7,781,781**	**(943,630)**

B.3 Prudential consolidation - Breakdown by geographic area of on- and off-balance sheet credit exposures to banks

Exposures/Geographic areas	Italy		Other European countries		America		Asia		Rest of the world	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. On-balance sheet credit exposures										
A.1 Bad loans	-	-	63	(254)	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Non-performing past-due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	10,382,152	(2,062)	2,784,901	(1,314)	168,664	(34)	49,894	(80)	42,700	(76)
Total (A)	**10,382,152**	**(2,062)**	**2,784,964**	**(1,568)**	**168,664**	**(34)**	**49,894**	**(80)**	**42,700**	**(76)**
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	750,912	(124)	818,087	(133)	129,206	(39)	548,648	(87)	232,858	(175)
Total (B)	**750,912**	**(124)**	**818,087**	**(133)**	**129,206**	**(39)**	**548,648**	**(87)**	**232,858**	**(175)**
Total (A+B) 31/12/2019	**11,133,064**	**(2,186)**	**3,603,051**	**(1,701)**	**297,870**	**(73)**	**598,542**	**(167)**	**275,558**	**(251)**
Total (A+B) 31/12/2018	**5,466,116**	**(20,694)**	**3,524,806**	**(2,505)**	**465,093**	**(270)**	**700,103**	**(230)**	**375,673**	**(317)**

B.4 Large exposures

From 1 January 2014, the new harmonised regulations for banks and investment companies contained in (EU) Regulation no. 575/2013 ("CRR") and in Directive no. 2013/36/EU ("CRD IV") dated 26 June 2013 came into force. These transpose the standards defined by the Basel Committee for banking supervision (so-called Basel 3 framework) to the European Union.
This item shows the amount (non-weighted and weighted values) and the number of the "risk positions" that represent a "large exposure" according to the provisions of Chapter 5 (art. 13) of Implementing Regulation (EU) no. 680/2014, laying down implementing technical standards with regard to supervisory reporting of institutions.
The provisions of Part Two – Chapter 10 of Circular 285 issued by the Bank of Italy are also applied.
An entity's exposure to a customer or a group of related customers is considered a large exposure if the value is equal to or more than 10% of the entity's eligible capital ("CRR", art. 392).
Taking into account the effect of the exemptions and the credit risk mitigation, large exposures must, in any case, respect the limit of 25% of the entity's eligible capital.
As at 31 December 2019 the eligible capital coincides with the amount of Own Funds.
With the same effective date, the reporting of Large Exposures was produced, applying the EBA Guidelines (EBA-GL-2017-15) on connected clients, limited to the alternative approach to central governments.
On the basis of the new provisions, at said date there were 29 risk positions classified as "large exposures" for a total (non-weighed) amount of 375,694 million euro corresponding to a weighted exposure of 14,461 million euro.
For a like-for-like comparison, it is noted that if said Guidelines had been applied, 17 risk positions would have been reported as Large Exposures for a total ("unweighted") amount of 85,365 million euro, equal to a weighted exposure of 8,284 million euro.
The main groups identified as "large exposures" are:

- the Ministry of Economy and Finance for 18,513 million euro (410.3 million considering the weight factors and the exemptions pursuant to art. 400 of the CRR), mainly consisting of the government bonds in the portfolio;
- London Stock Exchange Group Plc for 25,990 million euro (27.3 million considering the weight factors and the exemptions pursuant to art. 400 of the CRR), mainly consisting of repurchase agreements with Cassa Compensazione e Garanzia;
- four central governments of foreign countries for a total of 12,188 million euro (0 million considering the weight factors and the exemptions pursuant to art. 400 of the CRR), consisting exclusively of the government bonds in the portfolio;
- the Tax Authority for 22,940 million euro (340 million considering the weight factors and the exemptions pursuant to art. 400 of the CRR), mainly consisting of the items relative to taxation.
- at the end of 2019 the set of underlying exposures transferred and derecognised through the last two securitisation transactions ("Red Sea" and "Leviticus") in application of regulation (EU) no. 1187/2014 for determining the overall exposure to a client or a group of connected clients in respect of transactions with underlying assets was also reported as a "large exposure.

The remaining 21 position are those of leading banking, financial and industrial groups, both national and foreign.
Each of the positions reported respects the limit of 25% of the admissible capital.

	31/12/2019 with the Guidelines	**31/12/2019 without the Guidelines**	**31/12/2018**
a) Amount (book value) (*)	375,693,660	85,365,364	70,569,418
b) Amount (weighted value) (*)	14,461,328	8,284,353	8,650,450
c) Number	29	17	19

(*) figures in thousands of euro

C. Securitisation transactions

Traditional securitisations

This section illustrates the Group’s exposure in terms of securitisations, both those in which the Group acts as the Originator of the receivables, and those in which the Group acts as an investor.

In that regard, it must be stated that the structuring of the securitisation transactions originated by the Group and its issues of covered bonds is overseen by a dedicated organisational structure that is part of the Finance function of the Parent Company. The collateralised portfolios of the transactions performed are constantly monitored by way of monthly and quarterly reports detailing the performance of principal and interest collections and the status of receivables.

During 2019 the Group continued finalising its own securitisation transactions through the *en bloc* sale of bad loans for the purpose of implementing derisking actions. In particular, the securitisation transactions finalised during 2019 and 2018 entailed:

- the subscription of senior securities issued by the SPE and the sale to third parties of the Mezzanine and Junior tranches, in compliance with the requirements of prudential regulations. In relation to such holding, the assigned receivables were derecognised from the financial statements, since the risks and rewards of the financial assets sold were substantially transferred;
- the state guarantee for senior securities was obtained (the Guarantee for Securitisation of Bad Loans - GACS pursuant to Decree no. 18 of 14 February 2016 converted into Italian Law no. 49 of 8 April 2016 and the subsequent Decree of the Ministry of the Economy and Finance of 3 August 2016).

With regard to the third party securitisations, detailed in table C.2 below, the book value amounted to 45.5 million euro. That exposure represents the Group's only involvement in structured credit securities issued within the sphere of transactions originated by companies external to the Group (in percentage terms equal to about 0.3% of the Group’s total investment in debt securities).

Lastly, note that the disclosure on “self-securitisation” transactions is contained in Part E - Section 2 - Risks of prudential consolidation “1.4 - Liquidity risk”. In these transactions, the Group fully subscribed the securities issued by the SPE, with the objective of using them to obtain liquidity, through monetary policy transactions with the Eurosystem or through repurchase agreements with market counterparties.

QUALITATIVE INFORMATION

The following table shows securitisation transactions in place as at 31 December 2019, as well as self-securitisation transactions derecognised from the financial statements as illustrated in more detail in the notes below the table.

SPE	Originator	Securities issue date	Transaction	Type of securitisation
Securitisations not derecognised from the financial statements				
BP Mortgages S.r.l.	Banco BPM	June 2007	BP Mortgages 2	Performing residential mortgage loans
BP Mortgages S.r.l.	Banco BPM	March 2007	BP Mortgages 1	Performing residential mortgage loans
Italfinance Securitization Vehicle S.r.l	Banco BPM	December 2005	ITA 8	Performing leases
Securitisations fully derecognised from the financial statements				
Italfinance Securitization Vehicle S.r.l	Banco BPM	December 2005	ITA 8	Performing leases
Red Sea SPV S.r.l.	Banco BPM	June 2018	Exodus project	Bad loans
Leviticus SPV S.r.l.	Banco BPM	February 2019	Ace project	Bad loans
Self-securitisation transactions derecognised from the financial statements				
Italfinance Securitization Vehicle 2 S.r.l	Banco BPM	January 2009	ITA 11	Performing leases

The securitisation transactions that are "fully derecognised" comprise:

- the "ITA 8" transactions relative to the former Italease banking group for which derecognition regarded the part of the loans of the banking sub-portfolio pursuant to a specific agreement stipulated in 2009 with Alba Leasing, which in practice provided for the transfer of the risks and benefits only of the banking sub-portfolio. Therefore in the above table the "ITA 8" securitisation transaction appears under both the "Securitisations fully derecognised from the financial statements", for the part of the loans of the non-banking sub-portfolio of which the Group maintains the risks and rewards, and under the "Securitisations fully derecognised from the financial statements", for the part of the loans of the banking sub-portfolio. Said derecognition was also carried out for the only self-securitisation transaction in force at 31 December 2019, entitled "ITA 11". Details of the afore-mentioned agreement with Alba Leasing are given in the successive paragraph "Agreement on securitised loans between Banca Italease and Alba Leasing";
- the transactions "Red Sea SPV" and "Leviticus SPV", for which Banco BPM Group substantially transferred the risks and rewards of the assets transferred to the SPEs, as it sold 95% of the junior tranche and 95% of the mezzanine tranche on the market.

The new transactions not completed during the period and those closed are illustrated below.

New transactions of the period

Leviticus SPV S.r.l (Ace project)

During the first quarter of 2019, the ACE Project was completed. This was aimed at derisking a portfolio of bad loans, carried out by transferring the loans to the SPE Leviticus S.r.l., through a securitisation transaction established pursuant to Law 130/99 and backed by a State guarantee on the senior securities, in accordance with Decree Law 18/2016 (so-called GACS), granted by the Ministry of Economy and Finance on 5 March 2019.

In particular, the transaction was launched in December 2018, through the sale of a portfolio of loans classified as bad loans according to the law on securitisation (Law No. 130/1999), to Leviticus SPV S.r.l. At the date of the sale the gross value of the portfolio sold amounted to about 6 billion euro net of write-offs for about 1.1 billion euro. (The nominal value gross of write-offs was 7.4 billion euro at 30 June 2018, the contractually established date of effect of the sale).

The transaction was finalised on 6 February 2019 through the issue by Leviticus SPV S.r.l. of the following classes of securities, fully subscribed by Banco BPM:

- Senior securities for 1,440.0 million euro, for which the guarantee from the Italian State was obtained in accordance with Decree Law 18/2016 ("GACS");
- Mezzanine securities for 221.5 million euro;
- Junior securities for 248.8 million euro.

On 26 March 2019, the sale to third parties of 95% of the Mezzanine tranches and 95% of the Junior tranches was completed. Specifically, these were shares that support the first loss and benefit from the excess spread of the transaction, if any. In compliance with the retention rule set out in the supervisory regulations, Banco BPM retained ownership of 5% of those securities. Banco BPM also retained ownership of 100% of the senior securities.
The finalisation of this sale resulted in the significant transfer of the risks and rewards of the loans sold, which were, therefore, derecognised from the financial statements, based on the regulations set out in the accounting standard IFRS 9.

The situation at the date of the subscription and at 31 December 2019, of the securities subscribed by the Parent Company is summed up below:

Type	Type	Nominal issue value	Nominal share subscribed by Banco BPM	Initial recognition value	Value at 31/12/2019 (*)	Maturity	Rating	Interest rate
Class A Asset Backed Floating Rate Notes due July 2040	Senior	1,440,033	1,440,033	1,440,033	1,247,098	31/07/2040	DBRS BBB Scope: BBB	6M Euribor +0.6%
Class B Asset Backed Floating Rate Notes due July 2040	Mezzanine	221,544	11,078	4,103	4,480	31/07/2040	Unrated	6M Euribor +8%
Class J Asset Backed Variable Return Notes due July 2040	Junior	248,848	12,443			31/07/2040	Unrated	n.a.
Total		**1,910,425**	**1,463,554**	**1,444,136**	**1,251,578**			

(*) The change in Senior securities is mainly due to the redemptions in the period (equal to 193.1 million euro).

For further details on the transaction and its accounting treatment, refer to the paragraph entitled "Other significant aspects relating to Group accounting policies" contained in Part A - "Accounting Policies" of these Notes.

Transactions closed during the year

BPM Securitisation 2 S.r.l.

In April 2019, with the signing of the relative contracts, the securitisation transaction realised through the SPE BPM Securitisation 2 S.r.l. was closed. In particular, on 3 April 2019 Banco BPM repurchased the entire residual portfolio of loans underlying said transaction and, on 15 April 2019, the SPE made the early repayment of the outstanding securities. On 16 April 2019, with the signing of the Termination Agreement, all the contracts signed and accounts opened within the context of the transaction were closed.
Following the closing of the securitisation transaction, the Shareholders' Meeting (i) approved, on 4 June 2019, the early dissolution and liquidation of the SPE, with effect as of 19 July 2019, and (ii) approved, 22 November 2019, the final liquidation financial statements as at 20 November 2019 together with the relative distribution plan. The Company was removed from the Companies' Register on 22 January 2020.

Tiepolo Finance

Following the closing of the securitisation transaction realised through the SPE Tiepolo Finance S.r.l., during the previous year, the Shareholders' Meeting (i) approved, on 19 March 2019, the early dissolution and liquidation of the SPE, with effect as of 1 April 2019, and (ii) approved, 17 June 2019, the final liquidation financial statements as at 31 May 2019 together with the relative distribution plan. The Company was removed from the Companies' Register on 5 July 2019.

Erice Finance S.r.l.(ITABEI)

Following the closing of the securitisation transaction Erice Finance S.r.l. (ITABEI) during the previous year, the Shareholders' Meeting (i) approved, on 29 July 2019, the early dissolution and liquidation of the Company, with effect as of 2 August 2019, and (ii) approved, 13 December 2019, the final liquidation financial statements as at 11 December 2019.

Leasimpresa Finance S.r.l. (LSMP2)

During 2019, the liquidation of the Company was completed, and on 20 December 2019, the Shareholders' Meeting approved the final liquidation financial statements as at 15 November 2019, together with the relative distribution plan.

Existing and significant securitisation transactions during 2019

BP Mortgages 2 (June 2007)

On 22 June 2007, Banca Popolare di Novara and Credito Bergamasco, both now Banco BPM sold landed residential mortgage loans and residential mortgage loans backed by a voluntary mortgage on the property to the SPE BP Mortgages S.r.l. The portfolio sold amounted to 1,610 million euro; on 29 June 2007, the SPE issued four classes of rated securities that were placed with institutional investors and two classes of unrated junior securities subscribed by the Originators; all of the classes of securities were listed on the "Irish Stock Exchange".
The Originator Banks, now only Banco BPM, acted as Servicers and managed the loan collection.

Loans portfolio

Bank	Value 31/12/2019	Value 31/12/2018
Banco BPM	250,883	287,338

The amounts indicated represent performing, unlikely to pay, non-performing past due and bad loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.

Issue characteristics

Class	Type	Issue value	Value as at 31/12/2019	Interest rate	Maturity	Rating Moody's/S&P/ Fitch (4)
A1	Senior	147,300	-	3-month Euribor + 0.07%		
A2	Senior (1)	1,382,000	114,846	3-month Euribor + 0.13%	July 2044	Aa3/AA/AA
B	Mezzanine	28,200	28,200	3-month Euribor + 0.25%	July 2044	Aa3/AA/AA
C	Mezzanine (1)	36,200	36,200	3-month Euribor + 0.66%	July 2044	Aa3/AA/AA
M1	Junior (2)	8,639	8,639	3-month Euribor + 2% + Additional return	July 2044	unrated
M2	Junior (3)	7,479	7,479	3-month Euribor + 2% + Additional return	July 2044	unrated
Total		**1,609,818**	**195,364**			

(1) Following their placement on the market, Banco BPM (former Banco Popolare) purchased Senior securities amounting to a nominal value of 685.8 million euro and mezzanine securities for a nominal value of 11.4 million euro.
(2) The class M1 junior security was subscribed by the former Banca Popolare di Novara, now Banco BPM.
(3) The M2 class junior security was subscribed to by the former Credito Bergamasco, now Banco BPM.
(4) Rating as at 31 December 2019.

Significant events during 2019

In August 2019, following an increase in the Credit Enhancement of the transaction and an improvement in the credit risk, the agency Standard & Poor's upgraded the rating of the Class A2 Securities from "AA-" to "AA" and the rating of Class B and Class C Securities from "A+" to "AA".

Accessory financial transactions

To immunise the interest rate risk to which the SPE is exposed owing to the mismatch between the securitised mortgage rates and the yield of the issued bonds, the Originator Banks, now Banco BPM, a market counterparty and the SPE entered into an interest rate swap agreement with Banca Akros as intermediary.

Contractual agreements with an obligation to provide financial support to the SPE (IFRS 12, par. 14)

In June 2012, following the loss of the minimum rating needed for the issue of the guarantee relating to the agreement called "First Demand Guarantee", Banco BPM, the former Banco Popolare, set up a collateral account, segregated with respect to the Company's separate equity, the amount of which is reviewed annually on the Interest Payment Date in July, to take into account the amortisation of the portfolio assigned. As at 31 December 2019, the amount of collateral paid in was 9.95 million euro.

Financial support provided to the entity (IFRS 12, par. 15)

During the year no financial support other than that envisaged under the agreement was given.

BP Mortgages 1 (March 2007)

On 16 March 2007, in its capacity as Originator Bank, Banca Popolare di Verona, now Banco BPM, sold mortgage and land loans amounting to 1,476 million euro to the SPE BP Mortgages S.r.l. On 11 April 2007, the SPE issued four classes of rated securities, placed with institutional investors, and one class of unrated junior securities subscribed to by the Originator Bank; all classes of securities are listed on the Luxembourg Stock Exchange. As part of the transaction, the Originator Bank, now Banco BPM, had the role of Servicer to manage the collection of the loans.

Loans portfolio

Bank	Value 31/12/2019	Value 31/12/2018
Banco BPM	131,954	162,114

The amounts indicated represent performing, unlikely to pay, non-performing past due and bad loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.

Issue characteristics

Class	Type	Issue value	Value 31/12/2019	Interest rate	Maturity	Rating Moody's/S&P/ Fitch (3)
A1	Senior	202,700	-	3-month Euribor + 0.06%		
A2	Senior (1)	1,172,650	34,977	3-month Euribor + 0.13%	April 2043	Aa3/AA/AA
B	Mezzanine (1)	25,300	25,300	3-month Euribor + 0.19%	April 2043	Aa3/AA/AA
C	Mezzanine (1)	32,600	32,600	3-month Euribor + 0.48%	April 2043	Aa3/AA/AA
M	Junior (2)	14,500	14,500	3-month Euribor + 2.5% plus Additional return	April 2043	unrated
Total		**1,447,750**	**107,377**			

(1) Following their placement on the market, Banco BPM (former Banco Popolare) purchased Senior notes amounting to a nominal value of 429.6 million euro and mezzanine notes for 8.3 million euro.
(2) The junior securities were subscribed to by the former Banca Popolare di Verona, now Banco BPM.
(3) Rating as at 31 December 2019.

Significant events during 2019
In August 2019, following an increase in the Credit Enhancement of the transaction and an improvement in the credit risk, the agency Standard & Poor's upgraded the rating of the Class A2 and Class B Securities from "A+" to "AA" and the rating of Class C Securities from "BBB+" to "AA".

Accessory financial transactions
To immunise the interest rate risk to which the SPE is exposed owing to the mismatch between the securitised mortgage rates and the yields of the issued bonds, the Originator Banks, a market counterparty and the SPE entered into an Interest Rate Swap agreement, with Banca Akros as intermediary.

Contractual agreements with an obligation to provide financial support to the SPE (IFRS 12, par. 14)
In June 2012, following the loss of the minimum rating needed for the issue of the guarantee relating to the agreement called "First Demand Guarantee", Banco BPM, the former Banco Popolare, set up a collateral account, segregated with respect to the Company's separate equity, the amount of which is reviewed annually on the Interest Payment Date in July, to take into account the amortisation of the portfolio assigned. As at 31 December 2019, the amount of collateral paid in was 7 million euro.

Financial support provided to the entity (IFRS 12, par. 15)
During the year no financial support other than that envisaged under the agreement was given.

Transactions relating to the former Banca Italease Group

The following paragraphs illustrate the financial support provided to transactions finalised by the former Italease Group and a description of the characteristics of the two transactions still in place.

Contractual agreements with an obligation to provide financial support to the SPE (IFRS 12, par. 14)

Agreement on securitised loans between Banca Italease and Alba Leasing (referred to as "Agreement on securitised loans")

On 24 December 2009, Alba Leasing and the former Banca Italease signed an agreement regarding the transfer to Alba Leasing of securitised loans originating from the banking channel.

The Agreement on securitised loans was structured to enable Alba Leasing to enjoy the economic-financial effects that would have been generated if the portfolio of securitised loans originating from the banking channel in place as at 31 December 2009 had been transferred to Alba Leasing on 31 March 2009. In this regard, it is envisaged that the risks relating to any failure to repay the loans included in the securitisations, originating from the banking channel, are assumed by Alba Leasing and that, similarly, Alba Leasing received the cash flows relating to the junior notes of the securitisations and any further rights to receive subsequent amounts, until the junior notes are fully covered.

Alba Leasing, in turn, has undertaken to pay the former Banca Italease the principal and interest amounts due with relation to the instalments and/or payments or portions of loans originating from the banking channel which, after 31 December 2009, were in default, plus, where due, any expense, cost and/or amount envisaged by the financial documentation of each securitisation with respect to the failure to pay - by the debtors on the relative contractual due dates - the instalments and/or payments or portions of loans originating from the banking channel. The former Banca Italease undertook an obligation vis-à-vis Alba Leasing to transfer these amounts to SPEs. The former Banca Italease undertook a similar obligation vis-à-vis Alba with regard to the loans in the non-banking sub-portfolio.

In execution of the above, Alba Leasing undertook to repay the principal amount of the junior notes relating to securitised loans originating from the banking channel to the former Banca Italease, after individual adjustments, in accordance with the rules and the priorities envisaged for each securitisation. The other payments that will be made by the SPEs to the former Banca Italease - related to the loans originating from the banking channel - will, as regards the portion related to the junior note and all other amounts subordinated to the same in the order of payments, pertain to Alba Leasing. With the exception of payments that will be made by the SPEs as remuneration for the junior notes, for the portion related to the securitised loans originating from the banking channel, all of the above refer to the period up to 31 March 2009.

Financial support provided to the entity (IFRS 12, par. 15)

During the year no financial support other than that envisaged under the agreement was given.

Description of transactions

ITA 8

In October 2005, Mercantile Leasing and Banca Italease (merged into Banco BPM) sold a portfolio of loans deriving from lease contracts to the SPE Italfinance Securitisation Vehicle S.r.l. for the amount of 1,128 million euro. On 7 December 2005, the SPE issued four classes of rated securities, listed on the Luxembourg Stock Exchange and placed with institutional investors, and one class of unrated junior securities subscribed by the Originator Bank. As part of the transaction, the Originator Banks (now Banco BPM) had the role of Servicer for management of the loans.

Loans portfolio

Bank	Value 31/12/2019	Value 31/12/2018
Banco BPM	1,162	9,914

The amounts indicated represent performing, unlikely to pay, non-performing past due and bad loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.

Significant events during 2019

In June 2019 the senior securities issued within the sphere of the transaction were fully redeemed. As at 31 December 2019, receivables of 1.2 million euro remained.

ITA 11

For information on the ITA 11 transaction, please refer to the content of the section entitled "Liquidity risk" in these Notes to the Financial Statements.

Synthetic securitisations

Synthetic securitisations envisage, through the contracting of collateral arrangements, the purchase of protection from the credit risk underlying a portfolio of loans, of which the Originator retains full ownership. Thus, the purpose of those transactions is to transfer the credit risk from the Originator to an external counterparty, without derecognising the assets, which are therefore kept in the Originator's financial statements.
The characteristics of these transactions allow regulatory and economic capital to be freed up due to the reduction in the level of risk of the underlying portfolio ("Significant Risk Transfer" pursuant to prudential regulations), thereby contributing to creating value by optimising the use of capital.
The reference regulations for those transactions is EU Regulation 575/2013 (Capital Requirements Regulation, "CRR"). Art. 245 of the CRR establishes the conditions at which the Significant Risk Transfer (SRT) criterion is met, i.e. the significant transfer of risk to third parties using collateral or personal guarantees as credit protection. Those conditions must be constantly monitored for the entire duration of the transaction.

European Investment Fund synthetic securitisation

In June 2019, Banco BPM concluded its first synthetic securitisation transaction with the European Investment Fund (EIF).
The portfolio securitised was composed of performing mortgages originated by Banco BPM to Corporate customers.
Based on the structure of the transaction, the portfolio is virtually divided into 3 tranches based on the degree of risk: Senior, Mezzanine and Junior, for an initial value of the portfolio of 1,656.6 million euro, broken down as follows:

- Senior 1,589.1 million euro
- Mezzanine 55.0 million euro
- Junior 12.5 million euro.

Specifically, the Junior and Senior portions are not secured in any way, while the Mezzanine portion is guaranteed by the European Investment Fund (EIF) and counterguaranteed by the European Investment Bank (EIB). In addition, 5% of the entire portfolio, equal to 59.5 million euro, is expected to be withheld to meet the requirement to retain a minimum economic interest.
In relation to that guarantee, the transaction envisages the provision by Banco BPM of 330 million euro in subsidised financing targeted to small and medium-sized enterprises and, for a total of 30% of the portfolio, to MidCaps (companies with a workforce of up to 2,999 employees) operating in various sectors (manufacturing, agriculture, tourism and services), which make investments in property, plant and equipment and intangible assets or to support working capital requirements.

As at 31 December 2019 Banco BPM granted the enterprises the entire amount of subsidised financing envisaged by the transaction (330 million euro), thereby completing the agreed disbursement plan. At the same date, the gross securitised portfolio amounted to 1,189.5 million euro and the net exposure of Banco BPM was 1,148.6 million euro, as illustrated in table C.1 below, in the item "Loans to businesses".

QUANTITATIVE INFORMATION

C.1 Prudential consolidation - Exposures deriving from the main "own" securitisation transactions broken down by type of securitised asset and by type of exposure

Type of securitised assets/Exposures	On-balance sheet exposures					
	Senior		Mezzanine		Junior	
	Book value	Losses/ Recoveries	Book value	Losses/ Recoveries	Book value	Losses/ Recoveries
A. Fully derecognised	**2,628,977**	**(1,924)**	**7,438**	**-**	**33,894**	**-**
Non-performing assets:						
A.1 Bad loans	2,628,977	(1,924)	7,438	-	-	-
Performing assets:						
A.2 Leases	-	-	-	-	33,894	-
B. Partially derecognised						
C. Not derecognised	**1,161,983**	**(1,331)**	**51,679**	**-**	**158,757**	**(42)**
Performing assets:						
C.1 Residential mortgage loans	83,291	-	51,679	-	129,014	-
C.2 Leases	-	-	-	-	17,308	-
C.3 Loans to businesses (*)	1,078,692	(1,331)	-	-	12,435	(42)

(*) The sub-item "Loans to businesses" relates to the synthetic securitisation transaction. As at 31 December 2019 the value of the retention by Banco BPM came to 57.5 million euro.

The part of the table relative to the guarantees issued and the credit facilities is omitted inasmuch as there are none.

C.2 Prudential consolidation - Exposures deriving from the main "third party" securitisation transactions broken down by type of securitised asset and by type of exposure

Type of securitised assets/Exposures	On-balance sheet exposures					
	Senior		Mezzanine		Junior	
	Book value	Losses/ Recoveries	Book value	Losses/ Recoveries	Book value	Losses/ Recoveries
A.1 PHARMA FIN.SR3 TV 28	3,111	-	-	-	-	-
- other						
A.2 PHARMA FIN.SRL TV 28	-	-	883	-	-	-
- other						
A.3 PHARMA FIN.EUR TV 28	-	-	4,574	-	-	-
- other						
A.4 BNT PORT 14-42 TV	-	-	-	-	31,128	-
- agricultural and animal husbandry loans						
A.5 Multiseller 16-36 cl. A1 2%	108	-	-	-	-	-
- bad loans						
A.6 BERENICE 13-33 CL.B 6%	-	-	974	-	-	-
- bad loans						
A.7 ALBA 10 SPV	4,698	(78)	-	-	-	-
- other						

The part of the table relative to the guarantees issued and the credit facilities is omitted inasmuch as there are none.

Exposures deriving from third party securitisation transactions amounted to 45.5 million euro, of which 40.8 million euro is classified in the portfolio of "Financial assets at fair value through profit and loss c) other financial assets mandatorily at fair value", and the remaining 4.7 million euro in the portfolio of "Financial assets at fair value through other comprehensive income".
The exposure relative to "BNT Port 14-42 TV", classified under the "Financial assets at fair value through profit and loss c) other financial assets mandatorily at fair value" is referred to in the following paragraph.

C.3 Prudential consolidation - Shareholdings in securitisation SPEs

The SPEs in which the Banking Group companies have been involved in the structuring activity and in which a shareholding is held are illustrated below.
They are, in particular, SPEs created to finalise their own securitisation transactions, as described in "Part A – Accounting policies", "3. Scope of consolidation and methods", the separate capital is consolidated inasmuch as the Group holds contractual rights for the management of the entity's relevant assets and is exposed to the variable returns of the same, regardless of the voting rights.
In addition, the shareholding in the company "BNT Portfolio SPV" is worth mentioning. This is an SPE established in 2014 for the securitisation of agricultural loans of Banca della Nuova Terra, financed by the issue of a single tranche of securities for a nominal value of 397.8 million euro subscribed by the member banks of Banca della Nuova Terra, including the former Banco Popolare. Under the agreements entered into, the former Banco Popolare had subscribed the said security for a nominal value of 84.6 million euro. As at 31 December 2019, the fair value of the security, posted under the "Financial assets at fair value through profit and loss c) other financial assets mandatorily at fair value" came to 31.1 million euro net of collections.

The following table shows all the assets and liabilities of the separate capital of the SPE.

Securitisation name/ SPE company name	Register ed office	Consolidation	Assets			Liabilities		
			Loans	Debt securities	Other	Senior	Mezzanine	Junior
BNT Portfolio SPV S.r.l.	Milan	no	178,554	-	11,334	-	-	282,466
BP Mortgages mar 2007	Milan	accounting	131,996	-	33,278	34,977	57,904	14,560
BP Mortgages giu 2007	Milan	accounting	250,865	-	41,148	114,846	64,418	16,169
ITA 8 / Italease Securitisation vehicle	Treviso	Accounting (*)	4,493	-	-	-	-	-
ITA 11 / Italease Securitisation vehicle 2	Treviso	accounting	84,919	-	-	-	-	74,758

(**) The consolidation is relative only to the part of the receivables and securities for which the risks and rewards are considered, as specified in the preceding paragraph "Agreement on securitised loans between Banca Italease and Alba Leasing".

C.4 Prudential consolidation - SPE for non-consolidated securitisation

As at 31 December 2019 the non-consolidated SPEs were Red Sea SPV S.r.l., an SPE established for the transaction regarding the sale of bad loans called the "Exodus Project" finalised during 2018 and Leviticus SPV S.r.l. an SPE established for the transaction regarding the sale of a portfolio of bad loans called the "ACE Project", as illustrated above.

The table below shows the Group's assets and liabilities due to and from those SPEs, mainly attributable to the senior securities subscribed by the Group, classified in the portfolio of "Loans to customers".
In this regard, it is noted that the Company has no off-balance sheet exposures, non-revocable credit facilities or financial guarantees, therefore the maximum exposure to the risk of loss corresponds to the difference between the assets and liabilities held in respect of the SPE.

(thousands of euro)	**Red Sea SPV**	**Leviticus SPV**
Total assets	**1,318,933**	**1,318,371**
Other financial assets mandatorily at fair value	2,958	4,480
Loans to customers	1,315,087	1,313,891
Other assets	888	
Total liabilities	**11,657**	**-**
Due to customers	11,657	

(thousands of euro)	**Red Sea SPV**	**Leviticus SPV**
Interest margin	4,195	3,736

It is also specified that no financial support was provided during the year.

C.5 Prudential consolidation - Servicer activities – own securitisations: collections of securitised loans and redemptions of securities issued by the SPE for the securitisation

SPE	Securitised assets (end of period figure)		Collection of loans during the year		% of securities redeemed (end of period figure)					
					senior		mezzanine		junior	
	Non-performing	Performing	Non-performing	Performing	non-performing assets	performing assets	non-performing assets	performing assets	non-performing assets	performing assets
ITA 8 / Italease Securitisation vehicle	3,013	318	281	630		100.00%		100.00%		100.00%
ITA 11 / Italease Securitisation vehicle 2	9,342	20,891	1,454	6,640		100.00%				79.00%

In line with the provisions of Circular No. 262, the amounts in the above table relate to the servicer activity performed within the sphere of the Company's own securitisation transactions in which the assets sold were derecognised from the financial statements, and refer to the banking sub-portfolio (see the paragraph on "Agreement on securitised loans" above).

C.6 Prudential consolidation - SPEs for consolidated securitisation

Following the liquidation and resulting striking off of the competent companies register of the SPE Tiepolo Finance S.r.l., during 2019, there are no SPEs for securitisation that are part of the Banking Group.

D. Sale transactions

A. Financial assets sold and not fully derecognised

QUALITATIVE INFORMATION

At 31 December 2019, the following sale transactions did not involve the derecognition from the financial statements of the underlying financial assets:

- securitisation transactions of credit exposures to customers (383.9 million euro);
- repurchase agreements payable on treasury securities mainly classified in the portfolio of "Financial assets at fair value through other comprehensive income" and "Financial assets at amortised cost".

For repurchase agreements, the non-derecognition of the security of the repurchase agreement derives from the fact that the bank substantially holds the risks and rewards linked to the security, having the obligation of the forward repurchase at a contractually established price. Therefore the securities transferred continue to be represented in the relative accounting portfolio; the payment for the sale is posted under the "Liabilities at amortised cost a) due to banks or b) due to customers", according to the type of counterparty. To this regard, it must be noted that the following table does not include the repurchase agreements payable on securities not posted in the financial statements if its availability is consequent to reverse repurchase agreements (see the paragraph "Other information" in Part B of these Notes).

The securitisation transactions described in the preceding paragraph "C. Securitisation transactions" are not derecognised due to the Group's subscription of the tranches of junior securities or similar exposures which involve the first loss risk for the Group and, similarly, the reward linked to the yield of the portfolio of the transferred assets. The payment collected for the transfer is posted as a balancing entry of a payable due to the SPE, net of the tranches of the underlying securities subscribed or the use of forms of liquidity support for the SPE for the payment of the principal. The loan to the SPE, thus posted, will decrease by effect of the sums collected from the originator in its capacity as servicer and transferred to said SPE.
By effect of the consolidation of the equity of the SPE, this last liability is not posted in the consolidated financial statements. Otherwise, the liabilities will be posted under the securities issued by the SPE not subscribed by companies of the Group.

QUANTITATIVE INFORMATION

D.1 Prudential consolidation - Fully recognised financial assets sold and associated financial liabilities: book values

	Fully recognised financial assets sold				Associated financial liabilities		
	Book value	of which: subject to securitisation transactions	of which: subject to repurchase agreements	of which non-performing	Book value	of which: subject to securitisation transactions	of which: subject to repurchase agreements
A. Financial assets held for trading	**896,148**	**-**	**896,148**	**X**	**886,156**	**-**	**886,156**
1. Debt securities	390,629	-	390,629	X	390,715	-	390,715
2. Equity instruments	505,519	-	505,519	X	495,441	-	495,441
3. Loans	-	-	-	X	-	-	-
4. Derivatives	-	-	-	X	-	-	-
B. Other financial assets mandatorily at fair value	**5,252**	**5,252**	**-**	**393**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Equity instruments	-	-	-	X	-	-	-
3. Loans	5,252	5,252	-	393	-	-	-
C. Financial assets designated at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
D. Financial assets at fair value through other comprehensive income	**1,767,274**	**-**	**1,767,274**	**-**	**1,750,204**	**-**	**1,750,204**
1. Debt securities	1,767,274	-	1,767,274	-	1,750,204	-	1,750,204
2. Equity instruments	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
E. Financial assets at amortised cost	**10,267,180**	**378,640**	**9,888,540**	**36,291**	**9,738,141**	**134,065**	**9,604,076**
1. Debt securities	9,888,540	-	9,888,540	-	9,604,076	-	9,604,076
2. Loans	378,640	378,640	-	36,291	134,065	134,065	-
Total 31/12/2019	**12,935,854**	**383,892**	**12,551,962**	**36,684**	**12,374,501**	**134,065**	**12,240,436**
Total 31/12/2018	**14,620,342**	**628,393**	**13,717,801**	**55,003**	**13,757,874**	**232,628**	**13,242,013**

"Fully recognised financial assets sold" amounted to 1,133.7 million euro in book value underlying funding repurchase agreements of the Parent Company, shown in the table in "Associated financial liabilities" for 938.6 million euro, but are not represented in the Balance sheet liabilities as they are subject to offsetting pursuant to IAS 32.

D.2 Prudential consolidation - Partly recognised financial assets sold and associated financial liabilities: book values

At 31 December 2019 there were no partly recognised financial assets sold or associated financial liabilities.

D.3 Prudential consolidation - Sale transactions with liabilities with recourse only against the assets sold and not fully derecognised: fair value

This table shows the fair value of assets and related liabilities resulting exclusively from securitisation transactions, inasmuch as they are considered the only types existing for the Group in which the transferor, i.e. the SPE, has exclusive recourse against the transferred assets, being in fact the only cash flows available for the payment of the securities issued.

	Fully recognised	Partly recognised	Total	
			31/12/2019	31/12/2018
A. Financial assets held for trading	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-
2. Equity instruments	-	-	-	-
3. Loans	-	-	-	-
4. Derivatives	-	-	-	-
B. Other financial assets mandatorily at fair value	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-
2. Equity instruments	-	-	-	-
3. Loans	-	-	-	-
C. Financial assets designated at fair value	**5,252**	**-**	**5,252**	**6,040**
1. Debt securities	-	-	-	-
2. Loans	5,252	-	5,252	6,040
D. Financial assets at fair value through other comprehensive income	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-
2. Equity instruments	-	-	-	-
3. Loans	-	-	-	-
E. Financial assets at amortised cost (fair value)	**401,073**	**-**	**401,073**	**660,124**
1. Debt securities	-	-	-	-
2. Loans	401,073	-	401,073	660,124
Total financial assets	**406,325**	**-**	**406,325**	**666,164**
Total associated financial liabilities	**134,065**	**-**	**X**	**X**
Net value 31/12/2019	**272,260**	**-**	**406,325**	**X**
Net value 31/12/2018	**433,536**	**-**	**X**	**666,164**

B. Financial assets sold and fully derecognised with recognition of continuous involvement

The Group has none of this type at the reporting date.

D.3 Prudential consolidation - financial assets sold and fully derecognised

Based on that established by Bank of Italy Communication of 23 December 2019, this Section provides the qualitative and quantitative information relating to sales of multi-originator loan portfolios attributable to the scheme of assignment to a mutual fund with attribution of the related units to the assigning intermediaries. For the transactions carried out through the scheme of the sale of loans to a securitisation SPE pursuant to Law 130/99 and the concurrent subscription of ABS by the assigning intermediaries, refer to that illustrated in "C. Securitisation transactions", above.
In that regard, it is noted that during 2019, as in previous years, Banco BPM Group finalised several sales of multi-originator portfolios of non-performing loans, and, specifically, of loans classified as "unlikely to pay". More specifically, those transactions involved the sale of loans to mutual funds in exchange for units issued by the funds.

Accounting treatment

In accounting terms, pursuant to the accounting standard IFRS 9, the above sale transactions resulted in the derecognition of the loans sold, as the Group did not substantially retain the risks or rewards of the transferred assets, and also did not retain any substantial control over the assets, as the control was assumed by the fund management company (hereafter also asset management company). In particular, the risks and rewards that the Group may obtain from the units held in exchange for the loans are not anchored to the occurrence, amount or timing of the events that involve the loans sold, given that the economic and financial dynamics linked to the single loans will not automatically or directly influence the returns of individual unitholders (including Banco BPM) which, instead, will depend on the general performance of the fund managed by the asset management company. In that regard, it must be noted that, as these are multi-originator transactions, the loans contributed by the single participants may differ from those contributed by other participants and, where these concern the same debtor, may also change the percentage of exposure contributed by each participant.

In relation to said derecognition, the fund units obtained as a conversion from the sale were recognised in the accounting portfolio of "Financial assets mandatorily at fair value through profit and loss". The difference between these derecognised loans and the recognition value of the fund units was recognised in the income statement as an effect of the loans, based on the regulations set out in paragraph 3.2.12 of the accounting standard IFRS 9.

With regard to the need to consolidate the mutual funds subscribed - in line with that illustrated in "Part A – Accounting policies" with regard to the requirements of the accounting standard IFRS 10 for holding control over an entity - no funds were identified that required consolidation. Based on the powers assigned to the bodies establishing the fund (Board of Directors, Investors Committee, Investors' Meeting) and the majorities required to pass the related resolutions, no funds were identified in which the Group holds the power to manage significant activities.

Breakdown of units of mutual funds held as at 31 December 2019

As at 31 December 2019 the value of mutual funds in the financial statements deriving from the above transactions totalled 194.1 million euro, fully referring to the Parent Company. The table below provides the breakdown of funds held, indicating the fund management company, the first closing date and the subsequent contributions, as well as the investment policy followed by the fund.

Fund name	Book value as at 31/12/2019(*)	Asset Management Company	First closing date/subsequent contributions	Fund investment policy
IDeA Corporate Credit Recovery I	1,763	Dea Capital Alternative Funds SGR	23 June 2016 27 June 2017 4 July 2019	Past due loans, unlikely to pay or corresponding or similar categories of loans and/or loans subject to restructuring, due from target companies, participating financial instruments or shares issued by the above and, possibly, short-term loans deriving from self-liquidating credit lines granted to said target companies
IDeA Corporate Credit Recovery II	24,696	Dea Capital Alternative Funds SGR	28 December 2017 18 February 2019	Past due loans, unlikely to pay or corresponding or similar categories of loans and/or loans subject to restructuring, due from target companies, from participating financial instruments or shares issued by the above and, possibly, short-term loans deriving from self-liquidating credit lines granted to said target companies
IDeA Corporate Credit Recovery II – Shipping segment	105,552	Dea Capital Alternative Funds SGR	21 December 2018	Past due loans, unlikely to pay or corresponding or similar categories of loans and/or loans subject to restructuring, due from target companies operating in the field of shipping and maritime transport, without specific sector restrictions, from participating financial instruments or shares issued by the above and, possibly, short-term loans deriving from self-liquidating credit lines granted to said target companies
Clessidra Restructuring Fund	25,994	Clessidra SGR	25 September 2019	Past due loans, unlikely to pay, forborne performing and non-performing loans, performing high risk loans due from target companies, from participating financial instruments/shares/convertible bonds issued by said companies, loans disbursed in the form of debtor in possession financing transactions to support the target companies in restructuring the debt disbursed
Back2bonis	36,072	Prelios SGR	23 December 2019	Untranched asset backed securities issued as part of securitisation transactions carried out pursuant to Law 130/99, whose underlying is represented by loans mainly classifiable as "unlikely to pay", not due from consumer debtors, as well as loans disbursed to those debtors as part of debt restructuring transactions, recovery and/or turnaround and/or similar operations or as part of repossessions and similar actions on collateral

(*) Assets included in the financial statement item "20 c. Financial assets at fair value through profit and loss – other financial assets mandatorily at fair value"

In that regard, it is specified that the fund units held represent the Group's maximum exposure to risk. With regard to said transactions, there are no guarantees or irrevocable credit lines issued to the fund, nor are there commitments to subscribe additional units of the fund.

General objectives of the transactions carried out through the mutual fund scheme

In general, the business and strategic objective in this case is to assign the management of several exposures classified as high risk to specialist, independent operators (i.e. asset management companies), which, through changes in management, should enable more effective company turnaround than what the bank could achieve by continuing to manage its own exposure. The strategies pursued by the asset management company specifically focus on managerial leverage that is difficult for single banks to activate, such as, merely by way of example: converting the loans into equity, joining the management bodies of the companies to carry out effective operational turnaround, developing distressed M&A operations to safeguard the value of the companies through business partnerships, directly repossessing the property in the case of real estate operators and, lastly, third party investors contributing new financing to relaunch the companies.

In that view, the intervention of an asset management company enables the creation of suitable mechanisms to safeguard the rights of the contributing banks, through the powers assigned to specific investor committees. In addition, in order to align the interests of the asset management company with those of the contributing banks, the structure of fees to the asset management company generally entails management fees consistent with the net assets of the fund, as well as performance fees or a carried interest on the extra yield of the transaction.

Transactions carried out in 2019

The details of the two transactions that were finalised during the year are provided below, hereinafter identified as the "Clessidra transaction" and the "Cuvée transaction".

Clessidra Restructuring Fund (Clessidra Transaction)

Objectives and main characteristics of the fund

The Clessidra transaction was finalised on 25 September 2019. In detail, the transaction involved the sale by Banco BPM to the Clessidra Restructuring Fund (hereinafter, also "CRF") of a portfolio of high risk credit exposures (Unlikely To Pay, Past Due, Forborne Performing and Non Performing and Performing High Risk), due from companies involved in recovery/restructuring plans. The receivable equal to the price of the loans sold was offset with the payable due to CRF deriving from the subscription of the fund units by Banco BPM.

CRF is a closed-end Alternative Investment Fund (AIF) reserved to professional investors. The Fund is managed by Clessidra SGR, a company controlled by Holding di Investimenti Italmobiliare S.p.A.

The purpose of the CRF fund is to invest in Italian businesses in situations of financial tension or industrial difficulties, with the objective of preventing a worsening of their financial situation or resolving existing difficulties through proactive management thereof, possibly converting debts into equity (deleveraging) or providing the debtor company with new financing from third party investors. Any conversion of the loans into equity and/or disbursement of new financing aimed at financial rebalancing should maximise the recovery value of the investment, also through the subsequent sale of the equity instruments.

In particular, the Fund's investment strategy focuses on situations regarding company restructuring, turnarounds & relaunches, step-ins and M&A operations.

As a general rule, but not always, the target companies have annual turnover exceeding 50 million euro, achieved in at least one of the last three years, a consolidated annual EBITDA of more than 5-7 million euro, recorded in at least one of the last three years, and leverage in the range of 7x to 13x.

Amount of loans sold and Banco BPM's stake

As at 25 September 2019, the banks participating in the transaction sold the fund their credit exposures due from 13 target corporate groups, for a gross amount of 272.1 million euro. The valuation assigned to the loans contributed to the fund totalled 195.0 million euro.

The exposures sold by Banco BPM relate to 9 corporate groups (10 counterparties) for a gross amount of 55.2 million euro at the valuation date. The units assigned totalled 34,792,254, for a contribution value of 34,792,254 euro, representing 17.8% of the total units issued, at the initial contribution date, to the parties that contributed the loans.

Accounting treatment

On 25 September 2019, the loans sold were derecognised as a balancing entry to the recognition of the assigned units of the CRF fund.

The fair value of the CRF fund, determined based on the Discounted Cash Flow technique, illustrated in the paragraph below, came to 25.9 million euro, showing a decrease of around 25% on the contribution value indicated by the asset management company at the time of the contribution (34.8 million euro).

Taking account of the recognition value of the loans as at 1 January 2019 and the collections to be repaid to the fund, the sale transaction entailed the recognition of a negative economic effect, attributable to the loans sold, of 13.1 million euro.
In the absence of new information that would result in an estimate of the fair value of the fund difference from the initial estimate, the fair value on initial recognition was retained also for the valuations in the 2019 financial statements.

Methodologies for determining fair value and sensitivity analysis of fair value
Based on the Discounted Cash Flow method, the fair value is obtained by analysing the expected cash flows from the recovery of the overall exposures held by the fund at a discount rate determined using the Weighted Average Cost of Capital ("WACC") method.
In detail, the WACC is the calculation procedure that identifies the rate representing the weighted average cost of capital, and expresses the remuneration requested by investors for a purchase at normal market conditions of a similar assets to the one being valued.

In particular, the WACC was calculated by applying the following formula:

$$\mathbf{WACC=Ke * (E/(D+E)) + Kd * (1-t) * (D/(D+E))}$$

where:
Ke = β*(Mrp)+Rf: represents the cost of capital, calculated using the Capital Asset Pricing Model (CAPM), based on which the return on a risk asset is equal to the sum of a risk-free rate (Rf) and an adequate risk premium, determined based on the indicator β, as illustrated in greater detail below;
β: Beta ratio, which indicates the risk of a specific equity instrument out of the stock market as a whole. To that end, the unlevered adjusted β for the sector in which the single companies subject to sale operate was considered, weighting the result obtained based on the weight of each credit exposure out of the total;
Mrp: represents the premium, i.e. the differential yield requested by investors for an investment in equity instruments with respect to a risk-free investment. To that end, the implied equity risk premium is considered (source: Damodaran);
Rf: represents the risk-free rate, i.e. the yield on risk-free assets identified based on the yield of 10-year Italian government securities (source: Bloomberg);
Kd: represents the cost of debt, determined based on the rate of the new financing envisaged in the individual transactions. Where there are numerous rates, an average weighted rate was calculated;
t: represents the tax rate;
(E/(D+E) and (D/(D+E): represent the financial structure of each transaction, in terms of the combination of equity (E: Equity) and debt (D: Debt).

Considering the specific characteristics of the instruments being measured – illiquid instruments in small enterprises - in determining the cost of capital (Ke), an additional risk premium was considered, established on discretionary basis, and variable based on the type of credit, ranging from 2% for guaranteed exposures to 4% for unsecured exposures.
The fair value determined this way is classified in level 3 of the fair value hierarchy envisaged by the accounting standard IFRS 13, as it is significantly influenced by discretionary parameters not observable on the market.
The table below sets out a sensitivity analysis of the fair value of the CRF fund in relation to changes in the most significant non-observable input, which, in this case, is represented by cash flows of the fund from recovery (a positive or negative change of 5% was considered) and the cost of capital Ke (a positive or negative change of 1% was considered).

Clessidra Restructuring Fund - CRF
Change in fair value in absolute value (and percentage) as a result of changes of +1%/-1%, respectively, in the Ke and of +5%/-5%, respectively, in expected cash flows

		Ke -1%	%Ke	Ke +1%
Change in cash flows	+5%	+2.3 million euro (+8.9%)	+1.3 million euro (+5%)	+0.33 million euro (+1.3%)
	0	+0.98 million euro (+3.8%)	-	-0.92 million euro (-3.5%)
	-5%	-0.37 million euro (-1.4%)	-1.3 million euro (-5%)	-2.18 million euro (-8.4%)

Back2 Performing (Cuvée Transaction)

Objectives and main characteristics of the fund

The multi-originator transaction called Cuvée was finalised on 23 December 2019, through the sale of loans to Ampre Srl – an SPE established pursuant to the Securitisation Law (Law no. 130/99) - and the concurrent subscription of the units of a mutual fund managed by Prelios SGR - called Back2Bonis - freed up by contributing to the fund the receivables due from Ampre Srl for the loans sold. Ampre Srl then issued a single untranched note as payment for its payables due to the fund.
Ampre Srl subscribed a servicing mandate with Amco, which acts as special and master servicer of the securitisation SPE and a real estate advisory mandate with Prelios Integra, a company in the asset management company's group, for the purpose of effectively managing the real estate portfolio used as collateral for the loans.
In greater detail, the transaction in question regards the sale of a portfolio of "Small & Medium Size Real Estate" loans classified as Unlikely to Pay (hereinafter, also "UTP"), deriving from loans granted to companies operating in the real estate and real estate fund sector, which have different risk profiles in terms of i) geographic distribution, ii) purpose and iii) lifecycle of the underlying real estate assets.
The objective of the transaction is to guarantee proactive, effective management of the guarantee loans, though: i) the disbursement of new financing where deemed necessary to develop and complete the real estate assets, ii) possible repossession of the assets, through a *datio in solutum* (acceptance in lieu) mechanism, and iii) improved, more effective marketing and sale of such assets, leveraging the specific skills of the group of the assignee asset management company.

Amount of loans sold and Banco BPM's stake

The participants in the transaction sold the fund their credit exposures due from 47 target companies, for a gross amount of 452.4 million euro. The valuation assigned to the loans contributed to the fund totalled 242.3 million euro.
On its part, Banco BPM sold the SPE 9 mortgage exposures for a gross value of 66 million euro, equal to an initial contribution value of 42.8 million euro. In relation to that transaction, Banco BPM received 85.517 units of the Back2bonis fund (17.6% of the total units issued by the Fund).

Accounting treatment

On 23 December 2019, the loans sold were derecognised as a balancing entry to the recognition of the units of the Back2bonis Fund.
The fair value of the Back2bonis fund, determined based on the DCF method described above for the CRF fund, came to 36.1 million euro, showing a decrease of around 16% on the contribution value indicated by the asset management company at the time of the contribution (42.8 million euro).
Taking account of the recognition value of the loans as at 1 January 2019 and the collections to be repaid, the sale transaction entailed the recognition of a negative economic effect, attributable to the loans sold, of 8.8 million euro.
In the absence of new information that would result in an estimate of the fair value of the fund difference from the initial estimate, the fair value on initial recognition was retained also for the valuations in the 2019 financial statements.

Methodologies for determining fair value and sensitivity analysis of fair value

Based on the DCF method illustrated for the previous Clessidra transaction, to which reference is made for further details, the table below sets out a sensitivity analysis of the fair value of the Back2bonis fund in relation to changes in the most significant non-observable input, which, in this case, is represented by cash flows of the fund from recovery (a positive or negative change of 5% was considered) and the cost of capital Ke (a positive or negative change of 1% was considered).

Back2bonis Fund
Change in fair value in absolute value (and percentage) as a result of changes of +1%/-1%, respectively, in the Ke and of +5%/-5%, respectively, in expected cash flows

		Ke -1%	%Ke	Ke +1%
Change in cash flows	+5%	+3.2 million euro (+8.9%)	+1.8 million euro (+5%)	+0.4 million euro (+1.3%)
	0	+1.3 million euro (+3.7%)	-	-1.2 million euro (-3.5%)
	-5%	-0.5 million euro (-1.5%)	-1.8 million euro (-5%)	-3.0 million euro (-8.3%)

D.4 Prudential consolidation - covered bond transactions

Covered bond issue programmes

QUALITATIVE INFORMATION

Strategic goals

The Covered Bonds ("CB") issue is part of Banco BPM Group's strategic plan, and represents a tool to diversify sources of funding, to reduce the relative cost and to extend the maturities of liabilities.

Banco BPM Group has three Covered Bond Loan issue programmes outstanding: specifically, the "BP CB1", "BPM CB1" and "BPM CB2" programmes.

For the former Banco Popolare Group, during 2010 the first programme of CB issues concerning residential mortgages ("Residential CB" or "BP CB1") was begun. The maximum amount of CB that may be issued under the programme was extended from the initial 5 billion euro to 10 billion in February 2011.
At the former BPM Group level, on 13 November 2007, the Board of Directors of the Banca Popolare di Milano authorised a CB issue programme ("BPM CB1"), for a maximum amount of 10 billion euro, relative to only land and residential mortgages, structured, however, to also include commercial mortgages. Subsequently, on 10 March 2015, the Board of Directors of the former BPM Group approved a second CB programme ("BPM CB2") structured to only include the assignment of landed mortgage loans and residential mortgage loans for a maximum amount of 10 billion euro.

Structure of the Programmes

Following the merger by incorporation of BPM S.p.A. into Banco BPM, which was completed in November 2018, Banco BPM took on the role of sole Originator Bank for the assets pursuant to art. 7-bis of Italian Law no. 130 of 30 April 1999, as well as the role of Issuer Bank for the Group's CB programmes.

With reference to the BP CB1 Programme, Banco BPM provided for without-recourse transfers to the SPE BP Covered Bond S.r.l. (60%-owned by Banco BPM), the related monetary receivables deriving mortgage loans having the characteristics set forth in art. 2, paragraph 1, letter a) of the MEF Decree (Mortgage Loans).

With reference to the BPM CB1 and BPM CB2 Programmes, the pecuniary claims deriving from land and residential loans with the features set out in art. 2 of the MEF Decree (Mortgage Loans), and the commercial loans of only the BPM CB1 Programme, were transferred to the SPE BPM Covered Bond S.r.l. (of which Banco BPM holds 80%) within the sphere of the "BPM CB1" Programme and to the SPE BPM Covered Bond 2 S.r.l. (of which Banco BPM holds 80%) within the sphere of the "BPM CB2" Programme.

Subordinated loan

For all Banco BPM Group's CB programmes, the Originator Banks (now only Banco BPM) granted a Subordinated Loan to the SPEs on the sale of assets to provide them with the financial resources required to acquire the related receivables (except when the SPE provided for the direct payment of the assets purchased). The SPEs must repay the subordinated loans on the final repayment date, also taking into account the extension of the deferral of the repayment date in the event of the Issuer's default, in accordance with the applicable priority of payments and within the limits of the funds available. In any event, at each interest payment date, there is an option to repay the subordinate loans in advance provided that the residual principal amount of the loans is equal or higher than the residual debt of the Covered Bonds outstanding and that the tests contemplated by the regulations and by contract are complied with. Interest is paid on subordinated loans at a fixed rate or at a rate equal to the average interest rate of the CB Series issued, plus any excess spread generated by the structure.

Derivative Contracts

The BPM CB2 Issue Programme has three derivative contracts in place called “Covered Bond Swaps” subscribed by the SPEs and market counterparties. Said swaps are interest rate swaps that hedge, at the consolidated level and also in the case of the Issuer's default, the interest rate risk deriving from the misalignment between the interest flows of the portfolio of assets sold to the respective SPEs and the interest flows on the CBs issued. The “BP CB1” Programme has only one Covered Bond Swap contract in place, entered into by the SPE and UBS, while there are no Covered Bond Swap contracts in place for the “BPM CB1” Programme.

There are no longer any Mortgage Pool Swap contracts in place for any of the three CB Programmes of the Group.

Guarantees

In order to guarantee the repayment of the Covered Bonds should the Issuer not fulfil its obligations to pay, the SPEs have issued an unconditional and irrevocable primary guarantee valid for separate assets for the benefit of the investors that will subscribe the Covered Bonds. The guaranteed amount is equal to total interest and principal that must be paid to the investors on each class of Covered Bond. The regulations require that the integrity of the guarantee should be ensured during the life of the Covered Bonds and to this end, specific tests are envisaged that take the amount and the characteristics of both the assets assigned and the CB issued into account. The tests are carried out quarterly by the Group’s Finance Organisational Structure and are checked by the Risk Management Organisational Structure. The accuracy of the tests carried out when the individual CB series are issued and then on a quarterly basis is also checked by an external party, the Asset Monitor, which, in accordance with the Supervisory Regulations, must be an audit firm other than that assigned to audit the financial statements. The Asset Monitor must also check the quality and integrity of the assets sold and draw up an annual report containing the results of the checks carried out. The control system also avails of the Internal Audit department, which verifies the adequacy of the internal checks, also on the basis of the annual report drawn up by the Asset Monitor.

Regulatory and contractual tests

Regulatory tests, conducted quarterly on the portfolios of each of the issue programmes, are as follows:

- the Nominal Value Test, which verifies that the nominal value of the residual loans in the portfolio sold is higher than the nominal value of the outstanding CB;
- the NPV Test, which checks that the present value of the residual credit portfolio is greater than the present value of the outstanding CBs;
- the Interest Coverage Test, which verifies that the interest collected and to be collected, net of the costs of the SPE, is higher than the interest to be paid to the holders of CB.

If the requirements of all of the tests are met, payments may be made in accordance with the “order of payment”. In accordance with the contractual documentation of the programmes, the Asset Coverage Test on the portfolio should also be respected, which checks that the nominal value of the loans, weighted on the basis of any delays in the payment of the latter and the level of over-collateralisation envisaged by the contracts, is higher than the nominal value of the outstanding CB. The infringement of the regulatory and contractual tests leads to an obligation for the assigning banks to add to the portfolio.

Collection and administrative management services

For each BP Programme of the Group, the collection and management of transferred receivables is carried out by Banco BPM, which acts in the capacity of the sole Servicer.

In particular, for the “BP CB1” programme, the amounts collected are paid into current accounts held in the name of the SPE BPM Covered Bond S.r.l. at Banco BPM (Interim Account Bank) and then transferred daily to the accounts held in the name of the SPE, also at Banco BPM (Transaction Account Bank). Banco BPM also acts as Administrative Servicer, namely it provides administrative services and fulfils tax-related requirements on behalf of the SPE BP Covered Bond S.r.l.

For the "BPM CB1" programme, the amounts collected are paid into current accounts held in the name of BPM Covered Bond S.r.l. at Banco BPM and then transferred daily to the accounts, also at Banco BPM, held in the name of the SPE.
For the BPM CB2 Programme, the sums collected are paid into accounts held in the name of BPM Covered Bond 2 S.r.l. at Banco BPM and then transferred daily to the accounts held in the name of the SPE at BNP Paribas.

QUANTITATIVE INFORMATION

Existing and significant programmes during 2019

Banco Residential CB Programme ("BP CB1")

During previous years, Banco BPM, in its capacity as the Originator Bank, sold a total of twelve mortgage portfolios to the SPE BP Covered Bond S.r.l. The SPE paid the purchase prices of the various portfolios using the revolving Subordinated Loan granted by the same originator bank and the available liquidity deriving from the amortisation of the loan portfolio deposited in its current accounts held at Banco BPM.

The table below shows the overall value of the loans sold to the SPE as at 31 December 2019:

Bank	Value as at 31/12/2019	Value as at 31/12/2018
Banco BPM	4,565,637	5,167,783

The amounts indicated represent performing, unlikely to pay, non-performing past due and bad loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.

The table below shows non-performing loans:

Bank	Value as at 31/12/2019	Value as at 31/12/2018
Banco BPM	184,850	191,144

In 2019, the mortgage loans portfolio generated collections totalling 699 million euro, of which 612 million euro represented principal and 87 million euro represented interest.

Bonds issued by Banco BPM

As part of the BP CB1 Programme, Banco BPM issued twelve series of CBs, listed on the Luxembourg Stock Exchange, and an unlisted Registered Covered Bond. These securities were subscribed to by institutional investors or by Banco BPM.

Overall, the securities issued by Banco BPM amounted to 14,950 million euro, of which 10,200 million euro has been redeemed, including 500 million as partial early redemption of the Seventh Series on 27 March 2019.

As at 31 December 2019, the securities issued and outstanding amounted to 4,750 million euro, and break down as follows:

Date of issue	Series/Tranche	Notional value	Coupon	Maturity	Issue Price (flat quotation)	Moody's/ DBRS Rating (**)
24/01/2011	Registered CB (1)	100,000	5.250%	03/04/2029	96.590	Aa3/A
05/04/2013	6th Series 1st tranche (2)	150,000	4.000%	31/03/2023	99.482	Aa3/A
08/01/2014	7th Series 1st tranche (3) (5)	1,000,000	Eur 3M + 100 bps	31/03/2023(*)	100.000	Aa3/A
05/03/2015	9th Series 1st tranche (4)	1,000,000	0.75%	31/03/2022	99.917	Aa3/A
25/01/2018	11th Series 1st tranche (3)	1,500,000	Eur 1M + 100 bps	30/06/2020	100.000	Aa3/A
28/03/2018	12th Series 1st Tranche (3)	1,000,000	Eur 1M + 30 bps	30/06/2021	100.000	Aa3/A
		4,750,000				

(1) The securities were placed in the form of a private placement with market investors.
(2) The securities were subscribed by Banca Generali S.p.A.
(3) The securities were fully subscribed by Banco BPM and used as collateral in monetary policy operations with the Eurosystem.
(4) The securities were subscribed by institutional investors.
(5) On 27 March 2019 partial early redemption was carried out for 500 million euro.
(*) In March 2016, the Maturity Date was extended from 31 March 2016 to 31 March 2019. In March 2019, the Maturity Date was extended from 31 March 2019 to 31 March 2023.
(**) Rating as at 31 December 2019.

Other information

In March 2019 the Final Term of the retained Series 7 was amended so as, among other things, to allow for, if necessary, the exercising of the right to early redemption, even if part of the nominal value, at any time. In addition, the partial early redemption of Series 7 was made for 500 million euro.
On the Interest Payment Date of 1 April 2019, the SPE made a partial early redemption of the Subordinated Loan granted by Banco BPM amounting to 1 billion euro.
In May 2019, Moody's upgraded the Programme rating from "A1" to "Aa3".

BPM Covered Bond Programme ("BPM CB1")

In previous years, a total of eight portfolios of eligible assets were sold to the SPE BPM Covered Bond S.r.l., with total residual debt of 11.4 billion euro.

In September 2019, by signing the related contracts, Banco BPM sold a new portfolio of residential mortgage loans, including disbursements to employees of the Group, and commercial mortgage loans, for a total residual debt equal to around 703 million euro to the SPE BPM Covered Bond S.r.l. (ninth sale).

The SPE paid the purchase prices of the various portfolios using the Subordinated Loans granted by the Originator Banks, now Banco BPM, and the available liquidity deriving from the amortisation of the loan portfolio deposited in its current accounts held at Banco BPM. The Originator Banks, now Banco BPM, took on the role of Servicer, managing the collection of the receivables.

The table below shows the overall value of the loans sold to the SPE as at 31 December 2019:

Bank	Value as at 31/12/2019	Value as at 31/12/2018
Banco BPM	6,170,027	6,350,619

The amounts indicated represent performing, unlikely to pay, non-performing past due and bad loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.

The table below shows non-performing loans:

Bank	Value as at 31/12/2019	Value as at 31/12/2018
Banco BPM	119,402	114,797

In 2019, the mortgage loans portfolio generated collections totalling 980 million euro, of which 885 million euro represented principal and 95 million euro represented interest.

Bonds issued by Banco BPM

As part of the "BPM CB1" Programme, Banco BPM issued eleven CB Series, listed on the Luxembourg Stock Exchange, for a total of 11,150 million euro, originally subscribed by institutional investors or by Banco BPM itself. These have been redeemed for a total of 4,750 million euro, of which 500 million euro on 8 July 2019, as the full payment of the Fourth Series, fully held by Banco BPM. On 25 September 2019, the Eleventh Series was issued for a value of 650 million euro.

Thus, at 31 December 2019, there are six Series of covered bonds outstanding, fully repurchased by Banco BPM, and used for refinancing operations with the ECB or for Repo transactions with market counterparties, for a total of 6,400 million euro, broken down as follows:

Date of issue	Series/Tranche	Notional value	Coupon	Maturity	Issue Price (flat quotation)	Moody's Rating (*)
16/03/2015	6th Series (1)	750,000	3-month Euribor + 30 bps	16/03/2020	100.00	Aa3
19/11/2015	7th Series	900,000	3-month Euribor + 60 bps	19/11/2022	100.00	Aa3
07/11/2016	8th Series	1,000,000	3-month Euribor + 30 bps	07/11/2021	100.00	Aa3
26/04/2018	9th Series	2,500,000	3-month Euribor + 30 bps	26/04/2021	100.00	Aa3
23/11/2018	10th Series	600,000	3-month Euribor + 90 bps	23/11/2022	100.00	Aa3
25/09/2019	11th Series	650,000	3-month Euribor + 80 bps	25/03/2025	100.00	Aa3
Total		**6,400,000**				

(1) Issue of 600 million euro on 16 March 2015, increased by tap (additional) issues of 150 million euro on 26 June 2015
(*) Rating as at 31 December 2019

Other information

The subordinated loan granted to the SPE was repaid for 100 million euro on the Interest Payment Date of 15 January 2019 and for 350 million euro on the Interest Payment Date of 15 July 2019.

In May 2019, Moody's upgraded the Programme rating from "A1" to "Aa3".

Events occurring after the end of the year

On 9 January 2020 partial early redemption of the Sixth Series was carried out for 150 million euro.

BPM Covered Bond 2 Programme ("BPM CB2")

During previous years, eight residential and landed mortgages were sold to the SPE BPM Covered Bond 2 S.r.l." for a total value of 7 billion euro.

During 2019, Banco BPM sold to the SPE BPM Covered Bond 2 S.r.l.: (i) a new portfolio of eligible residential mortgage loans with a residual overall debt equal to 1 billion euro (ninth sale) in March 2019, and (ii) an additional portfolio of eligible residential mortgage loans with a residual overall debt equal to around 1.2 billion euro (tenth sale), in September 2019, with the signing of the relative contracts.

To pay the purchase price of the new portfolio, the SPE used a subordinated loan granted by the Originator Banks. The Originator Banks, now Banco BPM, took on the role of Servicer, managing the collection of the receivables.

The table below shows the overall value of the loans sold to the SPE as at 31 December 2019:

Bank	Value as at 31/12/2019	Value as at 31/12/2018
Banco BPM	6,880,118	5,451,280

The amounts indicated represent performing, unlikely to pay, non-performing past due and bad loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.

The table below shows non-performing loans:

Bank	Value as at 31/12/2019	Value as at 31/12/2018
Banco BPM	62,028	49,331

In 2019, the mortgage loans portfolio generated collections totalling 920 million euro, of which 802 million euro represented principal and 118 million euro represented interest.

Bonds issued by Banco BPM

As part of the BPM CB2 Programme, Banco BPM issued six CB Series, which are listed on the Luxembourg Stock Exchange, for a total nominal value of 4,250 million euro. All bonds issued by the programme have been placed on the capital market.

Therefore, as at 31 December 2019, the bonds issued and outstanding break down as follows:

Date of issue	Series/Tranche	Notional value	Coupon	Maturity	Issue Price (flat quotation)	Moody's Rating (*)
14/09/2015	1st Series	1,000,000	0.875%	14/09/2022	99.872	Aa3
02/12/2015	2nd Series	750,000	1.500%	02/12/2025	98.946	Aa3
08/06/2016	3rd Series	750,000	0.625%	08/06/2023	99.761	Aa3
23/01/2018	4th Series	750,000	1.000%	23/01/2025	99.792	Aa3
25/07/2018	5th Series	500,000	1.125%	25/09/2023	99.446	Aa3
05/12/2019	6th Series	500,000	0.5%	05/12/2025	100.000	Aa3
Total		**4,250,000**				

(*) Rating as at 31 December 2019

Other information

The subordinated loan granted to the SPE was repaid for 200 million euro on the Interest Payment Date of 15 January 2019, for 150 million euro on the Interest Payment Date of 18 April 2019 and the Interest Payment Date of 18 July 2019, and for another 200 million euro on the Interest Payment Date of 18 October 2019.
In May 2019, Moody's upgraded the Programme rating from "A1" to "Aa3".

Events occurring after the end of the year

The subordinated loan granted to the SPE was repaid for 300 million euro on the Interest Payment Date of 18 January 2020.

Accounting representation

On the consolidated balance sheet of Banco BPM S.p.A. (as Issuer Parent Company and transferor bank) the SPE belong to the Group and are included in the consolidation on a line-by-line basis.
The main balance sheet items linked to the issue of CB are shown below:

- loans sold by the transferor banks to the SPEs continue to be posted under the Balance sheet assets under item "40b - Loans to customers", and the relative interest is posted under item 10 of the income statement "Interest and similar income". At 31 December 2019 the book value of the mortgages is (i) 4,566 million

euro for the BP CB1 programme, (ii) 6,170 million euro for the BPM CB1 programme and (iii) 6,880 million for the BPM CB2 programme. Said value is specifically indicated under the "Assets pledged to secure own liabilities and commitments" in the Section "Other information" in "Part B – Information on the Balance sheet" of these Notes;
- the CBs issued are posted under securities issued (item 10c of the Liabilities) and valued according to the fair value hedge accounting rules, hedged by the interest rate hedge derivative stipulated by the SPE ("Covered Bond Swap"). The securities issued also include funding transactions by means of repurchase agreements on the series of CB repurchased, in line with the clarifications to this regard set out by the Supervisory Authority. The book value of the CBs at 31 December 2019 amounts to (i) 1,710.5 million euro relative to the BP CB1 programme and (ii) 4,762.9 million euro relative to the BPM CB2 programme. We point out that the issues of the BPM CB1 programme and part of those of the BP CB1 programme are not posted inasmuch as used as collateral for monetary policy operations with the Eurosystem, as described previously;
- the Covered Bond Swap contracts, between the SPEs and the market counterparties outside the Group, are classified under item 50 "Hedging derivatives" in assets and/or under item 40 "Hedging derivatives" in liabilities.

The consolidated income statement has the following components:
- interests on the loans sold (cover pool), as mentioned above, posted under the item "Interest and similar income";
- interest on the Covered Bonds issued, posted under the item "Interest and similar expense";
- the differentials relative to the hedging derivatives (which transform the Covered Bond rate from fixed to floating) which are posted under the "Interest and similar income" or "Interest and similar expense" according to the balance;
- the fair value delta of the hedging contracts and of the items covered, posted under item 90 "Fair value adjustments in hedge accounting".

E. Prudential consolidation - Credit risk measurement models

When measuring the credit risk of portfolios, the bank uses an econometric model for management purposes, supplied with an extensive set of data and risk variables, known as the Portfolio Model.
Using Credit-VaR metrics, the model makes it possible to define the probability distribution of losses within the loan portfolio. This distribution is used to measure the maximum potential loss over a yearly time period and with a specific level of confidence.
Specifically, in order to obtain this distribution, the model's processing engine uses a Monte Carlo simulation, which simulates a sufficiently high number of scenarios as to provide a good empirical approximation of the theoretical distribution of loan portfolio losses.
The calculation of the maximum potential loss, which can be broken down in the classical Expected Loss and Unexpected Loss (Economic Capital), is affected by concentration risk and systematic risk, respectively.
Concentration risk derives from large exposures to single counterparties – name concentration – or types of peer counterparties in terms of industries, whose creditworthiness depends on one or more systematic factors – industry concentration. Instead, systematic risk derives from the impact of unexpected changes in macroeconomic factors on risk parameters (PD and LGD) of the single accounts, using the elasticity estimated using satellite models
capable of linking PD and LGD of peer counterparties and accounts and a set of (international and domestic) economic-financial factors.
Lastly, the portfolio model periodically undergoes stress testing to evaluate the credit risk sensitivity of the Group's portfolio to extreme changes in economic and financial factors.

On 31 December 2019, the expected loss, calculated on the Basel III validation perimeter (for which Banco BPM was authorised by the Bank of Italy to use internal rating systems to calculate the capital requirements on credit risks), was 0.63% of the exposure to default, while the overall loss (expected and unexpected loss measured by the C-VaR method with a 99.9% confidence level) amounted to 1.1% of the exposure to default.

The internal models for estimating PD, LGD and EAD are subject to an internal validation process by the Risk Function and to a third-tier control by the Audit Function. The outcome of these processes is outlined in special reports submitted to the Corporate Bodies and sent to the European Central Bank/Bank of Italy.

Outcome of backtesting of rating systems

In order to calculate capital requirements against Credit Risk and only on the scope of the Parent Company, Banco BPM Group adopts internal estimates of PD and of LGD for Corporate and Private Customer portfolios and EAD for the retail segment.
The comparison between estimates and empirical data is made separately for PD, LGD and CCF, by means of backtesting conducted by the Internal Validation function.

With reference to the PD models, Banco BPM Group adopts performance measurements to check the accuracy ratio (AR) of the estimates and calibration tests ("classical" binomial tests on a multi-period and single period basis) to compare the decay rates (DRs) recorded over an annual time horizon with the estimated PD values.
Regarding the Corporate segment, the latest backtesting exercise showed a good discriminatory range of models, both in terms of single modules and final integrating ratings, which produced values comparable and at times superior to those obtained during the development phase. With regard to the calibration, satisfactory values were found for all models.
Overall, the model performed well for the Private customer segment. In a number of modules, performance is better than that obtained during development was recorded. With regard to calibration, the results of the binomial tests were satisfactory.

With regard to the parameter LGD, testing was conducted on both the performing and in default components. Internal Validation did not detect significant problems with the estimated generated for the models.

Testing was conducted in relation to retail CCF. Internal Validation did not detect significant problems with the estimated generated for the retail models.

In general, over the course of 2019, the models were fine-tuned, mainly with a view to making the model more compliant with legislative requirements.

1.2 MARKET RISKS

1.2.1 Interest rate risk and price risk - regulatory trading book

QUALITATIVE INFORMATION

A. General aspects

Market risk is the risk that the Group may generate less revenues than expected, or suffer from the impairment of balance sheet items or capital losses from financial positions held, due to sharp and adverse changes in market conditions, in particular interest rates, share prices, exchange rates, commodities and the associated volatilities and correlations (generic risk), or due to events that may impair the issuer's redemption capability (default risk) or which in any event result in a change in the solvency of the issuer (credit spread risk). Market risks can materialize both with regard to the trading book, which includes trading instruments and the associated derivative instruments, and with regard to the banking book, which includes financial assets and liabilities that are accounted for differently than those included in the trading book.
The organisational model adopted by Banco BPM Group for the trading books exposed to interest rate risk and price risk requires:

- the centralisation of the management of Treasury positions in the Parent Company;
- the centralisation in the subsidiary Banca Akros of the risk positions and the operating flows associated with trading and market making of securities, currency, OTC derivatives and other financial instruments.

Within the integration plan of Banco BPM Group, Banca Akros has been identified as the Group's Corporate & Investment Bank. As a result of this decision, starting from 01.10.2018, the Corporate & Investment Banking activities carried out by Banca Aletti were centralised within Banca Akros, via the contribution of a business segment. As a result of this operation, Banca Aletti no longer has a trading book. With regard to calculation of the capital requirements, in 2019, authorisation was obtained from the Supervisory Authorities to extend the internal model for market risks to exchange rate risk of the trading book. That authorisation was subject to the resolution of a

specific Finding (Obligation 19) pointed out by the Supervisory Authorities following the TRIM (Target Review Internal Model) inspection.
Since the date of the resolution of that finding, exchange rate risk of the trading book has therefore been comprised in the scope of risks included in the internal model validated for the purposes of calculating the capital requirements.
Note that in 2019, the request was also submitted to extend the internal model to the exchange rate risk of the Banking Book. As at 31 December 2019 the Banking Book of Banca Akros had no exposure to exchange rate risk.

Parent Company's Portfolio

Two main types of trading operations can be identified within the Parent Company:
- the investment portfolio, which represents the major source of generic interest-rate risk and credit spread risk, that are recorded in the accounting category Held-For-Trading, and it is almost completely a bond portfolio. At the end of 2019, the Parent Company's bond portfolio amounted to a nominal value of approximately 300 million euro, of which approximately 85% consisted government bonds and the remainder of financial securities. The sensitivity (delta) to the overall interest rate risk at the end of the financial year, calculated assuming a parallel change in the interest rate curve of 1 bp, was approximately +9,780 euro, deriving from a prevalence of exposures on the various nodes of the Euro, GBP and USD rate curves. This portfolio also presents an overall exposure to credit spread risk of about +95 thousand euro, considering a 1 basis point shock. That exposure is the result of a long exposure subject to sensitivity on Germany government securities, partially offset by an opposite position on Spanish government securities. In addition to the bond portfolio, there is the price risk component of the equity trading portfolio, which has a small exposure of approximately 1 million euro;
- the Treasury portfolio contained no securities at the date of the financial statements.

The above-cited risk exposures of the Parent Company are monitored on a daily basis to verify their compliance with the operating thresholds, on the entire portfolio and on the single underlying assets, set by the Board of Directors.

Trading book of Banca Akros, held as part of its investment banking activities

Banca Akros holds a trading book, the main interest rate risk exposures of which concern transactions on both money markets and the associated hedging derivatives, as well as those on the markets for OTC derivatives and structured products and listed derivatives.
Transactions in both plain vanilla and structured instruments and listed and unlisted derivatives, including trades on the secondary market of structured products issued or sold by the banks of the Group. The destructuring of complex transactions based on the underlying enables the centralised management of the interest rate, exchange rate and price risks within the specific offices of the Bank's Global Markets Department, which use sophisticated position keeping systems.
Trading in interest rate derivatives mainly consists of optimising the flows generated by the need to hedge interest rate risk by institutional customers (for example, Banks, Funds and Insurance companies), and corporate customers of Banca Akros and the Parent Company, taking on the risk as its own and managing it using dynamic hedging strategies. Banca Akros operates as a market maker on OTC derivatives, mainly on the Euro interest rate curves. The process of rebalancing risks on an ongoing basis entails, also based on market liquidity, the use of trading in regulated futures and the related options on short and medium/long-term interest rates.
Trading in bonds issued by financial companies or corporates, traded on the secondary market (Eurobonds) derives from the need to satisfy customer requests, mainly from institutional customers. On the secondary market, the Bank operates as a market maker on bonds from corporate, financial and supranational issuers, primarily denominated in Euro, through trading on multilateral trading facilities or OTC. Other activities to be reported during the year include the market making conducted on the Systematic Internaliser to support the liquidity of retail bond issues of the Group and third parties, which was carried out as part of the larger function of market maker on bonds. More specifically, the bond portfolio, net of Banco-BPM issues, had a nominal value of around 654 million euro at the end of the year, 75% of which was represented by Italian Government bonds, 1% by foreign Government bonds, 17% by Financial securities (primarily Italian), 6% by Corporate bonds and the remaining 2% by Supranational bonds.
The exposure to credit spread risk was approximately -34 thousand euro overall, considering a shock of 1 basis point, deriving mainly from Italian financial securities (credit spread sensitivity: approximately -25 thousand euro). The exposure to Italian government bonds at the end of the year was lower, equal to a credit spread sensitivity of around -4 thousand euro, considering a shock of 1 basis point, as it is concentrated on short-term maturities.

The sensitivity (delta) to the overall interest rate risk at the end of the year, net of long and short exposures on the various currencies and yield curve nodes, was approximately 51 thousand euro (positive rho), assuming a parallel change in the interest rate curve of 1 basis point. The greatest exposure to interest rate risk was recorded on the EUR curve (34 thousand euro, positive rho).
The main exposures to equity risk are related to trading on cash markets and associated listed or plain vanilla derivatives on the derivatives and OTC structured products market and the listed derivatives market.
Specifically, the scope includes portfolios of equities and related listed derivatives, held for trading purposes, for market making transactions on individual stock futures and options and for activities related to specialist services (continuous exposure of proposals to buy/sell), as well as transactions in structured instruments and listed derivatives.
The destructuring of complex operations based on the underlying enables the centralised management of the interest rate, exchange rate and price risks within the specific Offices, which use a sophisticated position keeping system specialised in interest rate, exchange rate and price risks. The system is integrated with pricing models and risk measurement (Greeks) developed in-house by the Financial Engineering function and validated by the Parent Company's Risk Function. At the end of the year, the overall exposure to the rate risk of the share portfolio is equivalent to a delta equivalent position of about -5 million euro, concentrated on the Eurozone (-2.1 million euro) and the US (-2.3 million euro), mainly on liquid share indices. With regard to the indicator Vega (sensitivity to changes in the implicit volatility of the underlying), relating to the equity risk class, at the end of 2019 the exposure was a positive 130 thousand euro, considering a parallel shock of 1% on volatility levels. That exposure mainly originates from liquid share indices and "Large Cap" single stocks.

The Banca Akros' risk to the aforementioned exposures are monitored daily to ensure that the operating limits set by the Board of Directors are complied with for the entire portfolio and for the individual underlying assets.

B. Interest-rate risk and price risk management process and measurement methods

The function in charge of controlling the financial risk management, with the aim of identifying the types of risk, define the methods to measure risks, control limits at the strategic level and verify the consistency between trade limits and the risk/return targets assigned, is centralised in the Parent Company under the responsibility of the Risk Function for all Group banks.
Specifically, for the identification, measurement, management and operating control of the risk positions of the Banks of the Group, the Parent Company's Finance Function and Banca Akros make use of sophisticated position-keeping and risk control systems that provide constant control over exposure levels and over the accurate verification of compliance with the operating limits defined by the Board of Directors of the Parent Company and the Boards of Directors of the Group Banks.
Risk analyses of the Trading book are carried out by means of indicators, both deterministic, such as the sensitivity to market risk factors, and probabilistic, such as VaR (Value at Risk), which measures the maximum potential loss of the portfolio over a certain time horizon and with a specific level of confidence.
The VaR is the main risk measure used by the Group to quantify exposure to market risk. It is calculated by applying a historical simulation model and a full revaluation of market factors approach. The application of the full revaluation approach perfectly captures the convexity of derivative instruments without making any type of approximation.
In addition to the Regulatory VaR calculated under current conditions, a Regulatory VaR under stressed conditions (Stressed VaR) is calculated, which adopts the period from March 2008 to March 2009 as the most severe period.
As envisages by prudential requirements, that model is used to calculate the capital requirement for market risk, as well as for operational purposes.
With respect to the scope of Banco BPM and Banca Akros, risk capital estimates under the VaR approach are made using the historical simulation method and considering a time horizon of one working day and a statistical confidence interval of 99%. VaR is calculated by applying a Lambda coefficient (decay factor) of 0.99, so as to render the estimate more reactive to the most recent changes in market parameters, and by equal-weighting historic observations (Lambda=1). If the latter is higher than the VaR calculated with the above decay factor, it is used for risk estimates.
The management risk measurement includes the interest rate risk, both in terms of general and specific risk components, as well as the equity and exchange rate risk.
The capital requirement for supervisory purposes is measured with an internal validated model, for equity risk, exchange rate risk and general interest rate risk, while it is measured with the standard method for other risk factors (specific interest rate risk and commodity risk).

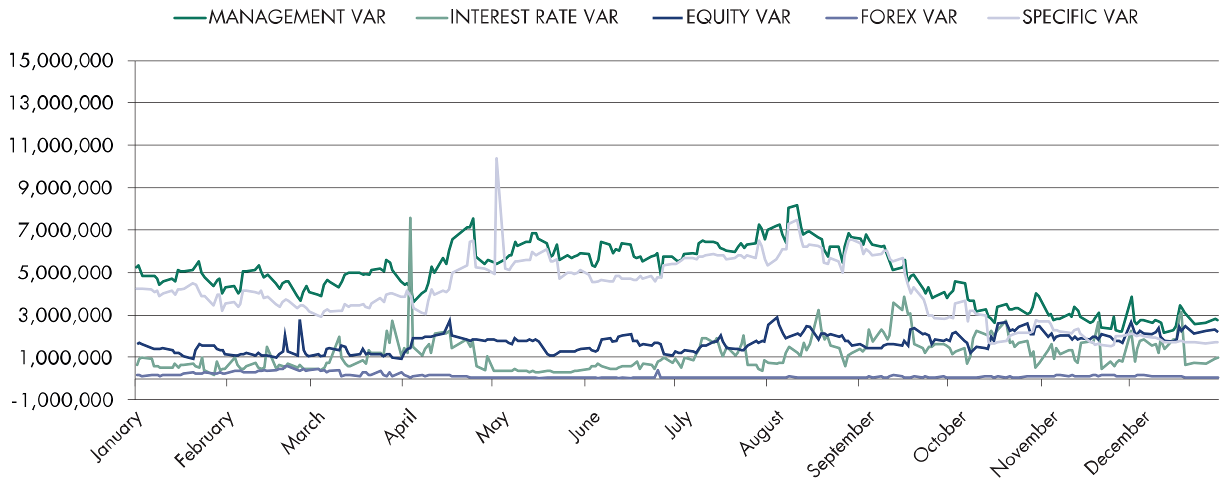
QUANTITATIVE INFORMATION

Regulatory trading book: internal models and other sensitivity analysis methods

The Value at Risk (VaR) measurement considers interest rate risk, equity risk, exchange rate risk and credit spread risk, as well as the benefit of correlation between risks. Correlation and dividend risks are also included.
The performance graph and a table containing the operational VaR figures are shown below for 2019, referring to the regulatory trading book of Banco BPM Group.

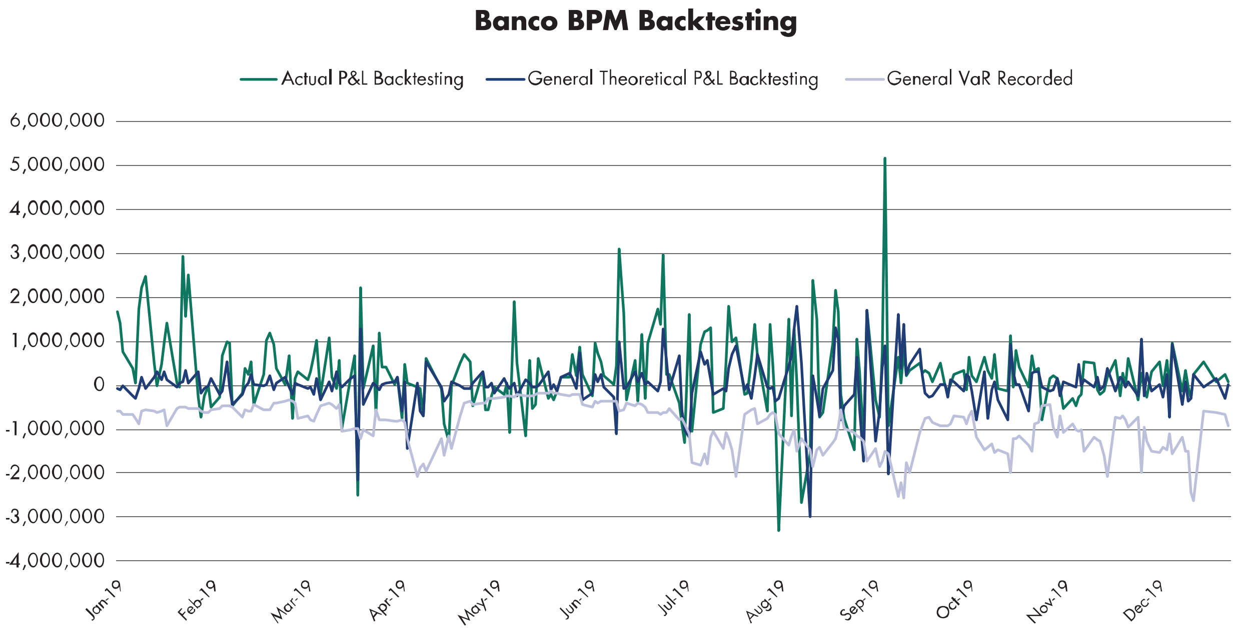
Regulatory trading book *(in millions of euro)*	**2019**			
	31 December	**average**	**maximum**	**minimum**
Interest rate risk	1.002	1.174	7.551	0.186
Exchange rate risk	0.082	0.142	0.575	0.034
Equity risk	2.185	1.702	2.884	0.921
Dividends and Correlations	1.104	0.847	1.856	0.285
Total uncorrelated	**4.373**			
Diversification effect	-1.582			
Total generic risk	**2.791**	**2.409**	**5.237**	**1.121**
Specific debt securities risk	**1.691**	**4.109**	**10.345**	**1.558**
Combined risk	**2.725**	**4.913**	**8.171**	**2.155**

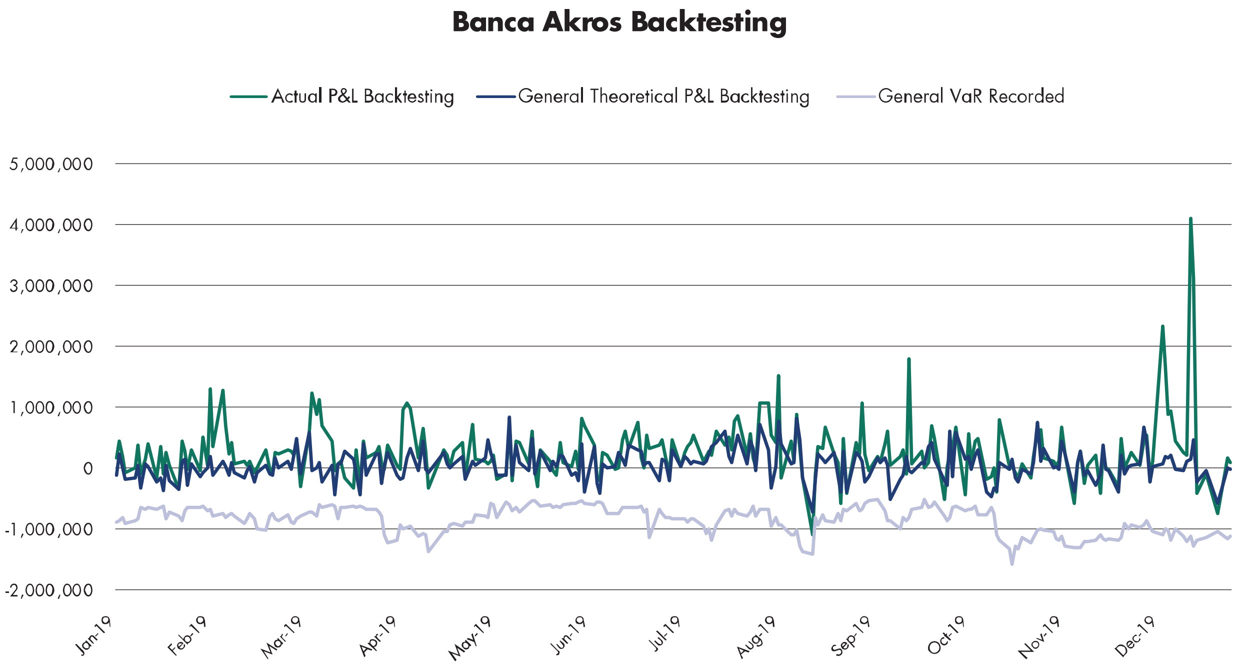
Daily VaR and VAR by risk factor
BANCO BPM GROUP: TRADING Book



As can be seen, the relevant risk component is that relating to specific risk on debt securities, due to the presence of the positions on Italian financial and government securities. Changes in these securities can be attributed to the Group's overall risk trend. More specifically, in the second half of the year, the portfolio indicated a lower level of risk, to be attributed both to exposures and to the volatility of the Italian government securities market.
In line with the validation of the internal model for the calculation of the capital requirement relating to market risks, backtesting is conducted on a daily basis, with a view to verifying the solidity of the VaR model adopted. These tests are conducted on the regulatory trading book of the Banco BPM and of Banca Akros.
The graphs below show the backtesting relating to the VaR method, calculated on the generic risk of debt securities, generic and specific equity risk, interest rate risk and exchange rate risk.
As from 20 November 2018, as specified in the Obligation Trimix, the specific risk component of debt securities was also introduced in the calculation of the effective P&L of Banco BPM and Banca Akros, for comparison with the Regulatory VaR.

For backtesting purposes, as envisaged by supervisory regulations in force, we used the equally-weighted VaR measurement instead of using a decay factor used in operational approaches.





Regarding Banca Akros, in 2019 there were no exceptions for Effective Backtesting or Hypothetical Backtesting of the Trading Book.

Validation activity

Banco BPM Group adopts internal models to quantify capital requirements for Market Risk, on which the Internal Validation function conducts qualitative and quantitative analyses to assess their soundness and the accuracy of the estimates for all significant risk components. Additionally, it expresses an opinion on the regular functioning, on the predictive capacity, on the performance of internal risk measurement methods and on the adequacy of operating processes to ensure, on a continuous basis, the compliance of internal methods with company needs and the evolution of the reference market.

With reference to backtesting overruns, the data produced to support overruns is analysed, as well as specific statistical tests (Proportion of Failures test, Time Until First Failure test, Christoffersen Interval Forecast test, Mixed Kupiec test and Conditional Coverage test) that are conducted in regard to different portfolio hierarchical levels and time horizon for Banca Akros and the Parent Company. As regards Banca Akros, the results of the analysis showed that the model has a good capacity to predict the number of backtesting overruns.
Additionally, the adequacy of the scaling method used to quantify the capital requirement, as required by regulations, is reviewed.
To verify the severity of the stressed period used in the Stressed VaR risk measure, appropriate analysis is carried out to assess any alternative periods that are more conservative than the one currently used to quantify the risk. The analyses showed that the current stressful period was appropriate and could continue to be used.
Lastly, the Internal Validation function validates sample pricing models and performs benchmark models in order to evaluate the robustness of those in production.

1.2.2 Interest rate risk and price risk - banking book

QUALITATIVE INFORMATION

A. General issues, management procedures and interest rate risk and price risk measurement methods

The interest rate risk relating to the banking book is mainly associated with the core activity performed by the bank acting as an intermediary in the process of transformation of maturities. In particular, the issue of fixed rate bonds, the granting of fixed rate commercial loans and mortgages and funding from demand current accounts represent a fair value interest rate risk, while floating rate financial assets and liabilities represent a cash flow interest rate risk.
The Asset & Liability Management unit of the Parent Company's Finance Function is responsible for managing interest rate risk and operates in compliance with the limits for exposure to interest rate risk defined by the RAF and the indications of the Finance Committee.
The Parent Company's Risk Function is in charge of monitoring and controlling the interest rate risk of the banking book, also for the financial subsidiaries. This activity is performed on a monthly basis to verify that the limits in terms of changes in interest margin or equity or the economic value of the banking book are complied with.
During 2019 the activities were carried out for compliance of the supervisory reporting of metrics knowns as the Supervisory Outlier Test, in compliance with the new EBA Guidelines (EBA/GL/2018/02) that entered into force in June. In this context, it is important to mention the extension of the internal model on drawdowns of free credit lines to interest rate risk. The framework of 1st level, 2nd instance controls was developed.
As part of the monitoring of interest rate risk, in particular the risk measures used internally and subject to the RAF limit are:

- the change in the expected interest margin following a parallel shock of the spot rate curves of +/- 40 bps over a time horizon of twelve months (income perspective);
- the change in economic value following a parallel shock of the spot rate curves of +/-200 bps in relation to own funds (capital perspective);
- the value at risk of the banking book based on the VaR method over 12 months and with a confidence interval of 99.9% (capital perspective).

In accordance with normal management practice and internal regulations, Banco BPM Group conducts periodic stress tests, applying instant shocks, both parallel or non-parallel, to the interest rate curves of the currencies in which the banking book items are denominated. Additionally, during the ICAAP exercise, the impact of extreme yet plausible changes in risk factors on VaR is assessed from a capital adequacy perspective.

QUANTITATIVE INFORMATION

1. Banking book: distribution of financial assets and liabilities by residual duration (per repricing date)

Currency of denomination: Euro

Type/Residual duration	On demand	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	From over 1 year to 5 years	From over 5 years to 10 years	Over 10 years	Unlimited duration
1. Cash assets	**29,182,957**	**59,048,233**	**6,151,391**	**3,901,758**	**18,318,107**	**17,877,887**	**6,771,127**	**-**
1.1 Debt securities	97,456	3,995,271	1,637,934	674,864	9,406,961	12,246,201	540,698	-
- with early redemption option	5,562	1,360,037	2,091	24,446	308,436	224,370	66,292	-
- other	91,894	2,635,234	1,635,843	650,418	9,098,525	12,021,831	474,406	-
1.2 Loans to banks	1,241,474	7,910,536	174,841	95,335	152,602	-	-	-
1.3 Loans to customers	27,844,027	47,142,426	4,338,616	3,131,559	8,758,544	5,631,686	6,230,429	-
- current accounts	11,150,785	-	2	-	-	130,654	-	-
- other loans	16,693,242	47,142,426	4,338,614	3,131,559	8,758,544	5,501,032	6,230,429	-
- with early redemption option	3,659,660	43,699,903	3,461,376	2,613,939	8,144,166	4,090,000	6,199,966	-
- other	13,033,582	3,442,523	877,238	517,620	614,378	1,411,032	30,463	-
2. Cash liabilities	**88,888,345**	**11,160,323**	**10,466,782**	**7,123,332**	**12,109,293**	**4,291,059**	**302,705**	**-**
2.1 Due to customers	86,532,784	3,082,634	1,440,588	858,345	704,618	241,875	260,138	-
- current accounts	83,674,779	391,107	106,662	2	-	-	-	-
- other payables	2,858,005	2,691,527	1,333,926	858,343	704,618	241,875	260,138	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	2,858,005	2,691,527	1,333,926	858,343	704,618	241,875	260,138	-
2.2 Due to banks	2,206,494	4,388,551	8,891,214	4,376,915	5,181,310	225,597	2,277	-
- current accounts	264,923	-	-	-	-	-	-	-
- other payables	1,941,571	4,388,551	8,891,214	4,376,915	5,181,310	225,597	2,277	-
2.3 Debt securities	149,039	3,689,138	134,980	1,888,072	6,223,365	3,823,587	40,290	-
- with early redemption option	15,326	1,474,928	53	104,992	93,080	847,217	308	-
- other	133,713	2,214,210	134,927	1,783,080	6,130,285	2,976,370	39,982	-
2.4 Other liabilities	28	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	28	-	-	-	-	-	-	-
3. Financial derivatives	**1,545,580**	**15,218,482**	**1,783,010**	**5,894,745**	**8,972,978**	**7,020,679**	**260,616**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	1,545,580	15,218,482	1,783,010	5,894,745	8,972,978	7,020,679	260,616	-
- Options	2,355	106,678	35,406	14,937	73,346	17,883	16,376	-
+ Long positions	2,355	99,479	26,188	519	787	102	4,061	-
+ Short positions	-	7,199	9,218	14,418	72,559	17,781	12,315	-
- Other derivatives	1,543,225	15,111,804	1,747,604	5,879,808	8,899,632	7,002,796	244,240	-
+ Long positions	549,662	4,760,635	1,702,410	5,476,149	5,171,315	2,414,385	140,000	-
+ Short positions	993,563	10,351,169	45,194	403,659	3,728,317	4,588,411	104,240	-
4. Other off-balance sheet transactions	**11,703,730**	**11,703,730**	**-**	**-**	**-**	**-**	**-**	**-**
+ Long positions	9,636,524	2,067,206	-	-	-	-	-	-
+ Short positions	2,067,206	9,636,524	-	-	-	-	-	-

Currency of denomination: other currencies

Type/Residual duration	On demand	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	From over 1 year to 5 years	From over 5 years to 10 years	Over 10 years	Unlimited duration
1. Cash assets	**288,020**	**1,029,686**	**301,500**	**193,706**	**2,281,157**	**405,232**	**70**	**-**
1.1 Debt securities	13,807	286,733	177,941	186,201	2,242,405	395,110	-	-
- with early redemption option	237	-	-	-	31,367	6,243	-	-
- other	13,570	286,733	177,941	186,201	2,211,038	388,867	-	-
1.2 Loans to banks	117,069	90,911	75	559	298	63	-	-
1.3 Loans to customers	157,144	652,042	123,484	6,946	38,454	10,059	70	-
- current accounts	94,679	-	-	-	-	1	-	-
- other loans	62,465	652,042	123,484	6,946	38,454	10,058	70	-
- with early redemption option	17,495	372,302	71,650	7	84	164	70	-
- other	44,970	279,740	51,834	6,939	38,370	9,894	-	-
2. Cash liabilities	**803,035**	**2,831,823**	**233,432**	**233,053**	**-**	**-**	**-**	**-**
2.1 Due to customers	688,755	146,674	9,188	7,005	-	-	-	-
- current accounts	688,575	27,927	9,188	7,005	-	-	-	-
- other payables	180	118,747	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	180	118,747	-	-	-	-	-	-
2.2 Due to banks	114,280	2,685,149	224,244	226,048	-	-	-	-
- current accounts	1,913	-	-	-	-	-	-	-
- other payables	112,367	2,685,149	224,244	226,048	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**1,321,880**	**17,803**	**17,803**	**961,367**	**324,907**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	1,321,880	17,803	17,803	961,367	324,907	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	1,321,880	17,803	17,803	961,367	324,907	-	-
+ Long positions	-	1,321,880	-	-	-	-	-	-
+ Short positions	-	-	17,803	17,803	961,367	324,907	-	-
4. Other off-balance sheet transactions	**-**	**150,079**	**68,186**	**1,780**	**9,037**	**-**	**-**	**-**
+ Long positions	-	38,208	68,186	-	8,147	-	-	-
+ Short positions	-	111,871	-	1,780	890	-	-	-

2. Banking book: internal models and other sensitivity analysis methods

The Group makes use of an Asset & Liability Management procedure to measure on a monthly basis the impact ("sensitivity") from changes in the interest rate structure on the economic value of capital related to the banking book. With regard to the expected net interest, dividend and similar income, the ALM system estimates its changes on a one year horizon in the assumption of deterministic shocks of the interest rate curves (bps increases/decreases applied to all the interest rate curves as if it were a sudden, single and parallel change), and shocks to adjust to the forward rates implied in money market rates, and again shocks from projections that reflect alternative scenarios. Estimates are based on the assumption that the capital structure remains unchanged in terms of aggregate assets and liabilities, as well as in terms of financial characteristics (rates, spreads, duration).
With regard to the economic value of capital, the same assumptions on the interest rate curve changes are applied, measuring the change in present value of all transactions and comparing it with the value of own funds.
In light of a market scenario characterised by the persistence of rates close to zero and negative on short-term maturities, for the purpose of the sensitivity analyses the risk measurement metrics are monitored by applying a floor to the development of the future rates used for the calculation.
The table below shows exposure to interest rate risk at the end of 2019 in accordance with operational risk measurements.

Risk ratios (%)	2019				2018	
	31 December	average	maximum	minimum	31 December	average
For shift of + 100 bps						
Financial margin at risk/Financial margin	11.6%	18.9%	21.0%	11.6%	20.4%	19.9%
For shift of - 100 bps (EBA floor)						
Financial margin at risk/Financial margin	-8.0%	-9.4%	-6.0%	-11.6%	-11.7%	-16.4%
For shift of + 100 bps						
Economic value at risk/ Economic value of capital	-0.8%	-0.4%	1.7%	-1.9%	0.0%	-1.9%
For shift of - 100 bps (EBA floor)						
Economic value at risk/ Economic value of capital	-0.5%	-2.3%	-0.1%	-5.5%	-2.1%	-0.5%

With reference to the banking book, the Group also assesses the exposure to default and migration risk of the rating classes of the debt securities classified as HTCS and HTC using a method which involves calculating the VaR spread and the Incremental Default Risk (IDR), to take into consideration the Default component of the HTCS portfolio and the Incremental Risk Charge to capture the Rating Migration component of the HTC portfolio.

1.2.3 Exchange rate risk

QUALITATIVE INFORMATION

A. General issues, management procedures and exchange rate risk measurement methods

Exchange rate risk management is centralised within the Forex & Commodities Unit for Banca Akros. The total exposure for Banca Akros as at 31 December 2019, adding all the exchange rate positions against the euro, was substantially breakeven, around 3 million euro, concentrated in the currencies USD (US Dollar), GBP (GB pound), JPY (Japanese yen) and CHF (Swiss Franc).
Regarding the methods for measuring and controlling the exchange rate risk generated by the trading book, please refer to the method described in the "Interest rate risk and price risk - Regulatory trading book" section.
With regard to calculation of the capital requirements, in 2019, authorisation was obtained from the Supervisory Authorities to extend the internal model for market risks to exchange rate risk of the trading book. That authorisation was subject to the resolution of a specific Finding (Obligation 19) pointed out by the Supervisory Authorities following the TRIM (Target Review Internal Model) inspection.
Since the date of the resolution of that finding, exchange rate risk of the trading book has therefore been comprised in the scope of risks included in the internal model validated for the purposes of calculating the capital requirements.

Note that in 2019, the request was also submitted to extend the internal model to the exchange rate risk of the Banking Book. As at 31 December 2019 the Banking Book of Banca Akros had no exposure to exchange rate risk.

B. Exchange rate risk hedging

Exchange rate risk positions are monitored on a daily basis and are hedged so as to meet the risk limits provided for each function, in line with the risk targets defined for the Bank.
The Forex & Commodities Unit, where the management of exchange rate risk is centralised, hedges currency exposures relating to other desks and those relating to its own market making activities, with a view to managing exchange rate risk and exchange rate volatility "on the book", thus with the possibility to carry out hedging "upstream" and to assume risks within the preset limits defined by the internal policies. As a result, the imbalances shown in the table below, which groups together the financial statement items by currency of denomination, and, therefore, do not represent the actual exchange rate risk, are operationally hedged within the centralised management of interest rates.

QUANTITATIVE INFORMATION

1. Breakdown by currency of assets and liabilities and of derivatives

Items	Currencies					
	USD	JPY	GBP	CHF	CAD	OTHER
A. Financial assets	**4,842,559**	**89,314**	**60,692**	**102,357**	**16,202**	**126,753**
A.1 Debt securities	3,294,661	-	-	21,385	-	10,919
A.2 Equity instruments	522,421	67,614	29,584	30,389	9,394	40,885
A.3 Loans to banks	97,971	19,370	5,552	34,590	2,765	62,178
A.4 Loans to customers	927,506	2,330	25,556	15,993	4,043	12,771
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**59,738**	**6,916**	**15,926**	**64,861**	**6,187**	**15,302**
C. Financial liabilities	**3,957,873**	**8,252**	**62,199**	**18,212**	**29,701**	**33,194**
C.1 Due to banks	3,208,828	3,307	25,995	62	7,848	3,684
C.2 Due to customers	749,045	4,945	36,204	18,150	21,853	29,510
C.3 Debt securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**25,835**	**595**	**1,413**	**1,351**	**150**	**2,664**
E. Financial derivatives						
- Options						
+ Long positions	78,936	3,336	12,137	922	686	106
+ Short positions	106,689	6,625	9,764	-	-	426
- Other derivatives						
+ Long positions	28,505,778	293,103	123,584	29,826	42,279	92,758
+ Short positions	29,052,708	306,887	135,393	197,206	26,913	132,587
Total assets	**33,487,011**	**392,669**	**212,339**	**197,966**	**65,354**	**234,919**
Total liabilities	**33,143,105**	**322,359**	**208,769**	**216,769**	**56,764**	**168,871**
Imbalance (+/-)	**343,906**	**70,310**	**3,570**	**(18,803)**	**8,590**	**66,048**

2. Internal models and other sensitivity analysis methods

The exchange rate risks generated by the trading book and the banking book are monitored through an internal VaR model extensively described in section "Interest rate risk and price risk – Regulatory trading book", where the values assumed by this indicator are shown.

1.3 DERIVATIVE INSTRUMENTS AND HEDGING POLICIES

Derivative instruments

Given the operations in derivatives, Banco BPM Group introduced specific and robust validation and control processes of the pricing models and the related market parameters.

Validation and control process of Market Parameters

Banco BPM Group adopted a Fair Value Policy defining the accounting rules to be used to value market parameters. To comply with this Policy, a strict process was put in place to count, validate and control the market parameters used to measure the market value and to estimate the risk of derivative positions. This process is implemented by the Parent Company's Risk Function and envisages, in particular:

- the constant update of the Parameter Manual, containing the main parameters used and their most significant features, and the definition of the source;
- the constant update of parameter control methods;
- the daily validation and control of the listed parameters, automatically fed by external info-providers;
- the daily validation and control of illiquid parameters, from an accounting and management viewpoint.

In order to support control activities, the Group introduced an advanced application system (fed by the front office system and, for benchmarking purposes, by alternative and highly specialised info-providers) to monitor over time the performance of the parameters, featuring the statistical analysis of variations and operating warnings.

Validation and control process of Pricing Models of OTC derivative products

Banco BPM Group works with OTC derivative instruments using, for the purposes of their valuation, quantitative pricing models in line with market best practices, which are already included in the Front Office application or, for special structures, models developed by the financial engineering department of the Investment Bank.
In order to ensure a precise and strict control over the adoption of new pricing models - be they market or in-house developed models - a validation process is in place, with the following features:

- the validation of the models carried out by the Market Risk Unit of the Risk Function;
- model validation based on strict consistency and robustness tests, conducted with the support of academic experts;
- the official validation of the new pricing models by the Parent Company's Risk Committee and, when this involves a new product, also by the Product Innovation Committee with the involvement of the main members of corporate management.

Note that, based on the current prudential policy pursued by the Group, innovative financial instruments can be entered only after a thorough analysis of the reliability and accuracy of their pricing models.

The table below gives the fair value amount of Banca Akros' positions in derivative financial instruments (with the exclusion of forward exchange contracts), in relation to the type of pricing model used. Note that Banca Akros, in its role as the investment bank of Banco BPM Group, manages the market risk that derives from its overall transactions in derivative financial instruments.

Aggregate ***(fair value in thousands of euro)***		**Number of contracts/Lots (in units)**	**Fair Value**	**Positive Fair Value**	**Negative Fair Value**
Total		**254,245**	**(987,348)**	**1,260,139**	**(2,247,523)**
of which:	Listed/Quoted Derivatives	250,075	10,576	178,698	(168,122)
of which:	Certificates valued using internal models developed by the financial engineering department of Banca Akros	49	(794,311)	-	(794,311)
of which:	OTC derivatives valued using the proprietary models of the Front Office system	3,593	(318,108)	576,531	(894,639)
of which:	OTC derivatives valued using internal models developed by the financial engineering department of Banca Akros	525	114,164	504,077	(389,913)
of which:	OTC derivatives valued using external contributors	3	295	833	(538)

Elimination of intragroup derivatives associated with liabilities at fair value

The adoption of the fair value option for certain bond issues, as described in the paragraph "Financial liabilities at fair value" contained in "Part A.2 - Key financial statement items", necessarily implies a series of assumptions with reference to the representation of hedging derivatives in the consolidated financial statements. For these issues, which took place before the first half of 2016, the designation at fair value is closely related to the actual way in which the Group has implemented its hedging strategies, managing its exposure to the market in "massive" terms and not through a single or determinable relationship with the individual loan or portfolio of loans. More in detail, the management of the hedges associated with the Group's bond issues was carried out by the Group's investment bank (Banca Akros, formerly Banca Aletti). The intragroup derivatives stipulated with Banca Akros are recorded by Banca Akros in its trading book and managed on a mass basis, together with the other trading instruments, in compliance with the position and risk limits that can be held by Banca Akros. In general, it is therefore possible to state that:

- for the issuer, the adoption of the fair value option makes it possible to represent, in accounting terms, the management hedging strategy for all risks associated with bond issues. This is reflected in the risk exposure of the banking book, in which both issues and related hedging derivatives are classified;
- for Banca Akros, the risk position deriving from the stipulation of these derivatives is added to the other existing positions or those to be activated with market counterparties, to be managed according to a portfolio strategy, within the established risk limits. The total of these positions is recorded in the trading book;
- at consolidated level, it follows that the risks associated with the banking book are substantially hedged and that the Group's actual risk exposure is that resulting from the management carried out by Banca Akros.

As at 31 December 2019, consolidation procedures require that derivatives entered into between Group companies be eliminated. In order to correctly represent the risks associated with the Group's supervisory trading book and banking book, which would be altered as a result of the aforementioned elimination, it is necessary to reclassify the derivatives that Banca Akros has ideally contracted with the market (included in its trading book) to cover the liabilities issued by the Parent Company (included in its banking book), from the regulatory trading book to the banking book. Specifically, this reclassification is carried out assuming that these derivatives are perfectly consistent with those entered into by the Parent Company, from the moment in which the massive management of risks carried out by Banca Akros does not allow the unambiguous identification of the specific derivative contracts entered into with external counterparties. This assumption is supported by the fact that the Banca Akros desks, which act as counterparties to the Parent Company, transfer the risks associated with the fair value option to the market and that any risk position taken by them is the result of a deliberate decision by them, which does not take into account the risks assumed by contracting the derivatives in question.

1.3.1 Trading derivative instruments

A. Financial derivatives

A.1 Trading financial derivatives: year-end notional values

Underlying assets/Derivative types	Total 31/12/2019				Total 31/12/2018			
	Over the Counter			Organised markets	Over the Counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting arrangements	Without netting arrangements			With netting arrangements	Without netting arrangements	
1. Debt securities and interest rates	32,583,242	38,332,797	12,673,000	882,700	35,315,089	45,205,273	12,967,287	946,500
a) Options	-	17,234,383	3,035,077	151,500	-	17,226,827	2,882,314	175,000
b) Swaps	32,583,242	21,098,414	7,275,081	-	35,315,089	27,978,446	7,167,497	-
c) Forwards	-	-	20,570	-	-	-	-	-
d) Futures	-	-	2,342,272	731,200	-	-	2,917,476	771,500
e) Other	-	-	-	-	-	-	-	-
2. Equity instruments and share indices	-	10,632,527	2,116,728	890,756	-	9,065,241	1,662,187	739,902
a) Options	-	10,632,527	1,828,942	847,573	-	9,065,241	1,447,505	720,375
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	287,786	43,183	-	-	214,682	19,527
e) Other	-	-	-	-	-	-	-	-
3. Currencies and gold	-	56,314,267	1,013,452	-	-	23,236,442	1,208,907	-
a) Options	-	381,102	212,512	-	-	890,402	235,723	-
b) Swaps	-	1,841	18,665	-	-	3,693	41,968	-
c) Forwards	-	55,931,324	774,556	-	-	22,342,347	931,216	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	7,719	-	-	-	-	-
4. Commodities	-	7,387	7,235	-	-	33,350	5,804	-
5. Other	-	-	-	-	-	-	-	-
Total	**32,583,242**	**105,286,978**	**15,810,415**	**1,773,456**	**35,315,089**	**77,540,306**	**15,844,185**	**1,686,402**

A.2 Trading financial derivatives: gross positive and negative fair value - breakdown by products

Derivative types	Total 31/12/2019				Total 31/12/2018			
	Over the Counter			Organised markets	Over the Counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting arrangements	Without netting arrangements			With netting arrangements	Without netting arrangements	
1. Positive Fair Value								
a) Options	-	666,559	37,149	24,314	-	396,183	54,267	43,079
b) Interest rate swaps	326,636	598,207	188,135	-	235,973	842,859	159,033	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	436,629	3,081	-	-	316,289	8,063	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	345	15	-	-	3,299	132	-
Total	**326,636**	**1,701,740**	**228,380**	**24,314**	**235,973**	**1,558,630**	**221,495**	**43,079**
2. Negative Fair Value								
a) Options	-	462,663	811,429	31,169	-	468,957	970,149	38,359
b) Interest rate swaps	499,203	732,676	25,954	-	345,469	989,374	249	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	399,138	4,584	-	-	266,619	9,599	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	307	153	-	-	2,947	176	-
Total	**499,203**	**1,594,784**	**842,120**	**31,169**	**345,469**	**1,727,897**	**980,173**	**38,359**

A.3 OTC trading financial derivatives: notional values, gross positive and negative fair value by counterparties

Underlying assets	Central counterparties	Banks	Other financial companies	Other entities
Contracts not included in netting arrangements				
1) Debt securities and interest rates				
- notional value	X	2,761,172	419,219	9,492,609
- positive fair value	X	-	7,396	194,333
- negative fair value	X	-	40	27,107
2) Equity instruments and share indices				
- notional value	X	287,786	212,968	1,615,974
- positive fair value	X	-	14,074	8,413
- negative fair value	X	-	5,163	803,142
3) Currencies and gold				
- notional value	X	470,905	15,152	527,395
- positive fair value	X	19	43	4,001
- negative fair value	X	3,222	103	3,212
4) Commodities				
- notional value	X	-	-	7,235
- positive fair value	X	-	-	101
- negative fair value	X	-	-	131
5) Other				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts included in netting arrangements				
1) Debt securities and interest rates				
- notional value	32,583,242	27,963,154	9,357,527	1,012,116
- positive fair value	326,636	539,409	208,307	23,178
- negative fair value	499,203	560,751	256,231	323
2) Equity instruments and share indices				
- notional value	-	6,697,295	3,935,232	-
- positive fair value	-	289,209	203,038	-
- negative fair value	-	239,986	137,351	-
3) Currencies and gold				
- notional value	-	50,286,757	5,715,411	312,099
- positive fair value	-	389,528	46,063	2,664
- negative fair value	-	359,105	37,714	3,019
4) Commodities				
- notional value	-	163	6,251	973
- positive fair value	-	-	336	8
- negative fair value	-	1	303	-
5) Other				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Residual life of OTC financial derivatives: notional values

Underlying/Residual life	Up to 1 year	From over 1 year to 5 years	Over 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	25,435,718	41,691,734	16,461,587	83,589,039
A.2 Financial derivatives on equity instruments and share indices	4,287,000	7,108,206	1,354,049	12,749,255
A.3 Financial derivatives on currencies and gold	56,465,016	862,703	-	57,327,719
A.4 Financial derivatives on commodities	14,622	-	-	14,622
A.5 Other financial derivatives	-	-	-	-
Total 31/12/2019	**86,202,356**	**49,662,643**	**17,815,636**	**153,680,635**
Total 31/12/2018	**59,305,582**	**50,623,413**	**18,770,584**	**128,699,579**

OTC financial derivatives: counterparty risk/financial risk – Internal models

Counterparty risk is defined as the risk that the counterparty in a transaction defaults before the final settlement of the cash flows of said transaction (*EU Regulation no. 575/2013*). As regards this type of risk, for operating purposes and to provide support for capital adequacy assessment processes (ICAAP process), the Parent Company and Banca Akros use internal methods to estimate exposures to the risk of possible default of counterparties in OTC derivative transactions.
These methods are mostly based on statistical-quantitative approaches, partially linked to the techniques used for VaR (Value at Risk) estimates, which assess the impact that market risk factors may have on the positive future market value of the overall derivatives portfolio.
For the Parent Company and Banca Akros, the estimate of exposure to counterparty risk, with regard to existing positions with counterparties who have a signed "collateral agreement" (Credit Support Annex – CSA), is carried out using the "Shortcut Method". The expected exposure is assessed on the basis of possible changes of the Mark to Market for the individual contracts underlying the same reference CSA on a time horizon given by the "risk margin period" that characterises each contract. In particular, the expected exposure is assessed based on the future changes to the mark-to-market, simulated starting from historical data, calculating the average of the values in the range, according to that set out also in art. 272 of REG EU 575. For the purposes of the calculations under the Shortcut Method, the reference period on which the changes in the MtM are simulated is equal to the margin period of risk, which, according to that set out in art. 285 of Reg. EU/575 and in the case of daily margin setting, is equal to 10 working days.
The measurement is also implemented in the Parent Company and Banca Akros lending process chain, with a daily monitoring and reporting system.
For the remainder of the positions in OTC derivatives, the exposure to counterparty risk is calculated, for management purposes, using EPE (expected positive exposure) simulation methodology with an analytical or simplified formula. The indirect membership (through Clearing Brokers) of a Clearing House for operations in OTC and credit derivatives enabled the following objectives to be achieved:

- the mitigation of counterparty risk through netting mechanisms, leading to a reduction of credit facilities to market counterparties;
- the reduction of capital requirements;
- compliance with the European Directive - European Market Infrastructure Regulation (EMIR);
- mitigation of operational risk.

In accordance with the Basel 3 Framework Regulation, additional capital requirements regarding the following are to be calculated:

- Own funds for the CVA through the adoption of the standardised method, as established by (EU) Regulation no. 575/13 for banks that are not authorised to use the internal model method (IMM) for counterparty risk;
- exposures relating to operations with Qualified Central Counterparties (QCCP) by adopting the methods envisaged by arts. 306-308 of *EU Regulation no. 575/2013*.

In calculating exposure to counterparty risk, for Supervisory Reporting, the Group uses the standardised approach on the entire scope of reference (derivatives, repurchase agreements, securities lending and medium and long term loans).

B. CREDIT DERIVATIVES

B.1 Trading credit derivatives: year-end notional values

Transaction categories	Trading derivatives	
	on a single party	on several parties (basket)
1. Protection bought		
a) Credit default products	27,000	30,000
b) Credit spread products	-	-
c) Total rate of return swaps	-	-
d) Other	-	-
Total 31/12/2019	**27,000**	**30,000**
Total 31/12/2018	**125,000**	**-**
2. Protection sold		
a) Credit default products	-	-
b) Credit spread products	-	-
c) Total rate of return swaps	-	-
d) Other	-	-
Total 31/12/2019	**-**	**-**
Total 31/12/2018	**-**	**-**

B.2 Trading credit derivatives: gross positive and negative fair value - breakdown by products

Derivative types	Total 31/12/2019	Total 31/12/2018
1. Positive Fair Value		
a) Credit default products	100	857
b) Credit spread products	-	-
c) Total rate of return swaps	-	-
d) Other	-	-
Total	**100**	**857**
2. Negative Fair Value		
a) Credit default products	1,267	-
b) Credit spread products	-	-
c) Total rate of return swaps	-	-
d) Other	-	-
Total	**1,267**	**-**

B.3 OTC trading credit derivatives: notional values, gross (positive and negative) fair value by counterparty

	Central counterparties	Banks	Other financial companies	Other entities
Contracts not included in netting arrangements				
1) Protection bought				
– notional value	X	-	-	-
– positive fair value	X	-	-	-
– negative fair value	X	-	-	-
2) Protection sold				
– notional value	X	-	-	-
– positive fair value	X	-	-	-
– negative fair value	X	-	-	-
Contracts included in netting arrangements				
1) Protection bought				
– notional value	57,000	-	-	-
– positive fair value	100	-	-	-
– negative fair value	1,267	-	-	-
2) Protection sold				
– notional value	-	-	-	-
– positive fair value	-	-	-	-
– negative fair value	-	-	-	-

B.4 Residual life of OTC trading credit derivatives: notional values

Underlying/Residual life	Up to 1 year	From over 1 year to 5 years	Over 5 years	Total
1 Protection sold	-	-	-	-
2 Protection bought	-	57,000	-	57,000
Total 31/12/2019	**-**	**57,000**	**-**	**57,000**
Total 31/12/2018	**-**	**125,000**	**-**	**125,000**

B.5 Credit derivatives connected with the fair value option: annual changes

This case is not present for the Group, thus the relevant table has been omitted.

1.3.2 Hedge accounting

QUALITATIVE INFORMATION

A. Fair value hedging

The management of interest rate risk in the Banking Book is carried out centrally by the Parent Company within a specific delegated department, and the primary objective of management decisions is to mitigate the rebalancing of the dynamics of economic value volatility with the volatility of interest margin as the market rate curve changes, in accordance with the provisions of specific regulations (BCBS, EBA and the Bank of Italy).
The Group utilises an integrated Asset Liability Management (ALM) system with the aim of calculating the risk measurements that also include the use of behavioural models and measures, and management tends to pursue a natural compensation for the risks generated by the gaps in liabilities and assets. The items for which hedges are present are above all on-demand items, bond issues, mortgage loans and the securities portfolio.

In regard to the accounting of these hedging relationships:

- demand items are hedged through fair value hedges;
- bonds placed with ordinary customers are hedged via the fair value option, while fair value hedging is used for bonds placed with institutional investors;
- the securities portfolio is usually hedged through fair value hedges (or, in some specific cases, cash flow hedges);
- loans are hedged through fair value hedges.

For further details, please refer to "Part A – Accounting policies" and the comment under table of the item "30. Financial assets and liabilities at fair value" of "Part B – Information on the balance sheet" of these notes to the consolidated financial statements.

The price risk of the alternative assets portfolio is monitored on a daily basis and is not hedged.

B. Cash flow hedging

Cash flow hedges are extremely limited and only concern certain securities on the balance sheet (these are mainly inflation-linked securities).

C. Foreign investment hedging

The only foreign investment hedges made by the Group concern the share held by Banca Aletti in the subsidiary Banca Aletti & C. (Suisse) S.A., in which the book value is expressed in a currency other than euro (Swiss francs). In the individual financial statements, the hedge directly refers to the equity investment recorded in Banca Aletti's financial statements, while at the consolidated financial statement level, following on from a process of consolidation, the hedge regards the assets and liabilities of the aforementioned subsidiary.

D. Hedging instruments

The main sources of ineffectiveness that could change the hedging relationship during the period of validity are as follows:

- misalignment of the derivative and the hedged underlying recorded on initial designation or subsequently generated, as in the case of partial repayments of mortgages or repurchases of bond loans;
- inclusion in the effectiveness est of the value of the variable leg of the hedging derivative, in the case of fair value hedges.

During the year, no conditions arose that determined hedge ineffectiveness.

During the year, the Group did not implement any dynamic hedging, as defined by IFRS 7, paragraph 23C.

E. Hedged items

Regarding the hedged risks and the relative hedging instruments used, please refer to previous points A and B.
As outlined in Part A of these Notes to the Consolidated Financial Statements, the derivatives can be designated as hedges, provided that the hedging relationship between the hedged instrument and the hedging instruments is formally documented and it is effective at the time the hedge is originated and prospectively throughout its entire life.
The hedge effectiveness depends on the extent to which the changes in the fair value or in the expected cash flows of the hedged instrument are actually offset by those of the hedging instrument. Therefore, effectiveness is measured by comparing said changes, while considering the aim pursued by the entity when the hedge was established.
A hedge is effective (within the limits established as a range of 80% to 125%) when changes in the fair value (or in the cash flows) of the hedging instrument neutralise almost completely the changes in the hedged instrument attributable to the hedged risk.
Subsequent to initial recognition with reference to the partial or total ineffectiveness of the hedging relationships:

- for fair value hedges, the changes in fair value of the hedged element are offset by the changes in fair value of the hedging instrument. Said offset is recognised by charging the changes in value to the income statement, in item "90. Fair value adjustments in hedge accounting", referring both to the hedged element (referring to the changes generated by the underlying risk factor), as well as to the hedging instrument. Any resulting difference, which represents the partial ineffectiveness of the hedge, represents the net effect on the income statement. If the hedging relationship ends, the hedged instrument reacquires the measurement approach of the class to which it originally belonged; for instruments measured at amortised cost, the cumulative revaluations/write-downs recognised as a result of changes in fair value of the hedged risk are recognised in the income statement under interest income and expense throughout the residual life of the hedged item, on the basis of the effective interest rate. If the hedged item is sold or repaid, the share of fair value not yet amortised is recognised immediately in the income statement;

- for cash flow hedges, the portion of changes in the fair value of the derivative that are determined to be an effective hedge is recognised directly at equity (item "120. Valuation reserves"), while it is recognised in the income statement only when changes in cash flows to be offset arise in the hedged item. The portion of gains or losses of the hedging instrument that is considered ineffective is charged to the income statement (item "90. Fair value adjustments in hedge accounting"). Said portion is equal to any difference between the cumulative fair value of the hedging instrument and the cumulative fair value of the hedged instrument. In any event, the fluctuations in fair value of the hedged item and the related hedge must lie within the 80%-125% range. If the cash flow hedge is no longer considered effective or the hedging relationship is terminated, the total amount of profits or losses on the hedging instrument, previously recognised in "Valuation reserves", is recognised in the income statement only when the hedged transaction will take place or when it is no longer deemed possible that the transaction will take place. In this last circumstance, the profits or losses are transferred from the shareholders' equity item to the income statement item "90. Fair value adjustments in hedge accounting".

QUANTITATIVE INFORMATION

A. FINANCIAL HEDGING DERIVATIVES

A.1 Financial hedging derivatives: year-end notional values

Underlying assets/Derivative types	Total 31/12/2019				Total 31/12/2018			
	Over the Counter			Organised markets	Over the Counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting arrangements	Without netting arrangements			With netting arrangements	Without netting arrangements	
1. Debt securities and interest rates	14,599,154	6,418,808	2,100,000	-	11,163,082	8,541,210	1,100,000	-
a) Options	-	206,898	-	-	-	5,177	-	-
b) Swaps	14,599,154	5,827,280	2,100,000	-	11,163,082	8,536,033	1,100,000	-
c) Forwards	-	384,630	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity instruments and share indices	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Currencies and gold	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	-	-	-	-	-	-	-	-
5. Other	-	-	-	-	-	-	-	-
Total	**14,599,154**	**6,418,808**	**2,100,000**	**-**	**11,163,082**	**8,541,210**	**1,100,000**	**-**

A.2 Financial hedging derivatives: gross positive and negative fair value - breakdown by products

Derivative types	Positive and negative fair value							
	Total 31/12/2019				Total 31/12/2018			
	Over the Counter			Organised markets	Over the Counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting arrangements	Without netting arrangements			With netting arrangements	Without netting arrangements	
Positive Fair Value								
a) Options	-	-	-	-	-	-	-	-
b) Interest rate swaps	78,885	93,604	7,161	-	31,521	15	1,958	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	2,844	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	**78,885**	**96,448**	**7,161**	**-**	**31,521**	**15**	**1,958**	**-**
Negative Fair Value								
a) Options	-	184	-	-	-	-	-	-
b) Interest rate swaps	199,196	432,138	-	-	89,590	538,481	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	129	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	**199,196**	**432,451**	**-**	**-**	**89,590**	**538,481**	**-**	**-**

A.3 OTC financial hedging derivatives: notional values, gross positive and negative fair value by counterparty

Underlying assets	Central counterparties	Banks	Other financial companies	Other entities
Contracts not included in netting arrangements				
1) Debt securities and interest rates				
- notional value	X	2,100,000	-	-
- positive fair value	X	7,161	-	-
- negative fair value	X	-	-	-
2) Equity instruments and share indices				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Currencies and gold				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
4) Commodities				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts included in netting arrangements				
1) Debt securities and interest rates				
- notional value	14,599,154	4,048,462	2,370,346	-
- positive fair value	78,885	2,844	93,604	-
- negative fair value	199,196	366,467	65,984	-
2) Equity instruments and share indices				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Currencies and gold				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Commodities				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other	-	-	-	-
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Residual life of OTC financial hedging derivatives: notional values

Underlying/Residual life	Up to 1 year	From over 1 year to 5 years	Over 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	4,272,508	11,165,998	7,679,456	23,117,962
A.2 Financial derivatives on equity instruments and share indices	-	-	-	-
A.3 Financial derivatives on currencies and gold	-	-	-	-
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31/12/2019	**4,272,508**	**11,165,998**	**7,679,456**	**23,117,962**
Total 31/12/2018	**2,965,552**	**11,018,273**	**6,820,468**	**20,804,293**

B. Credit hedging derivatives

B.1 Credit hedging derivatives: year-end notional values

This case is not present for the Group, thus the relevant table has been omitted.

B.2 Credit hedging derivatives: gross positive and negative fair value - breakdown by products

This case is not present for the Group, thus the relevant table has been omitted.

B.3 OTC credit hedging derivatives: notional values, gross positive and negative fair value by counterparty

This case is not present for the Group, thus the relevant table has been omitted.

B.4 Residual life of OTC credit hedging derivatives: notional values

This case is not present for the Group, thus the relevant table has been omitted.

C. Non-derivative hedging instruments

C.1 Hedging instruments other than derivatives: breakdown by accounting portfolio and hedge type

This case is not present for the Group, thus the relevant table has been omitted.

D. Hedged instruments

D.1 Fair value hedges

	Micro hedges: book value	Micro hedges - net positions: book value of assets or liabilities (before netting)	Micro hedges			Macro hedges: Book value
			Accumulated changes in the fair value of the hedged instrument	Termination of the hedge: residual accumulated changes in fair value	Changes in value used to calculate hedge ineffectiveness	
A. Assets						
1. Financial assets at fair value through other comprehensive income – hedging of:	**4,595,603**	**-**	**180,746**	**-**	**-**	**-**
1.1 Debt securities and interest rates	4,595,603	-	180,746	-	-	X
1.2 Equity instruments and share indices	-	-	-	-	-	X
1.3 Currencies and gold	-	-	-	-	-	X
1.4 Loans	-	-	-	-	-	X
1.5 Other	-	-	-	-	-	X
2. Financial assets at amortised cost - hedging of:	**4,758,332**	**-**	**122,335**	**-**	**-**	**22,923**
1.1 Debt securities and interest rates	4,758,332	-	122,335	-	-	X
1.2 Equity instruments and share indices	-	-	-	-	-	X
1.3 Currencies and gold	-	-	-	-	-	X
1.4 Loans	-	-	-	-	-	X
1.5 Other	-	-	-	-	-	X
Total 31/12/2019	**9,353,935**	**-**	**303,081**	**-**	**-**	**22,923**
Total 31/12/2018	**7,795,706**	**-**	**327,995**	**-**	**-**	**34,732**
B. Liabilities						
1. Financial liabilities at amortised cost - hedging of:	**4,734,635**	**-**	**5,078**	**-**	**-**	**49,355**
1.1 Debt securities and interest rates	4,734,635	-	5,078	-	-	X
1.2 Currencies and gold	-	-	-	-	-	X
1.3 Other	-	-	-	-	-	X
Total 31/12/2019	**4,734,635**	**-**	**5,078**	**-**	**-**	**49,355**
Total 31/12/2018	**5,641,979**	**-**	**26,008**	**-**	**-**	**32,340**

D.2 Cash flow hedges and foreign investment hedges

	Changes in value used to calculate hedge ineffectiveness	Hedging reserves	Termination of the hedge: residual value of the hedging reserves
A. Cash flow hedges			
1. Assets	**-**	**6,905**	**-**
1.1 Debt securities and interest rates	-	6,905	-
1.2 Equity instruments and share indices	-	-	-
1.3 Currencies and gold	-	-	-
1.4 Loans	-	-	-
1.5 Other	-	-	-
2. Liabilities	**-**	**-**	**-**
1.1 Debt securities and interest rates	-	-	-
1.2 Currencies and gold	-	-	-
1.3 Other	-	-	-
Total (A) 31/12/2019	**-**	**(6,905)**	**-**
Total (A) 31/12/2018	**-**	**(7,034)**	**-**
B. Foreign investment hedges	**X**	**206**	**-**
Total (A+B) 31/12/2019	**-**	**(6,699)**	**-**
Total (A+B) 31/12/2018	**-**	**(5,983)**	**-**

E. Effects of hedging transactions on shareholders' equity

E.1 Reconciliation of shareholders' equity components

	Cash flow hedging reserve				
	Debt securities and interest rates	Equity instruments and share indices	Currencies and gold	Loans	Other
Opening balance	**(7,034)**	**-**	**-**	**-**	**-**
Fair value changes (effective portion)	193	-	-	-	-
Reclassifications to income statement	-	-	-	-	-
of which: future transactions no longer expected	-	-	-	-	-
Other changes	(64)	-	-	-	-
of which: transfers at the initial book value of hedged instruments	-	-	-	-	-
Closing balance	**(6,905)**	**-**	**-**	**-**	**-**

	Hedging instruments (non-designated items)			
	Option time value		Value of forward rate and the differential from foreign currency	
	Hedges related to transactions	Hedges related to a period	Hedges related to transactions	Hedges related to a period
Opening balance	**-**	**-**	**-**	**-**
Changes in value	-	-	-	-
Reclassifications to income statement	-	-	-	-
Other changes	-	-	-	-
Closing balance	**-**	**-**	**-**	**-**

1.3.3 Other information on derivatives (trading and hedging)

A. Financial and credit derivatives

A.1 OTC financial and credit derivatives: net fair value by counterparty

	Central counterparties	Banks	Other financial companies	Other entities
A. Financial derivatives				
1) Debt securities and interest rates				
- notional value	47,182,396	32,011,617	11,727,873	1,012,116
- net positive fair value	242	79,359	48,880	23,175
- net negative fair value	293,120	464,323	120,917	320
2) Equity instruments and share indices				
- notional value	-	6,697,295	3,935,232	-
- net positive fair value	-	50,811	92,899	-
- net negative fair value	-	1,588	27,212	-
3) Currencies and gold				
- notional value	-	50,287,418	5,715,411	312,099
- net positive fair value	-	70,632	16,872	1,452
- net negative fair value	-	40,559	8,176	1,807
4) Commodities				
- notional value	-	163	6,251	973
- net positive fair value	-	-	33	8
- net negative fair value	-	1	-	-
5) Other				
- notional value	-	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	-	-	-
B. Credit derivatives				
1) Protection bought				
- notional value	57,000	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	1,166	-	-	-
2) Protection sold				
- notional value	-	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	-	-	-

1.4 LIQUIDITY RISK

QUALITATIVE INFORMATION

A. General aspects, management processes and measurement methods of liquidity risk

Liquidity risk means the risk that the Group is not able to meet its payment commitments, which are certain or envisaged with reasonable certainty. Usually, two types of Liquidity Risk are identified: Liquidity and Funding Risk, namely the risk that the Group is not able, in the short term (liquidity) and long term (funding), to meet its payment commitments and its obligations in an efficient manner due to the inability to obtain funds without prejudicing its core business activities and/or its financial situation; Market Liquidity Risk represents the risk that the Group is not able to liquidate an asset, without generating losses in the capital account due to the poor depth of the reference market and/or due to the timing required to conduct the transaction.
In Banco BPM Group, liquidity and funding risk is governed by the "Liquidity, funding and ILAAP risk regulation", which establishes: the roles and responsibilities of the corporate bodies and the corporate functions, the models and metrics used for risk measurement, the guidelines for the execution of stress testing and the Liquidity Contingency Plan.
Liquidity risk is managed and monitored as part of the Internal Liquidity Adequacy Assessment Process (ILAAP), which is the process the Group uses to identify, measure, monitor, mitigate and report the Liquidity risk profile of the Group. As part of said process, the Group makes an annual self-assessment regarding the adequacy of the overall liquidity risk management and measurement framework, which also covers governance, methodologies, information systems, measurement tools and reporting. The results of the risk profile adequacy assessment and the overall self-assessment are reported to the Corporate bodies and submitted for the attention of the Supervisory Authority.
Liquidity governance is centralised within the Parent Company.
Liquidity risk monitoring and control is conducted on a daily basis (short-term liquidity) and a monthly basis (structural liquidity); its objective is to monitor the evolution of the risk profile by verifying its adequacy with respect to the Risk Appetite Framework and the operating limits envisaged. Stress tests are conducted on a monthly basis, in order to test the Group's ability to withstand unfavourable scenarios and estimates of how much liquidity can be generated with the countermeasures are updated (so-called action plan, an integral part of the Liquidity Contingency Plan) implemented in a stress scenario.
More specifically, the Group uses a monitoring system that includes short-term liquidity indicators (with a time horizon from infra-day to twelve months) and long-term ones (beyond twelve months). To this end, both regulatory metrics (LCR, NSFR, ALMM) and metrics processed internally, which include the use of estimation models of behavioural and/or optional parameters, are adopted.
In 2019, the liquidity profile of the new Banco BPM Group showed adequacy in the short and long term, complying with both internal and regulatory risk limits.

QUANTITATIVE INFORMATION

1. Distribution of financial assets and liabilities by residual duration of the contracts. Currency of denomination: Euro

Items/Time bands	On demand	From 1 day to 7 days	From 7 days to 15 days	From 15 days to 1 month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	From over 1 year to 5 years	Over 5 years	Unlimited duration
On-balance sheet assets	**28,748,752**	**134,389**	**946,273**	**1,371,018**	**3,462,296**	**4,719,723**	**7,639,796**	**45,074,640**	**45,650,764**	**6,778,339**
A.1 Government securities	72,028	5	-	-	320,576	173,288	500,036	9,899,836	11,706,348	-
A.2 Other debt securities	34,534	105	114,052	60,191	79,161	17,363	286,973	2,033,038	4,429,469	11
A.3 UCIT units	489,929	-	-	-	-	-	-	-	-	-
A.4 Loans	28,152,261	134,279	832,221	1,310,827	3,062,559	4,529,072	6,852,787	33,141,766	29,514,947	6,778,328
- Banks	1,241,742	4,015	647,331	97,347	224,622	295,480	61,268	462,100	-	6,544,572
- Customers	26,910,519	130,264	184,890	1,213,480	2,837,937	4,233,592	6,791,519	32,679,666	29,514,947	233,756
On-balance sheet liabilities	**88,008,656**	**8,825,852**	**435,216**	**330,102**	**1,640,580**	**10,867,093**	**8,013,293**	**19,836,825**	**5,593,243**	**104,900**
B.1 Deposits and current accounts	86,048,665	23,782	28,587	52,572	560,061	346,240	449,290	157,471	-	-
- Banks	539,695	-	-	-	29,010	8,007	12,035	-	-	-
- Customers	85,508,970	23,782	28,587	52,572	531,051	338,233	437,255	157,471	-	-
B.2 Debt securities	149,186	3,630	2,092	39,413	242,716	306,159	2,568,058	12,873,787	4,195,073	104,900
B.3 Other liabilities	1,810,805	8,798,440	404,537	238,117	837,803	10,214,694	4,995,945	6,805,567	1,398,170	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	8,120	1,244,311	976,003	2,154,573	7,670,504	10,132,357	7,034,168	418,279	66,192	-
- Short positions	20,705	941,271	878,303	2,022,598	6,950,064	9,873,217	7,393,159	507,659	368,171	-
C.2 Financial derivatives without exchange of capital										
- Long positions	1,695,100	-	35	112	27,538	5,799	40,333	-	-	-
- Short positions	2,440,892	100	371	2,347	4,935	4,822	12,937	-	-	-
C.3 Deposits and loans to be received										
- Long positions	9,636,524	-	-	-	-	-	-	-	-	-
- Short positions	-	9,636,524	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- Long positions	-	2,067,206	-	-	-	-	-	-	-	-
- Short positions	2,067,206	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	141,122	551	109	1,391	3,733	16,200	23,383	216,777	122,049	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	100	-	-	-	-	-	-	-	-	-
- Short positions	1,267	-	-	-	-	-	-	-	-	-

2. Distribution of financial assets and liabilities by residual duration of the contracts. Currency of denomination: other currencies

Items/Time bands	On demand	From 1 day to 7 days	From 7 days to 15 days	From 15 days to 1 month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	From over 1 year to 5 years	Over 5 years	Unlimited duration
On-balance sheet assets	**399,458**	**68,654**	**76,518**	**239,423**	**272,009**	**264,690**	**213,719**	**2,581,711**	**553,458**	**1,328**
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	13,916	-	-	142,425	134,315	178,031	186,945	2,271,036	416,409	-
A.3 UCIT units	115,040	-	-	-	-	-	-	-	-	-
A.4 Loans	270,502	68,654	76,518	96,998	137,694	86,659	26,774	310,675	137,049	1,328
- Banks	117,067	34,805	46,779	9,055	373	75	560	298	63	-
- Customers	153,435	33,849	29,739	87,943	137,321	86,584	26,214	310,377	136,986	1,328
On-balance sheet liabilities	**802,761**	**25,615**	**1,194,167**	**1,257,848**	**354,574**	**233,554**	**233,193**	**-**	**3,819**	**-**
B.1 Deposits and current accounts	783,582	25,615	30,242	74,434	7,316	10,200	8,258	-	-	-
- Banks	96,571	25,615	28,358	51,455	4,039	905	1,134	-	-	-
- Customers	687,011	-	1,884	22,979	3,277	9,295	7,124	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	19,179	-	1,163,925	1,183,414	347,258	223,354	224,935	-	3,819	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	134	1,090,482	891,820	2,052,915	7,314,757	10,006,985	7,361,079	462,860	-	-
- Short positions	118	1,433,811	977,045	2,055,129	7,749,377	10,194,761	7,169,916	391,882	-	-
C.2 Financial derivatives without exchange of capital										
- Long positions	94,755	-	1,555	395	1,406	5,984	10,518	-	-	-
- Short positions	96,616	-	-	713	4,486	2,077	6,039	-	-	-
C.3 Deposits and loans to be received										
- Long positions	-	8,456	-	-	-	-	-	-	-	-
- Short positions	-	5,786	-	-	-	-	1,780	890	-	-
C.4 Irrevocable commitments to disburse funds										
- Long positions	-	-	-	26,781	2,970	68,186	-	8,147	-	-
- Short positions	-	106,085	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	6,616	-	-	194	933	16,719	2,035	151	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

As outlined in "Part E – Section 2 – Risks of Prudential Consolidation – 1.1 Credit risk – C. Securitisation transactions", Banco BPM has subscribed to securities that can be used for refinancing transactions with the ECB or for repurchase agreements with market counterparties, against "self-securitisation" transactions generated by Group companies or banks. The self-securitisation transactions outstanding as at 31 December 2019 are shown below.

Self-securitisation transactions

SPE	Originator	Securities issue date	Transaction	Type of securitisation
Self-securitisation transactions not derecognised from the financial statements				
BPL Mortgages S.r.l.	Banco BPM	June 2014	BPL Mortgages 7	Performing residential and commercial mortgages
BPL Mortgages S.r.l.	Banco BPM	December 2012	BPL Mortgages 5	Performing residential mortgage loans
Italfinance Securitization Vehicle 2 S.r.l	Banco BPM	January 2009	ITA 11	Performing leases

Transactions closed during the year

Consumer credit securitisation – ProFamily Securitisation (November 2015)

In December 2019, with the signing of the relative contracts, the securitisation transaction realised through the SPE ProFamily Securitisation S.r.l. was closed. In particular, on 12 December 2019, ProFamily S.p.A. repurchased the entire residual portfolio of consumer credit underlying that transaction and, with the signing of the Termination Agreement on the same date, all the contracts signed and accounts opened within the context of the transaction were closed. On the repayment date of 18 December 2019, the SPE made the early repayment of the outstanding securities.

Existing and significant self-securitisation transactions during 2019

Securitisation of mortgages, landed mortgages, agricultural loans and other loans granted to small and medium-sized enterprises – BPL Mortgages 7 (June 2014)

The securitisation transaction was originated by Banco Popolare and Credito Bergamasco, which are now both Banco BPM, and was finalised in two parts: on 10 May 2014, the Originator Banks sold mortgages, landed mortgages, agricultural loans and other loans granted to small and medium-sized enterprises to the SPE, BPL Mortgages S.r.l. in the amount of 1,801.3 million euro and on 30 June 2014, the SPE issued three classes of bonds. Subsequently, portfolio restructuring was carried out, which resulted in the sale/repurchase of loans and the issue of additional notes.
The Senior and Mezzanine Securities are listed on the Irish Stock Exchange. All Classes of Securities are subscribed by Banco BPM and the Senior Notes are used by Banco BPM as collateral for Eurosystem monetary policy transactions.
As part of this transaction, the Originator Banks, now Banco BPM, took on the role of Servicer, managing the collection of receivables; Banco BPM also has the role of Interim Account Bank and Cash Account Bank.

Loans portfolio

Bank	Value 31/12/2019	Value 31/12/2018
Banco BPM	2,936,227	3,831,554

The amounts indicated represent performing, unlikely to pay, non-performing past due and bad loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.

Issue characteristics

Class	Type	Issue value	Value 31/12/2019	Interest rate	Maturity	Moody's/DBRS Rating (*)
A1	Senior	3,918,187	1,027,929	3-month Euribor + 0.3%	November 2054	A1/AAL
B1	Mezzanine	325,700	325,700	3-month Euribor + 0.8%	November 2054	A3/A
C1	Junior (1)	737,403	737,403	Additional Return	November 2054	unrated
A2	Senior	1,936,000	222,088	3-month Euribor + 0.3%	November 2054	A1/AAL
B2	Mezzanine	1,000	1,000	3-month Euribor + 0.8%	November 2054	A3/A
C2	Junior (1)	448,072	448,072	Additional Return	November 2054	unrated
Total		**7,366,362**	**2,762,192**			

(1) Unlisted Junior Securities
(*) Rating as at 31 December 2019

Significant events during 2019

On 12 April 2019, the rating agency DBRS increased the rating of the A1 and A2 Senior Securities from "A" to "AAL" and the rating of the B1 and B2 Mezzanine Securities from "BBBH" to "A". Moreover, on 10 June 2019, Moody's increased the rating of the A1 and A2 Senior Securities from "A2" to "A1" and the rating of the B1 and B2 Mezzanine Securities from "Baa1" to "A3".

Accessory financial transactions

The structure of the transaction envisaged the establishment of a Cash Reserve of 80.8 million euro, constituted - at the initial date of issue of the securities - mainly through the disbursement of a subordinated loan totalling 76.9 million euro by Banco BPM, former Banco Popolare. As part of the transaction restructuring that took place in 2016, on the date of issue of the subsequent securities, the initial cash reserve was increased via the disbursement by the bank, of an additional limited loan of approximately 85.6 million euro. As part of the transaction restructuring that took place during 2018, on the Increase Date of 12 April 2018, the cash reserve was further increased by 91.4 million euro via the disbursement by BPM, now Banco BPM, of a limited loan of the same amount.

Securitisation of residential mortgage and landed mortgages – BPL Mortgages 5 (December 2012)

The securitisation transaction was originated by Banco Popolare and Credito Bergamasco, now both Banco BPM. On 17 November 2012, the Originator Banks sold an initial portfolio of performing residential landed and mortgage loans to the SPE BPL Mortgages S.r.l. for a value of 2,505.2 million euro and on 21 December 2012, the SPE issued two classes of bonds.
Subsequently, portfolio restructuring was carried out, which resulted in the sale/repurchase of loans and the issue of additional notes.
As part of the restructuring in 2019, Banco BPM sold a further portfolio of receivables originating from residential landed and mortgage loans to the SPE, with a value of around 1,894 million euro and bought back both the "non-performing" receivables that were part of the underlying portfolio and the loans eligible for the CB programmes of Banco BPM. To finance the purchase of the loans, on 14 March 2019 the SPE issued an additional series of asset-backed securities ("Series 3"). In particular A3 Senior Securities and B3 Junior Securities were issued, with the same characteristics as the respective classes of securities issued previously.

The Senior Securities are listed on the Irish Stock Exchange. All Classes of Securities are subscribed by Banco BPM and the Senior Notes are used by Banco BPM as collateral for Eurosystem monetary policy transactions.

As part of this transaction, the Originator Banks, now Banco BPM, took on the role of Servicer, managing the collection of receivables; Banco BPM also has the role of Interim Account Bank and Transaction Bank.

Loans portfolio

Bank	Value 31/12/2019	Value 31/12/2018
Banco BPM	3,354,467	2,142,594

The amounts indicated represent performing, unlikely to pay, non-performing past due and bad loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.

Issue characteristics

Class	Type	Issue value	Value 31/12/2019	Interest rate	Maturity	Moody's/DBRS Rating (*)
A1	Senior	2,440,400	693,781	1-month Euribor + 0.3%	October 2058	Aa3/A
B1	Junior (1)	1,148,455	392,765	Additional Return	October 2058	unrated
A2	Senior	995,100	602,360	1-month Euribor + 0.25%	October 2058	Aa3/A
A3	Senior	1,504,300	1,346,352	1-month Euribor + 0.25%	October 2058	Aa3/A
B3	Junior (1)	69,670	69,670	Additional Return	October 2058	unrated
Total		**6,157,925**	**3,104,928**			

(1) Unlisted Junior Securities
(*) Rating as at 31 December 2019

Significant events during 2019

On 14 March 2019 (Second Subsequent Issue Date), the rating agency DRBS assigned an "A" rating to the new A3 Senior Securities and at the same time decreased the rating of the A1 and A2 Senior Securities From "A (high)" to "A", while Moody's assigned an "A1" rating to the new A3 Senior Securities, confirming the same "A1" rating already existing for the A1 and A2 Senior Securities. On 5 July 2019 Moody's increased the rating of the A1, A2 and A3 Senior Securities from "A1" to "Aa3".

Accessory financial transactions

The structure of the transaction envisaged the establishment of a Cash Reserve of 64 million euro, constituted mainly through the disbursement, which took place on 21 December 2012, of a subordinated loan totalling 60 million euro by the Originator Banks, now Banco BPM.
As part of the transaction restructuring that took place during 2019, on 14 March 2019, the cash reserve was further increased by 24.6 million euro via the disbursement by Banco BPM, of a limited loan of the same amount.

ITA 11

In January 2009, Italease Network, Mercantile Leasing and Banca Italease, merged into Banco BPM, sold a portfolio of loans resulting from lease contracts to the SPE Italfinance Securitisation Vehicle 2 S.r.l. for 1,375 million euro.
On 21 January 2009, the SPE issued a class of senior rated securities for 1,031.6 million euro and a class of junior unrated securities for 343.9 million euro. Both series were subscribed by the Originator Banks of the loans, now Banco BPM. In April 2013, the senior securities were fully redeemed. As at 31 December 2019, Banco BPM held the junior securities for a nominal value of 74.8 million euro, of which 23.4 million pertaining to Alba Leasing under the "Securitised loans agreement".
As part of the transaction, the Originator Banks (now Banco BPM) had the role of Servicer for management of the loans.

Subsequent events

In January 2020, with the signing of the relative contracts, the securitisation transaction realised through the SPE Italfinance Securitisation Vehicle 2 S.r.l. (ITA11) was closed. In particular, on 13 January 2020 Banco BPM repurchased the entire residual portfolio of lease receivables underlying said transaction. On the repayment date of 21 January 2020, the SPE made the early repayment of the outstanding securities and, with the signing of the

Termination Agreement of 20 January 2020, all the contracts signed and accounts opened within the context of the transaction were closed.

1.5 BANKING GROUP - OPERATIONAL RISKS

QUALITATIVE INFORMATION

A. General aspects, management processes and measurement methods of operational risk

Type of risk

Operational risk is defined as the risk of losses suffered as a result of inadequacy or malfunction of procedures, human resources and internal systems, or from external events. Losses resulting from fraud, human error, interruption of operations, non-availability of systems, contractual breaches and natural disasters are included in this type of risk. Operational risk also encompasses legal risk, while strategic and reputational risks are not included.

Risk sources

The main sources of operational risk are: the low reliability of operational processes - in terms of effectiveness/efficiency - internal and external frauds, operational mistakes, the qualitative level of physical and logical security, inadequate IT structure compared to the size of operations, the growing recourse to automation, the outsourcing of corporate functions, a limited number of suppliers, changes in strategies, incorrect personnel management and training policies and finally social and environmental impacts.

Risk management model and organisational structure

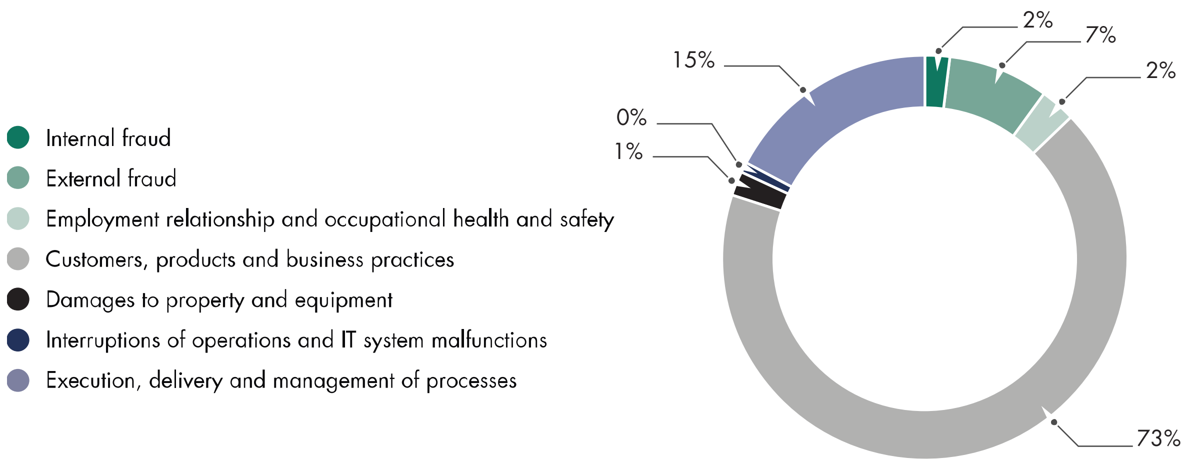
Banco BPM Group was authorised by the European Supervisors to use for regulatory purposes a combination of the AMA (Advanced Measurement Approach), relating to the validated scope of the former Banco Popolare Group (former Banco Popolare segments of the Parent Company, Banca Aletti, SGS BP and BP Property Management), the TSA (Traditional Standardised Approach) on the scope of the former Banca Popolare di Milano Group (segments of the former Parent Company BPM Scarl, former BPM SpA, ProFamily and Banca Akros) and the BIA (Basic Indicator Approach) for the other remaining companies making up Banco BPM Group. Since the date of the report of 30 June 2018, in line with the decision adopted by the ECB on the matter, the private banking segments of the former BPM SpA and Banca Akros, which merged with Banca Aletti, have adopted the advanced method. Since the reporting date of 31 December 2018, in line with the decision adopted by the ECB on the matter, Banca Aletti's Corporate & Investment banking segments, which have been merged into Banca Akros, have been subject to the traditional standardised approach (TSA).
When granting authorisation for the merger of BPM S.p.A. into Banco BPM (a merger which took place in November 2018), the ECB prudently defined the adoption of a floor on the business segments to be merged, equal to the individual capital requirement of BPM S.p.A. as at 31 December 2017, multiplied by a corrective factor of 1.05. Also in compliance with the relevant regulations, the Group adopted an operational risk management model that illustrates the management methods and the people involved in risk identification, measurement, monitoring, mitigation and reporting. In particular, the model refers to centralised oversight functions (governance and control functions) and decentralised oversight functions (coordinators and ORM contacts, which are specifically involved in the key processes of collecting operating loss data, continuously assessing the operating scenario and forecasting exposure to risk). This model is governed by specific Group Regulations approved by the Corporate Bodies.
The capital requirement, according to the AMA method, is determined by combining the risk measurement obtained by the model based on previous operating losses, both internal and external, with that obtained based on the model that uses elements of scenario analyses. Both of the models adopt an approach known as the Loss Distribution Approach, which is based on the modelling of aggregate annual loss, defined as the sum of loss amounts (severity) associated to each loss event that occurs over one year (frequency). The risk is estimated by measuring the Value at Risk with a confidence interval of 99.9% for one year. The capital requirement relating to the AMA scope takes into account any benefits from diversifying exposure to the different types of operational risk and envisages the deduction of provisions transferred to the income statement to the extent of the expected loss.
Banco BPM Group is adopting a reporting model, consisting of a management IT system for the Corporate Bodies and Top Management (significant losses and related recoveries, overall assessment of the risk profile, capital

absorption and risk management policies implemented and/or planned) and an operational reporting system, for the purposes of adequate risk management in the relevant areas.

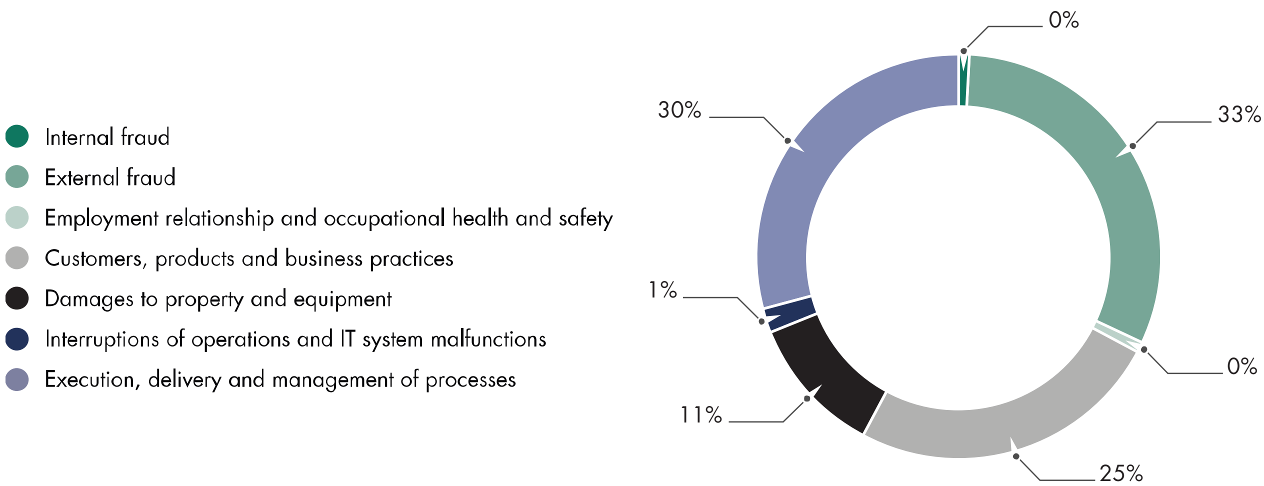
QUANTITATIVE INFORMATION

Regarding the sources of operational risk, an analysis was conducted with reference to operational risk events, with a gross loss greater than or equal to 200 euro (minimum materiality threshold) and with a reporting date of 1 January 2010 or later.
The loss data in question, recorded in the Group's Loss Collection management archive, have been broken down by type of event, with views by impact and by number of events, according to the event classification standards provided by the Regulator.

Breakdown by impact



Breakdown by number of events



The analysis of the graphs reveals that the main event categories in terms of impact relate to:

- commercial practices, with losses resulting from failures to meet professional obligations towards customers or from the nature or characteristics of the product or service provided. The category in question includes operational risk impacts connected to the diamond situation;

- processes, with losses relating to errors/inefficiency/delays in execution, delivery or management of processes, with a prevalence of losses due to anatocism (following the Court of Cassation ruling of 1999) and lack of documentation in the placement of financial products;
- external crimes, with losses due to fraud, undue appropriation or infringement of the law by parties outside the bank, including phenomena relating to cyber risk. The prevalence in terms of impact regards traditional external fraud events (robberies and theft from ATMs).

Validation activities

In the area of Operational risk, the Internal Validation Unit oversees the management framework and the calculation of risks and capital requirements through annual checks on measurement metrics, with particular focus on the requirements of the internal model validated (AMA). In the context of governance and maintaining the AMA model, the stability, robustness and uncertainty of the model, the consistency of the calculation dataset, through independent repeat tests and checks during the Loss Data Collection and Risk Self-Assessment campaign, compliance with current regulatory requirements and best practices are continuously verified. On the basis of the checks conducted, the Internal Validation unit addresses specific suggestions to the competent departments and monitors the solution in order to ensure the high standards of quality and reliability in risk management are maintained.
Furthermore, every change or extension of the model is appropriately intercepted, verified and communicated to the supervisory bodies according to the provided methods (*ex-ante/ex-post* notifications). Moreover, during the ICAAP process, the stress scenarios and methods applied to the entire scope of the Group are verified.

Section 3 - Risks to insurance companies

The Group holds share capital in the Vera Assicurazioni, Vera Vita and Bipiemme Vita insurance companies, which is included in the scope of consolidation for companies measured at equity and shown in the consolidated assets under item 70 “Equity investments”.

With regard to the risks of the segment in question, note that the weight of the above companies on total consolidated assets is of little significance.

Section 4 - Other company risks

No significant additional risks are reported for the remaining companies falling within the consolidation scope that are not part of the Banking Group or of insurance companies. As regards the Group’s real estate companies, including those acquired following credit restructuring arrangements, note that the book value at which said real estate are recognised is consistent with the value stated in specific appraisals and valuations.
The risk of impairment of real estate is in any event covered by a specific capital requirement - in terms of credit risk - which the Group calculates in accordance with regulatory methods. Furthermore, the Risk Function uses internal operational methods to periodically check the adequacy of the regulatory capital requirement vis-à-vis real estate risk.

PART F – INFORMATION ON CONSOLIDATED SHAREHOLDERS' EQUITY

Section 1 - Consolidated shareholders' equity

A. QUALITATIVE INFORMATION

The Group's shareholders' equity consists of the sum of the balances of the following balance sheet liability items:
- Shareholder's equity net of repurchased treasury shares
- Share premium reserve
- Reserves
- Valuation reserves
- Equity instruments
- Treasury shares
- Net income (loss) for the year.

B. QUANTITATIVE INFORMATION

Consolidated shareholders' equity as at 31 December 2019 amounted to 11,887.1 million euro (of which 11,861.0 million euro for the Group and 26.1 million euro for minority interests), showing a net increase of 1,582.0 million euro compared to the 10,305.1 million euro recorded for consolidated shareholders' equity as at 31 December 2018 (of which 10,259.5 million euro for the Group and 45.6 million euro for minority interests).

B.1 Consolidated shareholders' equity: breakdown by business type

Shareholders' equity items	Prudential consolidation	Insurance companies	Other businesses	Consolidation cancellations and adjustments	Total
1. Share capital	7,162,936	-	6,514	(5,757)	7,163,693
2. Share premium reserve	-	-	-	-	-
3. Reserves	3,474,817	-	11,136	4,575	3,490,528
4. Equity instruments	298,112	-	-	-	298,112
5. (Treasury shares)	(11,518)	-	-	-	(11,518)
6. Valuation reserves:	164,830	-	(149)	149	164,830
- Equity instruments at fair value through other comprehensive income	(50,020)	-	-	-	(50,020)
- Equity instruments at fair value through other comprehensive income	-	-	-	-	-
- Financial assets (other than equity instruments) at fair value through other comprehensive income	47,305	-	-	-	47,305
- Property, plant and equipment	249,658	-	-	-	249,658
- Intangible assets	-	-	-	-	-
- Foreign investment hedges	206	-	-	-	206
- Cash flow hedges	(6,905)	-	-	-	(6,905)
- Hedging instruments (non-designated items):	-	-	-	-	-
- Exchange rate differences	11,604	-	-	-	11,604
- Non-current assets and asset disposal groups held for sale	-	-	-	-	-
- Financial liabilities at fair value through profit and loss (changes to its own credit risk)	3,292	-	-	-	3,292
- Actuarial gains/(losses) on defined benefit pension plans	(102,201)	-	(149)	-	(102,350)
- Share of valuation reserves related to investments in associates carried at equity	9,577	-	-	149	9,726
- Special revaluation laws	2,314	-	-	-	2,314
7. Income (loss) (+/-) attributable to the Group and minority interests	786,498	-	2,023	(7,084)	781,437
Total	**11,875,675**	**-**	**19,524**	**(8,117)**	**11,887,082**

B.2 Valuation reserves for financial assets at fair value through other comprehensive income: breakdown

Asset/Amounts	Prudential consolidation		Insurance companies		Other businesses		Consolidation cancellations and adjustments		Total	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	69,471	(22,166)	-	-	-	-	-	-	69,471	(22,166)
2. Equity instruments	78,104	(128,124)	-	-	-	-	-	-	78,104	(128,124)
3. Loans	-	-	-	-	-	-	-	-	-	-
Total 31/12/2019	**147,575**	**(150,290)**	**-**	**-**	**-**	**-**	**-**	**-**	**147,575**	**(150,290)**
Total 31/12/2018	**55,057**	**(353,000)**	**-**	**-**	**-**	**-**	**-**	**-**	**55,057**	**(353,000)**

B.3 Valuation reserves for financial assets at fair value through other comprehensive income: annual changes

	Debt securities	Equity instruments	Loans
1. Opening balance	**(131,470)**	**(166,473)**	**-**
2. Positive changes	**227,387**	**127,161**	**-**
2.1 Fair value increases	155,978	126,589	-
2.2 Losses on credit risk	1,362	X	-
2.3 Reclassification to income statement of negative reserves from disposal	70,047	X	-
2.4 Transfers to other shareholders’ equity components (equity instruments)	-	539	-
2.5 Other changes	-	33	-
3. Negative changes	**(48,612)**	**(10,708)**	**-**
3.1 Fair value decreases	(22,735)	(3,929)	-
3.2 Recoveries on credit risk	(5,333)	-	-
3.3 Reclassification to income statement of positive reserves: from disposal	(20,544)	X	-
3.4 Transfers to other shareholders’ equity components (equity instruments)	-	(3,927)	-
3.5 Other changes	-	(2,852)	-
4. Closing balance	**47,305**	**(50,020)**	**-**

B.4 Valuation reserves for defined benefit plans: annual changes

	31/12/2019
1. Opening balance	**(74,021)**
2. Positive changes	**19,201**
2.1 Gains from changes in financial assumptions	310
2.2 Other actuarial gains	3,628
2.3 Other changes	15,263
3. Negative changes	**(47,530)**
3.1 Losses from changes in financial assumptions	(39,223)
3.2 Other actuarial losses	(3,894)
3.3 Other changes	(4,413)
4. Closing balance	**(102,350)**

Section 2 - Own funds and capital ratios

Please see the information on own funds and capital adequacy found in the document “Disclosure to the public by entities (Pillar III)”, available on the website www.bancobpm.it.

PART G – BUSINESS COMBINATIONS REGARDING COMPANIES OR DIVISIONS

Section 1 - Transactions carried out during the year

1.1 Business combinations

During the year, no business combinations occurred involving companies external to the Group.

Business combinations between companies in the Group (business combination between entities under common control)

During the process of defining the corporate and organisational structure of Banco BPM Group certain intragroup transactions were carried out, described below.

These transactions do not fall under the scope of IFRS 3 and, in accordance with the Provisions of Circular 262/2005 of the Bank of Italy, they are conventionally reported in this section. In the absence of a relevant accounting standard, transactions "under common control" are recognised using the principle of continuity in accounting values. Specifically, the values used are those found in the Group's consolidated financial statements as of the date the assets were transferred.
These transactions did not have any impact on the balance sheet or the income statement of Banco BPM Group.

Operations of merger by incorporation of subsidiaries

As described in more detail in the section on significant events of the year contained in the Report on Operations, during 2019 the operations were completed for the merger by incorporation of the subsidiaries Società Gestione Servizi BP and BP Property Management and Holding di Partecipazioni Finanziarie into the Parent Company Banco BPM and of the subsidiaries Sviluppo Comparto 6, Sviluppo Comparto 8 and Manzoni 65 into Bipielle Real Estate.

These operations, which took effect for accounting and tax purposes as of 1 January 2019, occurred in the simplified form established for wholly-owned companies.

Reorganisation of the Group's Private Banking activities

During the year, the Parent Company transferred to the subsidiary Banca Aletti, through two separate contribution transactions, the business segments "Non-Portfolio Private Customers" and "Financial Adviser Agents".
The subject of the transfers was, in addition to the assets, liabilities, rights and obligations regarding the business segments, also the financial assets underlying the contractual relationships of administration and custody, managed savings and insurance products.

The plan for restructuring the segment of Private Banking activities, launched in the previous years, was completed through the operations described.

Section 2 - Transactions carried out after the end of the year

No business combination transactions with companies outside of the Group were completed after the end of the year.

Business combinations between companies in the Group (business combination between entities under common control)

No business combination transactions between companies in the Group were completed after the end of the year.

Section 3 - Retrospective adjustments

It was not necessary to make any retrospective adjustments.

PART H - TRANSACTIONS WITH RELATED PARTIES

1. Information on compensation to directors and executives with strategic responsibilities

This information relates to those who, directly or indirectly, have the power and the responsibility to plan, manage and control the business activities of Group companies.

The table below summarises the compensation paid to directors, statutory auditors and executives with strategic responsibilities (general managers and other executives meeting the above characteristics).
In total, 214 assignments were entrusted to 150 people (including 18 executives).

(thousands of euro)	**2019**
Total gross compensation	**18,679**
of which:	
Non-executive directors and Statutory auditors	4,403
Non-employee executive directors	4,403
Employees	8,945
Short term benefits (e.g., car, lodging, accident insurance policy, medical assistance)(*)	**201**
Post-employment benefits (e.g., pension fund, supplementary pension scheme) (*)	**261**
Employee termination benefits (e.g., employee termination indemnities, other benefits)	**80**

(*) The figure represents the taxable amount of the benefits.

2. Information on transactions with related parties

Banco BPM adopted “Process rules for the management of related parties IAS 24”. These Process rules, which are valid for Banco BPM and for all Group companies, establish the following operating criteria to identify related parties:

a) companies subject to significant influence and joint control: the entities in which the Parent Company Banco BPM or the subsidiary entities exercise significant influence pursuant to IAS 28 or joint control pursuant to IFRS 11. In particular, these are the “Investments in companies subject to joint control and subject to significant influence” indicated under Part B - Section 10 "Equity investments" in these Notes to the Consolidated Financial Statements;

b) executives with strategic responsibilities: the members of the Board of Directors, the acting members of the Board of Statutory Auditors, the General Manager and the Joint General Managers of the Parent Company and the Group companies are classified as such, as well as the top operations and management executives of Banco BPM, identified by a dedicated board resolution, the Manager responsible for preparing the Company’s financial reports, the Head of the Compliance function, the Head of the Internal Audit function of Banco BPM, any additional structure heads identified by the Board of Directors of Banco BPM and any extraordinary liquidators;

c) close family members of executives with strategic responsibilities: only family members that are able to influence (or be influenced by) the party concerned in the relationship between the latter and Banco BPM or Group companies. The following are presumed to be as such, unless otherwise declared in writing by the executive, under the latter’s own responsibility and containing adequate and analytical justification of the reasons that exclude any possible influence: spouses, common law spouses (including cohabitants whose status is not revealed in the family status certificate), offspring of the party, of the spouse or common law spouse, individuals dependent on the party, the spouse or common law spouse. Any other individual which the party believes may influence them (or be influenced by them) in their dealings with the bank or the other BPM Group companies is also a related party;

d) equity investments attributable to executives with strategic responsibilities and their close relatives: the following entities are considered to be related parties, those in which executives with strategic responsibilities or their close relatives have control pursuant to art. 2359, paragraph 1 of the Italian Civil Code, or joint control or exercise significant influence which is presumed when they hold, directly or indirectly, at least 20% of the voting rights which can be exercised during ordinary shareholders' meetings, or 10% if the company has shares listed on organised markets;

e) group pension funds: the pension funds for Group employees and any other related body;

f) holders of a significant equity investment: shareholders and the relative corporate groups (legal entities which are parent companies, subsidiaries or subject to joint control) which control the Parent Company, even jointly, or which exercise significant influence over Banco BPM, are considered related parties. As a minimum, a situation of significant influence is deemed to exist when the shareholder holds an interest with voting rights exceeding 10% of the share capital of Banco BPM. Parties not belonging to the Group who hold an interest in other Group companies greater than 20% of the voting rights that may be exercised in the shareholders' meeting, or 10% if the company has shares listed in organised markets, are also considered to be related parties;

g) parties who themselves are in a position to appoint members of the Board of Directors by virtue of the articles of association or shareholders' agreements.

Financial and commercial transactions between subsidiaries and companies subject to significant influence and joint control.

Financial and commercial transactions with related parties fall within the sphere of ordinary operations and have been conducted as arm's length transactions.

The tables below indicate the balance sheet and income statement transactions as at 31 December 2019 with the companies subject to significant influence, the joint ventures, management with strategic responsibilities (which include audit bodies) and other related parties.

(thousands of euro)	Entities exercising significant influence (1)	Associated companies	Joint ventures	Executives with strategic responsibilities	Other related parties	Total	% of consolidated total
Financial assets held for trading	-	4,311	-	-	1,249	5,560	0.10%
Financial assets at fair value through other comprehensive income	-	-	-	-	31,529	31,529	0.25%
Due from banks	-	-	-	-	71,873	71,873	0.72%
Loans to customers	-	2,982,101	-	6,218	137,818	3,126,137	3.03%
Other assets	-	7,646	-	-	4,228	11,874	0.08%
Due to banks	-	-	-	-	283,575	283,575	0.99%
Due to customers	-	225,460	-	23,622	123,250	372,332	0.40%
Debt securities issued	-	-	-	1,001	2,112	3,113	0.02%
Financial liabilities held for trading	-	22,562	-	-	1,029	23,591	0.23%
Other liabilities	-	5,085	-	205	428	5,718	0.10%
Guarantees given and commitments	-	577,420	-	3,091	217,910	798,421	1.29%

(1) Authorised parties who own a stake of more than 10% of the share capital.

(thousands of euro)	Entities exercising significant influence (1)	Associated companies	Joint ventures	Executives with strategic responsibilities	Other related parties	Total	% of consolidated total
Interest margin	-	19,831		38	1,071	20,940	1.05%
Net fee and commission income	-	175,410	-	11	381	175,802	10.12%
Administrative expenses/recoveries of expenses	-	1,397	-	(14,925)	(1,247)	(14,775)	0.54%
Other costs/revenues	-	1,779	-	-	9	1,788	0.63%

(1) Authorised parties who own a stake of more than 10% of the share capital.

Other transactions with other related parties

The table below discloses other transactions (supplies of goods and services and transactions on real estate) entered into with related parties, shown in the above table under "Executives with strategic responsibilities" and "other related parties".

	Purchases and sales of goods and services	Rentals receivable	Rentals payable
a) Directors	-	-	-
b) Executives with strategic responsibilities	-	-	-
c) Close family members of the parties in letters a) and b)	-	-	-
d) Subsidiary, associated company or subject to significant influence by the parties in letters a) and b)	1,358	2,186	136

Other information

With reference to paragraph 8 of art. 5 "Disclosures to the public on related party transactions" of the Consob Regulation containing provisions for related party transactions (adopted by Consob with resolution no. 17221 of 12 March 2010 and then amended with resolution no. 17389 of 23 June 2010), the following paragraphs illustrate the most important transactions conducted in 2019, as well as those of lesser importance of particular significance.

The issue of Banco BPM bonds subscribed by Banca Akros, with the use of the liquidity deriving from funding activities through the issue of Certificates placed by Banco BPM and by Banca Aletti - definition and subsequent supplement to the 2019 ceiling and definition of the 2020 ceiling.

At the meeting of 18 December 2018, the Board of Directors approved (i) the issues of bonds, offered entirely in subscription to the subsidiary Banca Akros in 2019, for a maximum overall amount of 1 billion, without prejudice to the powers of the Chief Executive Officer regarding the approval of the properties, conditions and amount of the individual bond issues made, within the limits of said ceilings and (ii) the placement for 2019 by Banco BPM and Banca Aletti of the Certificates issued by Banca Akros, for which a flow of fees is expected in favour of Banco BPM for the overall amount of 22.5 million euro and in favour of Banca Aletti for an overall amount of 3 million euro.
Subsequently, at the meeting of 5-6 November 2019, the Board of Directors decided to: (i) increase the ceiling for the issues of bonds offered fully for subscription to the subsidiary Banca Akros in 2019, from 1 billion euro to a maximum total amount of 1,778.7 million euro; (ii) authorise, for 2019, the placement by Banco BPM Group of certificates issued by Banca Akros by increasing the ceiling from 1,150 million euro up to 1,425 million euro, with a resulting increase in the expected fee and commission flows to Banco BPM Group up to the total amount of around 42.7 million euro with an increase of 17.2 million euro fully in favour of Banco BPM.
As at 31 December 2019, Banco BPM had issued 21 bonds for a total of 1,647.8 million euro, out of the ceiling of 1,778.7 million euro, and Banco BPM Group had placed 6 certificates issued by Banca Akros with a fee and commission flow of 33 million euro for Banco BPM out of a ceiling of 39.7 million euro and 1.96 million euro for Banca Aletti out of a ceiling of 3 million euro.
At the meeting of 17-18 December 2019, the Board of Directors decided to: (i) approve issues of "special-purpose" loans for 2020, to be fully offered for subscription to the subsidiary Banca Akros for a maximum total amount of up to 1.2 billion euro (of which, up to 800 million euro relating to placement by the Group Network, to be carried out in the first half of 2020, and up to 400 million euro relating to placements by third party networks, to be carried out throughout 2020); (ii) authorise, for the first half of 2020, the placement by Banco BPM and Banca Aletti, of the certificates issued by Banca Akros, with regard to which fee and commission flows are expected for Banco BPM for a total amount of up to 22.9 million euro, proportionate to a fee of 3% and for Banca Aletti, for a total amount of up to 1.0 million euro, proportionate to a fee of 3%.

Contribution in the form of an increase to the shareholders' equity of the "Non Portfolio Private (NPP) Customers" division of Banco BPM in favour of Banca Aletti.

The Board of Directors meeting on 22 January 2019 approved the start of the contribution transaction of the "Non Portfolio Private" division ("NPP division") from Banco BPM to Banca Aletti and subsequently, on 12 March 2019, following the evaluations led by the independent expert, KPMG Advisory S.p.A., on the basis of the capital situation as at 31 December 2018, the Board of Directors approved the contribution in kind to Banca Aletti of the "Non Portfolio Private" division of Banco BPM, whose economic value was established as 42.9 million euro, in the form as an increase to the shareholders' equity of Banca Aletti, to be determined as the amount corresponding to the balance between the assets and liabilities of the capital situation of the division (imbalance) and therefore as 2.4 million euro.

On 20 March 2019 Banco BPM and Banca Aletti signed the deed of contribution, in the form of an increase in the shareholders' equity of the transferee company, Banca Aletti, of the Business Unit known as the "Non-Portfolio Private" unit of Banco BPM which took effect from 1 April 2019.

Restructuring of the BPL5 securitisation: granting of credit lines in favour of the SPE BPL Mortgages, new assignment of eligible assets and repurchases of loans

At the meeting of 6 February 2019, the Board of Directors approved the granting of new credit lines to the SPE BPL Mortgages (hereinafter referred to as the "SPE") as part of the restructuring of the "BPL5" securitisation transaction.
In order to finalise the transaction, it was necessary for Banco BPM to disburse, in favour of the SPE, a subordinated loan of 24.6 million euro (instead of the 35 million euro resolved), with maximum maturity at 31 December 2058, bullet repayment and indicative spread around 250 bps, used to increase the cash reserve required by the Rating Agencies to cover any shortfalls in liquidity over the course of the duration of the securitisation transaction.
In particular, the decision concerned the restructuring of the credit facilities granted to the SPE with their reduction from a total of 13.3 billion euro to a total of 8.2 billion euro, of which (i) 7.9 billion euro as Banking Book lines (following the reduction from 9.0 billion euro to 4.0 billion euro of the lines maturing in December 2054 used in the BPL7 securitisation and the reduction from 4.0 billion euro to 3.9 billion euro of the lines maturing in October 2058 used in the BPL5 securitisation) and (ii) 0.3 billion euro as unsecured loans for the liquidity reserve.
It is also noted that, as part of the BPL 5 securitisation transaction restructuring decided at the Board of Directors' meeting of 18 December 2018, (i) on 8 February 2019 Banco BPM sold to the SPE BPL Mortgages an additional portfolio of loans deriving from landed and residential mortgages for a total residual debt of approximately 1.9 billion euro and (ii) on 26 February 2019, Banco BPM repurchased those loan that were classified as "non-performing" and loans eligible for the CB Programme of Banco BPM, for a total residual debt of approximately 326 million euro. The securities issued by the SPE on 14 March 2019 were fully subscribed by Banco BPM and the A3 Senior Securities were used for Eurosystem monetary policy operations.

Merger by incorporation of Società Gestione Servizi S.C.P.A. and BP Property Management S.c.a.r.l. into Banco BPM.

On 11 February 2019 the merger by incorporation of Società Gestione Servizi BP and BP Property Management into the Parent Company was finalised, a transaction previously approved at the Board of Directors' meeting of 16 October 2018.
The operations of the merged companies were recognised in the financial statements of the incorporating company from 1 January 2019. Tax effects applied from the same date.
By virtue of the relationship of full control between the incorporating company and the incorporated company, the merger did not have an impact on the consolidated ratios, since it is an intragroup transaction.

Merger by incorporation of Sviluppo Comparto 6, Sviluppo Comparto 8 and Manzoni 65 into Bipielle Real Estate

At the meeting of 27 February 2019, the Board of Directors approved, as part of the process of reorganising the Group's real estate companies, the plan for merger by incorporation of Sviluppo Comparto 6, Sviluppo Comparto 8 and Manzoni 65 into Bipielle Real Estate, a wholly-owned company.
The legal effects of the merger, pursuant to art. 2504-bis of the Italian Civil Code, applied from 28 June 2019, while the operations of the merged companies were recognised in the financial statements of the incorporating company from 1 January 2019. Tax effects applied from the same date.
The transaction was finalised in order to continue the process of reorganisation of the Group's real estate segment through the merger by incorporation of the aforesaid companies into Bipielle Real Estate, which holds 100% of their share capital, thus rationalising the financial structure of the subsidiaries of Bipielle Real Estate which, otherwise, would have had to be recapitalised.

Merger by incorporation of Holding di Partecipazioni Finanziarie Banco Popolare into Banco BPM

On 27 February 2019, the Board of Directors approved, as part of the process of reorganisation and simplification of the Group companies, the plan for the merger by incorporation of Holding di Partecipazioni Finanziarie Banco Popolare ("HPF") into the Parent Company Banco BPM, which holds 100% of the share capital.
HPF was the subholding of the Group that held equity investments in Avipop Assicurazioni (now Vera Assicurazioni) and Popolare Vita (now Vera Vita), investments which were disposed of in 2018.

Since, with the sale by HPF of the equity investments in Avipop Assicurazioni (now Vera Assicurazioni) and Popolare Vita (now Vera Vita), the strategic purpose of having a Group sub-holding responsible for the acquisition and coordination of equity investments in the financial sector had ceased, the incorporation process of HPF into Banco BPM was begun.
In consideration of the relationship of full control between the merged company and the incorporating company, the merger was implemented through the simplified procedure pursuant to art. 2505 of the Italian Civil Code.
The legal effects of the merger, pursuant to art. 2504-bis of the Italian Civil Code, applied from 30 September 2019, while the operations of the merged company were recognised in the financial statements of the incorporating company from 1 January 2019. Tax effects applied from the same date.

Assignments of new portfolios of eligible assets for the covered bond issue programmes BPM CB1 and BPM CB2

At the meeting of 27 February 2019, the Board of Directors approved (i) as part of the BPM CB2 Programme, the sale by Banco BPM to the SPE BPM Covered Bond 2 of a new portfolio of eligible residential mortgage loans, for an overall amount equal to 1.1 billion euro and (ii) the use of the subordinated credit line out of the available ceiling granted by Banco BPM approved during the Board meeting of 27 March 2018 and the Board of Directors' meeting of the former BPM S.p.A. of 5 April 2018 to fully finance the purchase by the SPE BPM Covered Bond 2 of the new portfolio. The transaction in question, completed on 28 March 2019, continued the aim to contribute to the achievement of the 2019 funding plan objectives.

At the meeting of 10 September 2019, the Board of Directors decided: (i) as part of the BPM CB1 Programme, Banco BPM's assignment to the SPE BPM Covered Bond of a new portfolio of eligible assets comprised of residential mortgages, including disbursements to employees of the Group, and commercial mortgage loans, for an amount of around 700 million euro, and the signing of the Assignment Documents; (ii) as part of the BPM CB2 Programme, Banco BPM's assignment to the SPE BPM Covered Bond 2 of a new portfolio of eligible assets comprised exclusively of residential mortgages, excluding disbursements to employees of the Group, for an amount of around 1.1 billion euro and the signing of the Assignment Documents; (iii) the review (with a new maturity of 31 July 2020) with remodulation of the credit lines available at Banco BPM for BPM Covered Bond from 8.5 million euro to 8 million euro, and for BPM Covered Bond 2 from 7 million euro to 8 million euro. Both transactions were finalised in September 2019, with the signing of the relative contracts.
The new sale transactions described above will enable the Parent Company to use eligible assets to increase the level of collateral to support future issues as part of the BPM CB2 Programme and to carry out a new retained issue to be used for refinancing with the Central Bank or institutional counterparties as part of the BPM CB1 Programme. Thus, the Group can pursue its objectives of institutional funding and consolidation of liquidity ratios. Note that during 2019 Banco BPM issued (i) the Eleventh Series of the BPM CB1 Programme on 25 September 2019, for a nominal value of 650 million euro and (ii) the Sixth Series of the BPM CB2 Programme on 5 December 2019, for a nominal value of 500 million euro.

Reorganisation of the Consumer Credit sector - Merger by incorporation of ProFamily post demerger within Agos Ducato

At the meeting of 27 February 2019, the Board of Directors approved the restructuring of the Group's consumer credit sector.
In particular, this reorganisation project involved: i) the proportional partial demerger of ProFamily in favour of a newly-established company fully controlled by Banco BPM, with the aim to assign the division relating to the consumer credit activities performed through the "Non-captive Network" (monomandatory agents and own branches) of ProFamily; ii) subject to the merger indicated in the previous point taking effect, the transfer to Agos Ducato of 100% of the share capital of the demerged company (renamed, as a result of the demerger, ProAgos S.p.A.). These transactions were completed on 27 and 28 June 2019.
The Board of Directors of Banco BPM meeting on 27 February 2019 also resolved to approve the operation for the merger by incorporation of ProFamily - after the demerger (ProAgos) - into Agos Ducato, with no exchange ratio and applying art. 2501-bis of the Italian Civil Code.
The merger was completed on 28 June 2019.
Lastly, on 18 June 2019, the Board of Directors' meeting approved the revocation of the existing credit lines granted to ProFamily for 1.6 billion euro with the simultaneous transfer of said credit lines, for a lower amount of 1.5 billion euro, to the established Newco ProFamily, with a review date at 30 June 2020.

Centralisation of the Private Banking activity in Banca Aletti

During 2019, the Parent Company transferred to the subsidiary Banca Aletti, through two separate contribution transactions, the business segments “Non-Portfolio Private Customers” and “Financial Adviser Agents”.
Specifically, on 1 April 2019, the contribution of the “Non-Portfolio Private” business segment approved during the Board of Directors’ meeting of 12 March 2019 for a value of 2.4 million euro was finalised, while on 28 September 2019 the contribution of the “Financial Adviser Agents” business segment of Banco BPM to Banca Aletti, approved during the Board of Directors’ meeting of 10 September 2019 for a value of 0.3 million euro was finalised.
In addition to the assets, liabilities, rights and obligations relating to the business segments, the transfers also involved the financial assets underlying the contractual relationships of administration and custody, managed savings and insurance product.
These transactions completed the implementation of the programme of restructuring the sector of Private Banking activities launched in previous years.

Agreement for the performance of trading on own behalf, order execution on behalf of customers, receipt and transmission of orders among Banco BPM, Banca Aletti and Banca Akros

At its meeting of 16 July 2019, the Board of Directors: (i) approved the agreement with which Banco BPM grants to Banca Akros the assignment to perform trading on own behalf, order execution on behalf of customers and receipt and transmission of orders pursuant to art. 1, paragraph 5, letters a), b) and e) of the Consolidated Finance Law, in relation to the orders transmitted by Banco BPM and relating to investment relationships which were and/or will be finalised by Banco BPM with its customers, paying fees estimated at around 7 million euro for 2019; (ii) authorised the agreement with which Banca Aletti grants Banca Akros the assignment to perform trading on own behalf, order execution on behalf of customers and receipt and transmission of orders pursuant to art. 1, paragraph 5, letters a), b) and e) of the Consolidated Finance Law, in relation to the orders transmitted by Banco BPM and relating to investment relationships which were and/or will be finalised by Banca Aletti with its customers, paying fees estimated at 2.3 million euro for 2019. On 29 November 2019 the Chief Executive Officer resolved to increase the ceiling for fee and commission flows from Banco BPM to Banca Akros to 1 million euro.

Alba Leasing risk group - Reduction in total credit lines - Confirmation and new review date for the lending ceiling

At its meeting of 16 July 2019, the Board of Directors confirmed the lending ceiling for the Alba Leasing risk group of 1 billion euro, with new review date of 30 June 2020, and approved the total credit lines outstanding to 982.2 million euro (in addition to indirect risks of 2.7 million euro and evidence risk of 15 million euro) with the following main changes: (i) new line of 912 million euro in the form of a mixed credit line free from restrictions, granted by Banco BPM and maturing on 31 December 2019, which can be used for short-term cash, current accounts and hot money payouts. The new credit line is offset by the elimination of seven credit lines of the same total amount (912 million euro), (ii) the reduction from 23 million euro to 22.6 million euro of the unsecured long-term financial facility granted by Banco BPM, in relation to a guarantee issued in favour of Cassa Depositi e Prestiti; (iii) the reduction from 27.7 million euro to 24.8 million euro of the long-term unsecured financial facility granted by Banco BPM, in relation to a guarantee issued in favour of the EIB; (iv) a reduction from 9 million euro to 7.2 million euro in the long-term unsecured financial facility granted by Banco BPM, in relation to a guarantee issued in favour of the EIB; and (v) an increase from 10 million euro to 15 million euro in the credit line for repurchase agreements granted by Banca Akros, which may be used for transactions with underlying senior securities from securitisation carried out - or being set up - by Alba Leasing, as well as for repurchase agreements with underlying 3-month mezzanine securities from the securitisation “Alba 9”.

Repurchase of securitised bad loans from the transactions ITA8 and ITA11, and subsequent sale of those loans to Alba Leasing

At its meeting of 5-6 August 2019, the Board of Directors resolved to: (i) repurchase several loans sold to Italfinance Securitisation Vehicle and several loans sold to Italfinance Securitisation Vehicle 2, as part of the ITA8 and ITA11 transactions, respectively for amounts not exceeding around 250 thousand euro and 4.2 million euro, respectively; (ii) subsequently sell to Alba Leasing the loans repurchased from the SPE for an amount not exceeding around 4.5 million euro.

Early termination of the ProFamily Securitisation and structuring of a new Consumer securitisation

At its meeting of 24 September 2019, the Board of Directors expressed a favourable opinion on the resolutions to be passed by the subsidiary ProFamily regarding the early termination of the ProFamily Securitisation and structuring of a new Consumer securitisation.
Specifically, the following actions have been planned: (i) repurchase of the PF Securitisation portfolio by ProFamily for an amount of around 260 million euro as at 31 August 2019; (ii) sale, as part of the new PF Consumer transaction, of a portfolio of personal and special-purpose loans disbursed by ProFamily (including eligible loans deriving from the unwinding), with an estimated residual debt of around 0.9 billion euro; and (iii) issue, as part of the transaction, of new senior, mezzanine and junior classes of asset-backed securities. The junior securities issued by the SPE shall be subscribed by ProFamily, which will continue to support the credit risk of the portfolio sold, while the senior and mezzanine securities may be placed on the market and subscribed by institutional investors, subscribed and financed by ProFamily in a bilateral manner with a market counterparty, or subscribed and financed by ProFamily in a bilateral manner with Banco BPM.
As part of the above transaction, the Board also approved the termination of the irregular pledge contract between Banco BPM and ProFamily.
It is noted that, in December 2019, with the signing of the relative contracts, the securitisation transaction realised through the SPE ProFamily Securitisation S.r.l. was closed.

Proposal of early termination of the securitisations Italfinance Securitisation Vehicle Series 2005 (ITA8) and Italfinance Securitisation Vehicle 2 Series 2009 (ITA11) and repurchase of the portfolios of loans deriving from leases

At its meeting of 26 November 2019, the Board of Directors resolved: (i) to approve the early termination of the transactions Italfinance Securitisation Vehicle (ITA8) and Italfinance Securitisation Vehicle 2 Series 2009 (ITA11) and the consequent full early redemption of the securities still outstanding by the SPE; (ii) repurchase *en bloc* all the loans sold to Italfinance Securitisation Vehicle and Italfinance Securitisation Vehicle 2.
The expected impact on the income statement (estimated based on the processing of the data as at 30 September 2019) deriving from the proposal of early termination of the transactions is a positive amount of around 8.8 million euro (of which ITA8 would have a negative impact of around 6 million euro, while ITA11 would have a positive impact of around 14.8 million euro). Moreover, savings of fixed costs pertaining to the management of the SPE of around 200-250 thousand euro per year are estimated.

Credit Agricole SA – Agos Ducato risk group: increase of the lending ceiling - new review date - confirmation of the ceiling for evidence risk - increase in total credit lines outstanding.

At its meeting on 26 November 2019, the Board of Directors resolved, for the risk group in question: (i) to increase the lending ceiling from 2,200 million euro to 2,270 million euro and to confirm the ceiling for evidence risk of 800 million euro, with a new review date of 30 November 2020; and (ii) to increase the total credit lines outstanding from 2,088.7 million euro to 2,104.3 million euro, alongside indirect risks of 27.9 million euro and evidence risk of 750 million euro. With regard to Agos Ducato, the proposal entails the renewal of outstanding lines, with an increase of 3.3 million euro (from 1,661.7 million euro to 1,665 million euro) and a share of the ceiling available to Agos Ducato for 100 million euro, to implement – where the prerequisites are in place - the Funding Agreements signed by out Group on 28 June 2018 (Funding Agreement set out in the resolution of the Board of Directors of 29 November 2018 relating to the "rationalisation of the consumer credit segment").

Agreement for the performance of trading on own behalf, order execution on behalf of customers, receipt and transmission of orders among Banco BPM, Banca Aletti and Banca Akros

At its meeting of 17-18 December 2019, the Board of Directors resolved: (i) to approve performance of trading by Banca Akros in favour of Banco BPM in relation to orders transmitted by Banco BPM relating to investment relationships which were and/or will be finalised by Banco BPM with its customers, paying flows of fees and commissions of a maximum of 9 million euro for 2020; and (ii) to authorise the performance of trading by Banca Akros in favour of Banca Aletti in relation to the orders transmitted by Banca Aletti and relating to investment relationships which were and/or will be finalised by Banca Aletti with its customers, paying flows of fees and commission of a maximum of 3 million euro for 2020.

PART I – SHARE-BASED PAYMENT AGREEMENTS

A. QUALITATIVE INFORMATION

1. Description of share-based payment agreements

1.1 Remuneration linked to incentive systems: compensation plans based on shares

As the Parent Company, Banco BPM S.p.A. prepares the annual Remuneration Report pursuant to the provisions in force on remuneration and incentive policies and practices of the Bank of Italy (Circular no. 285/2013, 25th update of 23 October 2018, Part I, Title IV, Chapter 2 "Remuneration and incentive policies and practices"), of art. 123-ter of Italian Legislative Decree 58/1998 (Consolidated Finance Law or CFL) and of art. 84-quater of CONSOB resolution no. 11971/1999 as amended (Issuers' Regulations).
The remuneration policies (the "Policies") define, in the interest of all stakeholders, the guidelines of the Group's personnel remuneration and incentive systems with a view to favouring the pursuit of long-term strategies, targets and results in line with the general framework of governance and risk management policies and with liquidity and capital levels, while also attracting to and retaining in the Group parties with adequate professional skills and abilities to meet business requirements, for the benefit of competition and good governance, by pursuing fairness internally and with respect to the external labour market.
The Group's remuneration policies also aim to guarantee adequate remuneration for long-term performance, making it possible to leverage personnel, recognise individual contributions to the achievement of results and discourage unfair conduct in relationships with customers and in terms of compliance with regulations, or conduct which tends towards excessive risk exposure or results in regulatory violations.
The remuneration of Group employees includes a variable component (incentive) linked to annual incentive systems. The receipt of an incentive is subject to the contextual verification that the predefined access conditions (gateways) have been met, comprised of indicators of capital adequacy and adequacy of liquidity and profitability. Following verification of the gateways, but prior to any disbursements, the amount of economic resources actually available is determined based on the income statement results achieved (financial adjustment factor) as well as qualitative indicators of a non-financial nature (non-financial adjustment factor). In both cases, conditions are included and monitored, in line with the Group Risk Appetite Framework.

The incentive for key personnel[1] is broken down into an up-front instalment and deferred instalments.
The up-front instalment, to be assigned by July of the year following the pertinent year, irrespective of the beneficiary, is equal to:

- 60% of the incentive awarded, if it is less than 430 thousand euro;
- 40% of the incentive awarded, if it is equal to or more than 430 thousand euro.

The figure of 430 thousand euro represents for the Group the level of variable remuneration of a particularly high amount, determined in keeping with the criterion established by the Bank of Italy Supervisory Regulations[2].
50% of the up-front instalment of the incentive is awarded in Banco BPM ordinary shares.

The deferred instalments are made up of:

- Five annual instalments of the same amount deferred in the five-year period following the year in which the up-front instalment matures, to be assigned by July of each year, for 55% in Banco BPM ordinary shares, for key top-management personnel[3], irrespective of the amount of the incentive awarded, and for the key

[1] Parties whose professional activity has or may have a significant impact on the Group's risk profile.
[2] Cf., Part One, Title IV, Chapter 2, Section III, Paragraph 2: "particularly high variable remuneration amount means the lower of: i) 25 per cent of the total average remuneration of the Italian high earners, resulting from the most recent report published by the EBA; ii) 10 times the total average remuneration of the bank's employees".
[3] The CEO, Joint General Managers, top operations and management executives of the Parent Company, managers in the first line of management of the Parent Company not included amongst the company control units reporting directly to the CEO, the CEO of Aletti & C. Banca d'Investimento Mobiliare and of Banca Akros.

personnel who report directly to the Chief Executive Officer of the Italian banking subsidiaries, if the amount of the incentive awarded is equal to or more than 430 thousand euro;
- three annual instalments of the same amount, deferred in the three-year period following the year in which the up-front instalment matures, to be assigned by July of each year, for 50% in Banco BPM ordinary shares, for the key personnel not indicated in the previous point.

There is a retention period (selling restriction) on the shares vested of one year, for both the up-front and the deferred shares; for the latter, the retention period starts from the moment in which the deferred remuneration is vested. The vesting of the share instalments takes place at the same time as the respective cash instalments, while actual transfer of ownership to the beneficiary takes place at the end of the retention period.
In addition, in line with national banking system practices and in keeping with the spirit of the provisions in force, if the incentive recognised is lower than or equal to the relevant threshold of 50 thousand euro and at the same time lower than or equal to one-third of the individual gross fixed annual remuneration, it is paid in a lump sum in cash; this provision does not regard high-end key personnel[4] (including top-management) and personnel actually affected[5] by a ratio of variable to fixed remuneration of more than 100%, to whom, therefore, the regulations regarding the deferral and allocation of shares continue to apply in full.
On 6 April 2019, the Ordinary Shareholders' Meeting of Banco BPM approved, pursuant to art. 114-bis of the Consolidated Finance Law and art 84-bis of the Issuers' Regulations, the compensation plans based on shares of Banco BPM, as defined in the respective Information Documents prepared for this reason by the Board of Directors on 28 February 2019, on the basis of the Policy—an Annual Plan that calls for the valuation of a share of the variable component of the remuneration of the Group's key personnel, to be paid through the assignment of ordinary shares of Banco BPM S.p.A. under the 2019 annual incentive system.

In addition to the compensation plan based on Banco BPM S.p.A. shares, the Ordinary Shareholders' Meeting of Banco BPM on 6 April 2019 approved:
- 2019 remuneration and incentive policies;
- the criteria for calculating any amount to be granted in the event of early termination of employment of all personnel, including the limits set on said amount in terms of yearly fixed remuneration.

For detailed information please refer to the following documents: the 2019 Remuneration Report, the Information Document on the 2019 Annual Plan and the Information Document on the Three-year 2017-2019 Plan, available on www.bancobpm.it (Corporate Governance — Remuneration Policies section).

Starting from 2017, a three-year long-term incentive (LTI) system was introduced in the Group (LTI incentive) correlated with the targets of the 2016-2019 Strategic Plan. This decision was made to link part of the remuneration of top company managers to the interests of shareholders which demand the creation of value for the company over time.
The receipt of the LTI incentive is also subject to the contextual verification that the predefined access conditions (gateways) have been met, comprised of indicators of: capital adequacy and adequacy of liquidity and profitability. Without prejudice to the positive verification of the access gateways, the positive verification of the entry gates, the size of the LTI incentive is determined, on the basis of a performance matrix, on the risk-adjusted profitability achieved and the value created by the company for its shareholders. The LTI incentive is paid entirely in Banco BPM S.p.A. ordinary shares (performance shares) and is broken down into:
- an up-front instalment equal to 40% of the LTI incentive;
- three annual instalments of equal amounts, totalling 60%, deferred over the three-year period subsequent to the year in which the up-front portion is accrued.

The LTI system envisages a retention period (selling restriction) on the shares vested of two years for the up-front shares and of one year for the deferred shares; for the latter, the retention period starts from the moment in which the deferred remuneration is vested. The assignment of shares to the respective beneficiaries (and therefore actual transfer of ownership) takes place at the end of the retention period.

[4]High-end key personnel for 2019 are: The CEO, Joint General Managers and Managers in the first line of management of the Parent Company, the CEO, General Manager, Joint General Manager and Deputy General Manager (where present) of Aletti & C. Banca d'Investimento Mobiliare, Banca Akros and ProFamily.
[5]*Ex ante.*

In both systems (annual and three-year system) both the up-front share and the deferred shares are subject to malus and claw-back mechanisms, as set forth in the Policy.

On 8 April 2017, the Ordinary Shareholders' Meeting of Banco BPM approved, pursuant to art. 114-bis of the Consolidated Finance Law and art 84-bis of the Issuers' Regulations, the compensation plans based on shares of Banco BPM S.p.A., as defined in the Information Document prepared for this reason by the Board of Directors on 28 February 2017, on the basis of the Policy. The Three-Year Plan calls for the valuation of the variable component of the remuneration of the executive members of the Board of Directors and of employees and workers of Banco BPM Banking Group classified in the category of top manager of the Group, to be paid through the assignment of ordinary shares of Banco BPM S.p.A. under the 2017-2019 long-term incentive system.

1.2 Previous share-based compensation plans

On 6 February 2019, Banco BPM Board of Directors approved the opening of the access gateways for the 2018 Incentive System, as well as:

- the implementation of the 2018 Plan already approved by the Ordinary Shareholders' Meeting of Banco BPM on 7 April 2018, for a total value of 4.2 million euro (estimated total amount that can be disbursed);
- access to the deferred incentive instalments attributable to previous years, relating to:
  - the 2014 (4th deferred share), 2015 (3rd deferred share) and 2016 (2nd deferred share) Incentive Systems, defined as part of the annual remuneration policies approved by the Ordinary Shareholders' Meetings of the former Banca Popolare di Milano S.c. a r.l on 12 April 2014, 11 April 2015 and 30 April 2016, respectively;
  - the 2015 Incentive System of the former Banco Popolare Banking Group, whose compensation plan was approved by the Shareholders' Meeting on 19 March 2016;
  - the 2017 (1st deferred share) Incentive System, defined as part of the annual remuneration policies approved by the Ordinary Shareholders' Meetings of Banco BPM Banking Group on 8 April 2017.

In relation to the equity instalments attributable to previous years, the number of ordinary shares of the former Banca Popolare di Milano recognised was converted into Banco BPM shares - due to the merger with the former Banco Popolare - on the basis of the value established for the share swap equal to 1 Banco BPM share for every 6.386 shares of the former Banca Popolare di Milano; the ordinary shares of the former Banco Popolare recognised were also converted into Banco BPM shares, due to the merger with Banca Popolare di Milano, on the basis of the value established for the share swap equal to 1 Banco BPM share for every share of the former Banco Popolare.
For more details on the procedures and the terms for the allocation of the shares under the above-illustrated Plans, please refer to the respective information documents drawn up in accordance with art. 84-bis of the Issuers' Regulations, deposited at the registered office, at Borsa Italiana S.p.A. and also available to the general public on Banco BPM S.p.A.'s website at www.bancobpm.it (for 2017 and 2018: Corporate Governance – Remuneration Policy section; for previous years: Corporate Governance – Pre-Merger Historical Documents – Shareholders' Meetings section).

1.3 Amounts for early termination of employment

In specific cases of termination of the employment relationship, the Parent Company has the unilateral right to agree – subject to the conditions and in accordance with the methods defined in the Policy – possible amounts for the early termination of employment (for key personnel, golden parachutes), which may be awarded up to the maximum extent of twenty-four months of fixed remuneration (excluding indemnity for lack of notice, determined by legislative provision) and up to the maximum limit of 2.4 million euro (employee gross amount).
The recognition of the amounts for early termination of the employment relationship is subordinated to positive verification of the conditions, related to the previous financial year, of capital adequacy and liquidity.

The disbursement is made according to the same methods envisaged for the annual incentive scheme, defined in the remuneration policies in force at the moment of termination, with reference to the last role for which the granting of the amount is assessed, without affecting the specific features provided for in the Bank of Italy Supervisory Regulations; therefore the disbursement is made:

- for the remaining personnel (non-key personnel), in cash in a lump sum;
- for the key personnel (golden parachute):
  - in an up-front instalment, equal to 60%, if the amount is less than the particularly high amount established in the remuneration policies in force at the moment of recognition, or 40%, in the remaining cases;
  - in five annual instalments of the same amount, for key top-management personnel, irrespective of the amount awarded, and for the key personnel who report directly to the Chief Executive Officer of the Italian banking subsidiaries, if the amount recognised is equal to or more than the particularly high amount established in the remuneration policies in force at the moment of recognition, or in three deferred instalments in the remaining cases;
  - The up-front portion matures on termination of the employment relationship and is attributed within the time limits provided for in the individual agreements; the deferred instalments mature annually, the first after twelve months from the date of disbursement of the up-front portion, the subsequent ones at the same interval from vesting of the previous portion;
  - with reference to the up-front portion, for 50% in cash and for 50% in Banco BPM ordinary shares;
  - with reference to each deferred portion, the component in Banco BPM ordinary shares is 55%, if the deferment in five years is applied, or 50%, in the remaining cases;
  - there is a retention period (sale restriction) on vested shares of one year. For deferred instalments, the retention period starts from the moment deferred remuneration is vested. The vesting of the share instalments takes place at the same time as the respective cash instalments, while actual transfer of ownership to the beneficiary takes place at the end of the retention period. The carrying value of the allocated shares, both of up-front and deferred portions, is equal to the “normal value”, corresponding to the arithmetic mean of official prices recorded in the thirty calendar days preceding the date on which each share becomes available through transfer to the beneficiary’s portfolio. Any rights and/or dividends are only vested with reference to the period following the transfer to the beneficiary’s securities portfolio.

The amounts for early termination of the employment relationship, both for key personnel and the remaining personnel, shall only be disbursed in the absence of ascertained fraudulent conduct or gross negligence committed by the terminated person. The ascertainment of such conduct, whose significance in terms of blame is assessed by the Parent Company's Board of Directors, in the case of directly appointed persons, or by the Chief Executive Officer of the Parent Company for remaining persons, determines the elimination of portions which have not yet been paid (malus) and the return of previously paid ones (clawback). This assessment takes into account a five year period starting from initial accrual.

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The incentive plans for the key personnel described above, which establish the payment based on shares of Banco BPM, are "equity-settled" plans in accordance with the provisions in IFRS 2. These share-based payments are recorded in the income statement under the item "Personnel expenses" as a balancing entry to an increase in the "Reserves" of consolidated shareholders’ equity and the Parent Company's shareholders' equity.
Subsidiaries, on the other hand, in their separate financial statements, record the cost for the period in the income statement item “Personnel expenses” as a balancing entry of an increase in the balance sheet liability item “Provisions for risks and charges”, in that the incentive plans for the key personnel establish payment based on the shares of the Parent Company, which will be settled by the individual subsidiaries and, therefore, are considered cash-settled transactions.

B. QUANTITATIVE INFORMATION

1. Annual changes

The balance of the "stock of shares" at 1 January 2019 consisted of 4,004,510 ordinary shares of Banco BPM.
In 2019 – in implementation of the remuneration and incentive policies – 25 beneficiaries received a total of 346,718 Banco BPM S.p.A. ordinary shares of which: (i) 15 beneficiaries received 18,753 shares of the 2014 Incentive System of the former BPM Group in relation to the third deferred share, which matured in 2018; (ii) 17 beneficiaries received 52,308 shares of the 2015 Incentive System of the former BPM Group in relation to the deferred share, which matured in 2018; (iii) 19 beneficiaries received 243,885 shares of the 2016 Incentive System of the former Banco Popolare Group, in relation to the up-front share and the first deferred share matured in 2017 and 2018, respectively; (iv) 5,514 shares were paid in a golden parachute package in 2015 by the former BPM Group in relation to the third deferred share, matured in 2018; and (v) 26,258 shares were paid in a golden parachute package in 2017 by the former BPM Group, in relation to the up-front share and the first deferred share, matured in 2017 and 2018, respectively.
The balance of the "stock of shares" at 31 December 2019 consisted of 3,657,792 ordinary shares of Banco BPM.

2. Other information

With regard to Share-Based Incentive Systems for key personnel, in 2019 the Group allocated the following amounts:

- 4.3 million euro for the 2019 Incentive System, of which 2.4 million euro relating to the upfront instalment and 1.9 million euro relating to the deferred instalments;
- 1 million euro, equal to the total effect of the deferred instalments of the incentive systems for the previous years.

PART L – SEGMENT REPORTING

According to IFRS 8, companies must provide information enabling users of financial statements to assess the nature and the effects on the financial statements of their business activities and the economic contexts in which they operate.
Therefore, it is necessary to highlight the contribution of the various operating segments to the formation of the Group’s income.

The identification of the “operating segments” of this Section is consistent with the procedures adopted by the Company Management to make operating decisions and is based on internal reporting, used for allocating resources to the various segments and the analysis of their performance. For this reason, and in order to improve the representation of the Group's profitability, operating segments that are below the quantitative thresholds put forward in paragraph 13 of IFRS 8 are also highlighted.

For 2019, the operating segments taken as a reference to provide the disclosure in question are as follows:

- Retail;
- Corporate;
- Institutional;
- Private;
- Investment Banking;
- Strategic Partnerships;
- Leases;
- Corporate Centre.

The identification of Leases as an operating segment is justified by the need to provide separate evidence of an activity in run-off, attributable to the management of previous lease operations of the former Banca Italease (now incorporated into Banco BPM) and the subsidiary Release.
For a description of the configuration of said operating segments, refer to the disclosure set out in the Section “Results by business segment” of the Report on Operations of the Group.

Lastly, from 1 January 2019, the Group applied the new accounting standard IFRS 16, which modified the methods of accounting recognition of all contracts that contain the right of use of an asset (ROU, Right Of Use) for a certain period of time in exchange for a certain price. The impacts of this accounting standard were implemented in the individual business lines.

The tables below provide the detailed income statement and balance sheet figures by segment as at 31 December 2019, compared with the corresponding figures for the previous year, as published in the 2018 Annual Report.
We must specify that the data of the previous year used in the comparison are not fully comparable with those of financial year 2019 as a result of both the reallocation of customers among the various business lines and the reclassification of income deriving from the placement of Certificates from the item “Net financial result” to the item “Net fee and commission income” made starting from 2019.

Segment results – income statement figures

2019	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leases	Corporate Centre
Interest margin	1,997,952	1,064,337	401,404	55,713	3,483	83,409	(8,915)	35,506	363,015
Profits (losses) on investments in associates and companies subject to joint control carried at equity	131,255	-	-	-	-	-	131,439	-	(184)
Financial margin	**2,129,207**	**1,064,337**	**401,404**	**55,713**	**3,483**	**83,409**	**122,524**	**35,506**	**362,831**
Net fee and commission income	1,794,423	1,464,256	182,828	37,695	89,857	38,821	-	4	(19,038)
Other net operating income	37,245	(14,353)	295	4,053	(4,554)	787	-	(1,837)	52,854
Net financial result	332,080	9,792	(8,181)	(42)	18	19,340	8,948	-	302,205
Other operating income	**2,163,748**	**1,459,695**	**174,942**	**41,706**	**85,321**	**58,948**	**8,948**	**(1,833)**	**336,021**
Operating income	**4,292,955**	**2,524,032**	**576,346**	**97,419**	**88,804**	**142,357**	**131,472**	**33,673**	**698,852**
Personnel expenses	(1,696,531)	(1,069,663)	(77,924)	(7,312)	(54,729)	(29,516)	(1,947)	(5,479)	(449,961)
Other administrative expenses	(638,566)	(778,051)	(84,991)	(28,262)	(15,866)	(56,044)	(624)	(29,591)	354,863
Net value adjustments to property, plant and equipment and intangible assets	(268,949)	(127,251)	(2,926)	(620)	(323)	(1,105)	(200)	(1,288)	(135,236)
Operating expenses	**(2,604,046)**	**(1,974,965)**	**(165,841)**	**(36,194)**	**(70,918)**	**(86,665)**	**(2,771)**	**(36,358)**	**(230,334)**
Profit (loss) from operations	**1,688,909**	**549,067**	**410,505**	**61,225**	**17,886**	**55,692**	**128,701**	**(2,685)**	**468,518**
Net adjustments to loans to customers	(778,530)	(306,009)	(382,067)	(8,917)	(13)	181	-	(95,597)	13,892
Profits (losses) from the fair value designation of property, plant and equipment	(158,533)	-	-	-	-	-	-	(78,219)	(80,314)
Net adjustments to securities and other financial assets	5,759	-	-	-	-	664	-	-	5,095
Net provisions for risks and charges	(71,025)	(61,355)	6,205	209	(2,752)	(861)	-	(697)	(11,774)
Profits (losses) on disposal of investments in associates and companies subject to joint control and other investments	333,151	-	-	-	-	80	(775)	(5,187)	339,033
Profit (loss) before tax from continuing operations	**1,019,731**	**181,703**	**34,643**	**52,517**	**15,121**	**55,756**	**127,926**	**(182,385)**	**734,450**
Taxes on income from continuing operations	(145,417)	(49,968)	(9,527)	(14,442)	(4,158)	(16,744)	3,477	41,690	(95,745)
Charges related to the banking system, net of taxes	(92,877)	(60,439)	(6,469)	(6,970)	(2,961)	(963)	-	-	(15,075)
Income (loss) attributable to minority interests	15,564	-	-	-	-	-	-	15,376	188
Parent Company's net income (loss)	**797,001**	**71,296**	**18,647**	**31,105**	**8,002**	**38,049**	**131,403**	**(125,319)**	**623,818**

2018	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leases	Corporate Centre
Interest margin	2,292,562	1,186,528	453,255	56,053	277	92,653	(10,557)	51,000	463,353
Profits (losses) on investments in associates and companies subject to joint control carried at equity	159,457	-	-	-	-	-	157,840	-	1,617
Financial margin	**2,452,019**	**1,186,528**	**453,255**	**56,053**	**277**	**92,653**	**147,283**	**51,000**	**464,970**
Net fee and commission income	1,848,760	1,495,546	201,433	31,406	84,639	29,614	-	7	6,115
Other net operating income	389,771	(2,777)	688	3,990	(4,886)	879	-	15,418	376,459
Net financial result	82,360	20,829	28,820	1,451	19	(8,188)	8,354	(16)	31,091
Other operating income	**2,320,891**	**1,513,598**	**230,941**	**36,847**	**79,772**	**22,305**	**8,354**	**15,409**	**413,665**
Operating income	**4,772,910**	**2,700,126**	**684,196**	**92,900**	**80,049**	**114,958**	**155,637**	**66,409**	**878,635**
Personnel expenses	(1,732,805)	(1,123,217)	(60,105)	(6,258)	(50,678)	(24,989)	(2,072)	(6,452)	(459,034)
Other administrative expenses	(816,478)	(1,044,568)	(99,698)	(33,086)	(19,069)	(67,141)	(486)	(35,760)	483,330
Net value adjustments to property, plant and equipment and intangible assets	(243,498)	-	-	-	-	(1,032)	-	(32,599)	(209,867)
Operating expenses	**(2,792,781)**	**(2,167,785)**	**(159,803)**	**(39,344)**	**(69,747)**	**(93,162)**	**(2,558)**	**(74,811)**	**(185,571)**
Profit (loss) from operations	**1,980,129**	**532,341**	**524,393**	**53,556**	**10,302**	**21,796**	**153,079**	**(8,402)**	**693,064**
Net adjustments to loans to customers	(1,941,116)	(1,252,319)	(544,721)	(22,596)	(300)	265	-	(92,710)	(28,735)
Net adjustments to securities and other financial assets	3,291	-	-	-	-	767	-	-	2,524
Net provisions for risks and charges	(345,341)	(281,592)	(369)	1,181	(20,740)	5,915	-	(12,425)	(37,311)
Profits (losses) on disposal of investments in associates and companies subject to joint control and other investments	173,358	-	-	-	-	-	170,703	(1,373)	4,028
Profit (loss) before tax from continuing operations	**(129,679)**	**(1,001,570)**	**(20,697)**	**32,141**	**(10,738)**	**28,743**	**323,782**	**(114,910)**	**633,570**
Taxes on income from continuing operations	162,835	314,449	20,566	(8,647)	2,954	(9,884)	11,953	33,461	(202,017)
Charges related to the banking system, net of taxes	(100,218)	(58,097)	(6,194)	(7,681)	(1,268)	(4,021)	-	-	(22,957)
Profit (loss) from discontinued operations	936	-	-	-	-	-	-	-	936
Income (loss) attributable to minority interests	9,623	-	-	-	-	-	-	9,622	1
Income (loss) for the year without impairment of client relationships after taxes	**(56,503)**	**(745,218)**	**(6,325)**	**15,813**	**(9,052)**	**14,838**	**335,735**	**(71,827)**	**409,533**
Impairment of client relationships after taxes	(2,929)	-	-	-	-	-	-	-	(2,929)
Parent Company's net income (loss)	**(59,432)**	**(745,218)**	**(6,325)**	**15,813**	**(9,052)**	**14,838**	**335,735**	**(71,827)**	**406,604**

The following tables show the details of fee and commission income of 2019 and the previous year disaggregated by type of service provided and defined with an operating outlook, and by IFRS 8 operating segment, in line with the disclosure requirements introduced by IFRS 15.

2019 Service type/Amounts	**Total**	**Retail**	**Corporate**	**Institutional**	**Private**	**Investment Banking**	**Strategic Partnerships**	**Leases**	**Corporate Centre**
Distribution of savings products, order collection and trading of securities and currencies:	**781,322**	**620,176**	**779**	**4,880**	**90,881**	**90,737**	**-**	**-**	**(26,131)**
- administered assets, trading securities, currencies and order collection	148,168	88,144	161	1,451	8,813	90,737	-	-	(41,138)
- portfolio management and funds	540,433	450,013	527	3,136	73,923	-	-	-	12,834
- bancassurance	92,721	82,019	91	293	8,145	-	-	-	2,173
Distribution of insurance products	**44,577**	**44,188**	**29**	**25**	**96**	**-**	**-**	**-**	**239**
Distribution of consumer credit products	**47,120**	**45,467**	**-**	**8**	**17**	**-**	**-**	**-**	**1,628**
Transactional banking services (e-money, portfolios and collection and payment services)	**323,745**	**281,031**	**29,054**	**15,776**	**1,239**	**22**	**-**	**-**	**(3,377)**
Current account management and loans:	**705,949**	**480,578**	**192,140**	**21,183**	**1,587**	**549**	**-**	**10**	**9,902**
- cash loans and unsecured loans	459,395	262,862	172,949	14,353	420	136	-	-	8,675
- current accounts, deposits and foreign currency	246,554	217,716	19,191	6,830	1,167	413	-	10	1,227
Other services	**8,039**	**5,573**	**1,311**	**240**	**29**	**2,872**	**-**	**-**	**(1,986)**
Fee and commission income	**1,910,752**	**1,477,013**	**223,313**	**42,112**	**93,849**	**94,180**	**-**	**10**	**(19,725)**
Fee and commission expense	**(116,329)**	**(12,757)**	**(40,485)**	**(4,417)**	**(3,992)**	**(55,359)**	**-**	**(6)**	**687**
Net fee and commission income	**1,794,423**	**1,464,256**	**182,828**	**37,695**	**89,857**	**38,821**	**-**	**4**	**(19,038)**

2018 Service type/Amounts	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leases	Corporate Centre
Distribution of savings products, order collection and trading of securities and currencies:	**780,232**	**631,870**	**1,049**	**5,053**	**86,229**	**54,741**	**-**	**-**	**1,290**
- administered assets, trading securities, currencies and order collection	111,490	61,705	336	1,413	6,213	53,824	-	-	(12,001)
- portfolio management and funds	602,028	511,411	605	3,472	74,155	917	-	-	11,468
- bancassurance	66,714	58,754	108	168	5,861	-	-	-	1,823
Distribution of insurance products	**39,043**	**37,725**	**47**	**21**	**63**	**-**	**-**	**-**	**1,187**
Distribution of consumer credit products	**41,175**	**45,810**	**-**	**10**	**24**	**-**	**-**	**-**	**(4,669)**
Transactional banking services (e-money, portfolios and collection and payment services)	**334,654**	**282,258**	**30,606**	**12,646**	**1,421**	**-**	**-**	**-**	**7,723**
Current account management and loans:	**742,496**	**510,216**	**206,103**	**14,697**	**1,601**	**883**	**-**	**15**	**8,981**
- cash loans and unsecured loans	480,210	281,269	185,217	8,114	379	827	-	15	4,389
- current accounts, deposits and foreign currency	262,286	228,947	20,886	6,583	1,222	56	-	-	4,592
Other services	**11,961**	**10,169**	**2,565**	**333**	**33**	**5,465**	**-**	**-**	**(6,604)**
Fee and commission income	**1,949,561**	**1,518,048**	**240,370**	**32,760**	**89,371**	**61,089**	**-**	**15**	**7,908**
Fee and commission expense	(100,801)	(22,502)	(38,937)	(1,354)	(4,732)	(31,475)		(8)	(1,793)
Net fee and commission income	**1,848,760**	**1,495,546**	**201,433**	**31,406**	**84,639**	**29,614**	**-**	**7**	**6,115**

Segment results – balance sheet figures

31/12/2019	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leases	Corporate Centre
Loans to customers:	122,312,599	56,335,048	28,752,403	5,720,739	245,141	827,446	-	2,005,510	28,426,312
• loans to customers	*103,343,352*	*56,335,048*	*28,601,715*	*5,720,739*	*245,141*	*819,074*	-	*2,005,510*	*9,616,125*
• debt securities	*18,969,247*	-	*150,688*	-	-	*8,372*	-	-	*18,810,187*

31/12/2018	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leases	Corporate Centre
Loans to customers:	119,462,481	56,412,860	28,345,574	4,778,663	221,407	1,401,575	-	2,577,597	25,724,805
• loans to customers	102,585,999	56,412,860	28,245,574	4,778,663	221,407	1,385,016	-	2,577,597	8,964,882
• debt securities	16,876,482	-	100,000	-	-	16,559	-	-	16,759,923

31/12/2019	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leases	Corporate Centre
Direct funding	109,506,299	71,458,273	8,796,052	8,971,719	2,751,218	1,337,763	-	5,570	16,185,704

31/12/2018	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leases	Corporate Centre
Direct funding	105,219,691	67,696,786	9,045,237	7,474,794	2,438,999	826,764	-	5,369	17,731,742

31/12/2019	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leases	Corporate Centre
Equity investments	1,386,079	-	-	-	-	-	1,368,892	-	17,187

31/12/2018	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leases	Corporate Centre
Equity investments	1,434,163	-	-	-	-	-	1,416,024	-	18,139

Note that the majority of the assets and operating income were generated in Italy, confirming the deep-seated presence in the national territory, considered to be the Group's primary sphere of operations. The weight of activities and operating income earned abroad is significantly below the threshold of 5%.

PART M – DISCLOSURE ON LEASES

Section 1 – Lessee

QUALITATIVE INFORMATION

The IFRS 16 scope of Banco BPM Group includes the lease contracts on the property units mainly intended for commercial activities (branches), which account for more than 99% of the rights of use relating to leases. There was a marginal amount of other contracts, relating to the hiring of the company car fleet and a small number of contracts containing rights of use of technological equipment.

Short-term or low value lease contracts are recorded according to that set out in par. 6 of IFRS 16. The related costs are indicated in table 12.2 "Other administrative expenses: breakdown".

QUANTITATIVE INFORMATION

According to that set out in Bank of Italy Circular 262, the information required by accounting standard IFRS 16, relating to contracts in which the Group is the lessee, contained in these Notes to the consolidated financial statements, in the sections indicated below:

- the information on rights of use acquired through leases is contained in Part B, Assets – Section 9, Table 9.1 "Property, plant and equipment used in operations: breakdown of assets at cost" and at the bottom of Table 9.6 "Property, plant and equipment used in operations: annual changes";
- the information on lease payables is contained in Part B, Liabilities – Section 1, Table 1.6 "Lease payables";
- the information on interest expense on lease payables is contained in Part C – Section 1 – Table 1.3 "Interest and similar expense: breakdown";
- the information on the depreciation of the rights of use and the related asset classes is contained in Part B, Assets – Section 9, Table 9.6 bis "Property, plant and equipment used in operations - Rights of use acquired through leases: annual changes", under item C.2 "Depreciation".

At the reporting date, the Group has commitments in place for lease contracts that will start in 2020 for 2.6 million euro, of which short-term contracts for 7 thousand euro.

Section 2 – Lessor

QUALITATIVE INFORMATION

The Group has both finance lease contracts and operating lease contracts in force.

Finance lease operations, which include the contracts of the former Banca Italease (transferred to the Parent Company Banco BPM), as well as the contracts of Release, are in run-off as a result of the Group's decision to no longer directly disburse that type of financing.

Operating lease operations mainly regard commercial leases connected with properties acquired through *datio in solutum* (acceptance in lieu) in relation to previous credit exposures.

QUANTITATIVE INFORMATION

1. Information on the balance sheet and income statement

According to that set out in Bank of Italy Circular 262, the information required by accounting standard IFRS 16, relating to contracts in which the Group is the lessor, contained in these Notes to the consolidated financial statements, in the sections indicated below:

- the information on loans for leases is contained in Part B, Assets – Section 4, Table 4.1 "Financial assets at amortised cost: breakdown by product for amounts due from banks" and Table 4.1 "Financial assets at amortised cost: by product for loans to customers";
- the information on assets granted through operating leases is contained in Part B, Assets – Section 9, at the bottom of Table 9.4 "Property, plant and equipment held for investment purposes: breakdown of assets at fair value through profit and loss ", with the related specifics provided at the bottom of that table;
- the information on interest income on loans for leases is contained in Part C – Section 1 – Table 1.1 "Interest and similar income: breakdown";
- the information on income from operating leases is contained in Part C – Section 16, Table 16.2 "Other operating income: breakdown".

2. Finance leases

2.1 Classification of payments to be received by time band and reconciliation with loans for leases posted under assets

Time bands	Total 31/12/2019 Lease payments to be received
Up to 1 year	380,996
From over 1 year to 2 years	312,955
From over 2 years to 3 years	468,557
From over 3 years to 4 years	167,125
From over 4 years to 5 years	140,422
Over 5 years	415,963
Total lease payments to be received	**1,886,018**
Reconciliation with loans	
Financial profits not accrued (-)	(164,381)
Residual non-guaranteed value	-
Loans for leases	**1,721,637**

The table sets out payments to be received for loans for leases, due from banks and from customers, whether they refer to performing or non-performing exposures.
In relation to performing exposures, payments to be received refer exclusively to rentals falling due after the reporting date. These receivables include:

- Past-due receivables for 0.9 million euro
- Portfolio value adjustments for 8.0 million euro
- Capital gains for the year for 1.1 million euro.

Loans for leases recorded a gradual decrease, in relation to the Group's decision to no longer directly disburse that type of financing.

The tables below, while not fully comparable, show lease operations with banks and with customers as at 31 December 2018, prepared in accordance with the provisions of the previous version of Bank of Italy Circular 262 (fifth update).

With banks

	31/12/2018					
	Non-performing loans	Minimum payments			Gross investment	
		Principal	of which residual guaranteed value	Interest		of which residual non-guaranteed value
On demand	-	11	-	2	13	-
Up to 3 months	-	81	-	7	88	-
Between 3 months and 1 year	-	278	-	24	302	-
Between 1 year and 5 years	-	1,688	901	41	1,729	-
Over 5 years	-	-	-	-	-	-
Unlimited duration	-	-	-	-	-	-
Net total	**-**	**2,058**	**901**	**74**	**2,132**	**-**

With customers

	31/12/2018					
	Non-performing loans	Minimum payments			Gross investment	
		Principal	of which residual guaranteed value	Interest		of which residual non-guaranteed value
On demand	39,801	7,962	111	1,975	9,937	-
Up to 3 months	8,746	19,098	163	4,929	23,832	-
Between 3 months and 1 year	130,755	84,228	3,460	19,959	103,602	-
Between 1 year and 5 years	401,057	551,194	212,806	71,277	614,187	-
Over 5 years	442,095	403,516	245,393	30,420	433,937	-
Unlimited duration	3,595	-	-	-	-	-
Net total	**1,026,049**	**1,065,998**	**461,933**	**128,560**	**1,185,495**	**-**

2.2 Other information

There is no other information to report.

3. Operating leases

3.1 Classification by time band of payments to be received

Time bands	Total 31/12/2019 Lease payments to be received
Up to 1 year	37,107
From over 1 year to 2 years	34,206
From over 2 years to 3 years	31,076
From over 3 years to 4 years	18,460
From over 4 years to 5 years	13,883
Over 5 years	41,787
Total	**176,519**

3.2 Other information

There is no other information to report.

OTHER INFORMATION

Disclosure regarding public disbursements pursuant to art. 1, paragraph 125 of Law 124 of 4 August 2017 ("Annual market and competition law").

In compliance with that stated in art. 1, paragraph 125 of Law 124 of 4 August 2017, below there are the amounts received by the Parent Company and its subsidiaries during 2019, in the form of "subsidies, contributions, paid positions and in any case economic advantages of any type".

Group company	Type of contributions	Granting authority	Amounts received in 2019 *(figures in euro)*
Banco BPM	Aid for personnel training (*)	FBA (Bank and Insurance Fund)	5,143,625
Banca Aletti	Aid for personnel training (*)	FBA (Bank and Insurance Fund)	64,406
Terme Ioniche S.r.l.	Agricultural aid (**)	Disbursed by the European Union through ARCEA (Agency of the Region of Calabria for Agricultural Aid), as the paying body	144,379
Sagim S.r.l. Società Agricola	Agricultural aid (**)	Disbursed by the European Union through ARTEA (Tuscan Regional Agency for Agricultural Aid), as the paying body	342,030

(*) Aid for personnel training requested in 2017 and paid in December 2019. To that end, we note that the contributions listed in the national government registry refer to contributions for which the grant date is from October 2017, relative to which no disbursements were made in 2019.
(**) In particular, these are public resources from EU sources, in which the Italian public administration takes on the role of payer.

To that end, note that in the table, in line with the provisions of the law in question, economic advantages of less than the threshold of 10,000 euro are not stated. This threshold should be understood to refer to all the advantages that the Parent Company or each company in the Group received from the same authority in 2019, whether the benefit was disbursed in one tranche or in several tranches.

Declaration of the Chief Executive Officer and the Manager Responsible for Preparing the Company's Financial Reports

CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ART. 81-TER OF CONSOB REGULATION NO. 11971 OF 14 MAY 1999 AND SUBSEQUENT AMENDMENTS AND ADDITIONS

1. The undersigned, Giuseppe Castagna, as Chief Executive Officer of Banco BPM S.p.A. and Gianpietro Val, as Manager Responsible for Preparing the Company's Financial Reports of Banco BPM S.p.A., hereby certify, also in consideration of the provisions of art. 154-bis, paragraphs 3 and 4, of Italian Legislative Decree no. 58 dated 24 February 1998:
   - the adequacy in relation to the characteristics of the company and
   - the effective application

   of the administrative and accounting procedures for the formation of the consolidated financial statements of Banco BPM S.p.A. in 2019.

2. The assessment of the adequacy and the verification of the effective application of the administrative and accounting procedures for the formation of the consolidated financial statements of Banco BPM S.p.A. as at 31 December 2019 were based on an internal model set in place by Banco BPM S.p.A., developed on the basis of the Internal Control – Integrated Framework (COSO)" and, for the IT component, the "Control Objectives for IT and related Technology (COBIT)", which represent the standards for the internal audit system generally accepted at international level.

3. We also hereby certify that:

   3.1 the consolidated financial statements of Banco BPM S.p.A. as at 31 December 2019:
   a) were drawn up in compliance with the applicable international accounting standards recognised in the European Community as per EC Regulation no. 1606/2002 of the European Parliament and Council, dated 19 July 2002;
   b) comply with the results of the accounting records and journal entries;
   c) are suitable for providing a true and fair view of the balance sheet, income statement and financial situation of the issuer and of all the companies included within the scope of consolidation.

   3.2 the report on operations includes a reliable analysis of operating performance and results, as well as the situation of the issuer, Banco BPM S.p.A., and of all of the companies included within the scope of consolidation, together with a description of the main risks and uncertainties to which the same are exposed.

Milan, 6 February 2020

Signed by:

Giuseppe Castagna
Chief Executive Officer

Signed by:

Gianpietro Val
Manager Responsible for Preparing
the Company's Financial Reports

Independent Auditors' Report on the consolidated financial statements

Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the shareholders of Banco BPM SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Banco BPM Group (hereinafter the "Group"), which comprise the balance sheet as of 31 December 2019, the income statement, statement of comprehensive income, statement of changes in shareholders' equity, the cash flow statement for the year then ended, and notes thereto, which include a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the Group's financial position as of 31 December 2019 and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and article 43 of Legislative Decree No. 136/15.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of this report. We are independent of Banco BPM SpA (hereinafter the "Bank") pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bergamo** 24121 Largo Belotti 5 Tel. 035229691 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25121 Viale Duca d'Aosta 28 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332285039 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311

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Key audit matters	***Auditing procedures performed in response to key audit matters***
Impairment of loans to customers measured at amortised cost	
Notes to the consolidated financial statements: *Part A - Accounting policies* *Part B – Information on the consolidated balance sheet, Assets, sections 4 and 12* *Part C – Information on the consolidated income statement, section 8* *Part E – Information on risks and related hedging policies* Loans to customers as of 31 December 2019 are the main portion of line item 40 b) "*Financial assets at amortised cost - Loans to customers*" which shows a balance of Euro 122,313 million corresponding to 73 per cent of total assets. *Net losses/recoveries on credit risk relating to financial assets at amortised cost – loans to customers* charged in the current year amount to Euro 725 million and represent management's best estimate of the expected losses within the loan portfolio at the reporting date on the basis of the applicable reporting standards. As part of our audit activities, special attention was paid to the impairment provisions on loans to customers considering the materiality of the balance, the significant percentage of non-performing loans and the on-going process of fine-tuning and refinement of the valuation criteria also in the light of historical experience. Furthermore, impairment processes and criteria necessarily require a high degree of judgement and complex processes for the estimation of many variables. Therefore, for loans assessed on an individual basis, the use of significant assumptions is relevant in order to measure the *significant increment of credit risk (SICR)*, to allocate portfolios to different risk stages (*Staging*) and to determine assumptions and model inputs necessary for the *expected credit loss* (*ECL*) calculation, as well as future cash flows, recovery time and the recoverable amount of any collaterals.	In performing our audit, we considered internal control relevant to the financial reporting in order to define adequate audit procedures. In detail, in order to address this key matter, we obtained an understanding and performed an evaluation over the design of controls relevant to the monitoring, classification and impairment valuation of loans to customers and then tested their operating effectiveness. We focused, also with the support of experts belonging to our network, on understanding and verifying the appropriateness of policies, procedures and models used for determining *SICR*, *Staging* and *ECL* both individually and collectively, as well as the criteria for determining and estimating key parameters used in the models defined. More in detail, for loans to customers classified as performing (Stage 1 and Stage 2), in addition to verifying the appropriate application of the defined criteria, we tested the determination and the application of the key estimation parameters within the models used (including testing of the correct application of credit conversion factors for commitments and off-balance sheet exposures), as well as the completeness and accuracy of the data used in the ECL calculation. We also selected a sample of loans and verified the reasonableness of their classification as performing exposures based on the available information about the debtor's status and other evidence including external available information. With specific reference to non-performing loans (Stage 3), we reviewed and verified the reasonableness of the methodology adopted to define alternative recovery scenarios

Key audit matters	*Auditing procedures performed in response to key audit matters*
	assumed (sale and work-out scenarios), their weighting and the estimated future cash flows. Considering the classification criteria and categories under the applicable financial and regulatory reporting framework and in order to assess the reasonableness of management's conclusions about the impairment in the workout recovery scenario, we selected a sample of non-performing loans provisioned on an individual basis and verified the reasonableness of the assumptions made, focusing specifically on the identification and quantification of estimated future cash flows from work-out activity, collateral valuation and recovery time. Finally, where applicable, we tested on a sample basis the correct calculation of the ECL on the basis of weighted average future cash flows from the work-out and sale scenarios. For non-performing loans provisioned with collective criteria, we assessed the correct application of the defined criteria, and carried out specific analyses aimed at verifying the correct determination of the key estimation parameters within the model used and the completeness and accuracy of inputs.
Valuation of complex financial instruments (debt securities and derivatives) held for trading and not quoted in active markets *Notes to the consolidated financial statements:* *Part A - Accounting policies* *Part B – Information on the consolidated balance sheet, Assets, section 2 and Liabilities, section 2* *Part C – Information on the consolidated income statement, section 4* Financial instruments held for trading and not quoted in active markets whose fair values were	In performing our audit, we considered the internal control relevant to the financial reporting in order to define adequate audit procedures. More in detail, we obtained an understanding and performed an evaluation over the design of controls relevant to the identification, measurement and monitoring of the risk related to the valuation and recognition of

Key audit matters	*Auditing procedures performed in response to key audit matters*
determined through valuation models using data and parameters directly observable and not observable in the market (instruments with fair value levels 2 and 3) comprise assets for a total of Euro 2,678 million and liabilities of Euro 9,335 million, corresponding approximately to 2 per cent of total assets and 6 per cent of total liabilities in the financial statements. The carrying amounts of these instruments, which represent management's best estimate of the fair value of these instruments at the reporting date determined in accordance with the applicable reporting standards, show a significant contribution of the portfolio of the subsidiary Banca Akros SpA. Throughout the course of our audit we paid special attention to the valuation of these financial instruments held by Banca Akros SpA, focusing primarily on those characterised by a high degree of complexity (structured securities and derivatives). This was considered a key audit matter due to the materiality of the amounts, the number and complexity of the valuation models used and the significant estimates and assumptions required. The valuation models used are numerous and different based on the type of instrument, requiring specific qualitative and quantitative assumptions that could determine results significantly different. Furthermore, the valuation models used, even if consolidated and acknowledged in the practice, could be extremely sensitive to inputs and assumptions and, by their very nature, incorporate a risk of incorrect valuation.	financial instruments, as well as the operating effectiveness of those controls. In order to assess their appropriateness, we obtained an understanding and carried out a critical assessment of the policies adopted by the Group to determine the fair values of financial instruments Furthermore, we analysed the valuation techniques and models used, as well as the criteria applied to determine significant assumptions and the necessary inputs, verifying that these were consistent with the market practice and financial literature. For the relevant balances, we performed specific substantive tests including, for a sample of financial instruments classified in levels 2 and 3, independent valuation of fair values, also with the support of experts belonging to our network, in order to verify the reasonableness of management's valuations. In this respect, we focused on qualitative and quantitative assumptions made and on inputs used (interest rate curves, credit and liquidity spreads, adjustments for credit rating, volatility parameters, other market information). Furthermore, we tested the completeness and adequacy of disclosures closely related to this key matter also considering requirements of the applicable reporting standards.

Key audit matters	*Auditing procedures performed in response to key audit matters*

Change in measurement criteria for real estate properties

Notes to the consolidated financial statements:
Part A - Accounting policies
Part B – Information on the consolidated balance sheet, Assets, section 9
Part C – Information on the consolidated income statement, section 18

In the preparation of the consolidated financial statements as of 31 December 2019, Banco BPM Group changed the measurement criteria for real estate properties, adopting, instead of the cost method, the revaluation method for instrumental properties and the fair value model for investment properties. The evaluation of the real estate assets was performed by the management also on the basis of appraisals prepared by an independent third-party expert.

During the course of our audit we paid special attention to this matter, due to the materiality of the amounts, to the significant number of properties held by the Group as well as the complexity and high degree of judgment inherent in the fair value estimation process, also considering the different characteristics of the properties and their relevant markets.

Furthermore, the valuation models used, even if consolidated and acknowledged in the practice, could be extremely sensitive to inputs and assumptions and to the specific characteristics and peculiarities of properties and, by their very nature, incorporate a risk of incorrect valuation.

In performing our audit, we paid special attention to understanding and evaluating the activities planned and performed by the Group to implement the new measurement criteria, as well as the related governance and the control activities carried out by the management.

Also through meetings with the expert appointed by the Group, in order to verify its appropriateness, we evaluated and critically assessed the criteria used for determining the fair values of real estate properties, the related methodological choices made and their consistency with prevailing market practices.

In order to verify the reasonableness of the management valuation, also with the support of experts belonging to our network, we have carried out, on a sample basis, specific substantive tests, including:

- check of the mathematical accuracy of the valuation model;
- assessment of significant model assumptions and inputs (inflation rates, discount rates, capitalisation rates and market rents), also through a comparison with public market information and comparables;
- where necessary, sensitivity analyses aimed at verifying the reasonableness of the key assumptions used and the resulting values.

Furthermore, we verified that the accounting for of the effects resulting from the change in the measurement criteria was in accordance with the applicable reporting standards, as well as the correct calculation of the related deferred taxes.

Key audit matters	*Auditing procedures performed in response to key audit matters*
	Finally, we verified the completeness and adequacy of disclosures in the consolidated financial statements.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and article 43 of Legislative Decree No. 136/15 and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Group's ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern.
In preparing the consolidated financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate the parent company Banco BPM SpA or to cease operations or have no realistic alternative but to do so.

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of our audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;

- We concluded on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- We evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

- We obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report

Additional Disclosures required by Article 10 of Regulation (EU) No. 537/2014

On 15 October 2016 the shareholders of Banco Popolare Società Cooperativa and Banca Popolare di Milano Scarl in general meeting engaged us to perform the statutory audit of the Bank's and the consolidated financial statements for the years ending 31 December 2017 to 31 December 2025.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Bank in conducting the statutory audit.
We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the board of statutory auditors, in its capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter and), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98

The directors of Banco BPM SpA are responsible for preparing a report on operations and a report on the corporate governance and ownership structure of Banco BPM Group as of 31 December 2019, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the consolidated financial statements of Banco BPM Group as of 31 December 2019 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of Banco BPM Group as of 31 December 2019 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter and), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Statement in accordance with article 4 of Consob's Regulation implementing Legislative Decree No. 254 of 30 December 2016

The directors of Banco BPM SpA are responsible for the preparation of the non-financial statement pursuant to Legislative Decree No. 254 of 30 December 2016.

We have verified that the directors approved the non-financial statement.

Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016, the non-financial statement is the subject of a separate statement of compliance issued by ourselves.

Milan, 13 March 2020

PricewaterhouseCoopers SpA

Signed by

Pierfrancesco Anglani
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

Attachments

Reclassified consolidated balance sheet – Reconciliation between the balances as at 31 December 2018 and as at 1 January 2019

In order to give a better understanding of the transition to the new accounting standard IFRS 16, the following table provides the reconciliation between the balances as at 31 December 2018 and as at 1 January 2019 for each item on the reclassified balance sheet.
For a better understanding of the impacts concerning the transition to the new accounting standard, as well as the criteria for preparing the balance sheet in a reclassified form, please refer to:

- Section "Disclosure on the first time adoption of the accounting standard IFRS 16 – Leases" contained in Part A - Accounting policies of the Notes to the consolidated financial statements.
- the disclosure contained within the "Results" section of the Group Report on Operations.

(thousands of euro)	**31/12/2018 (IAS 17)**	**Impact of FTA IFRS 16**	**Reclassifications**	**01/01/2019 (IFRS 16)**
Cash and cash equivalents	922,017			922,017
Loans measured at Amortised Cost	108,207,732	-	-	108,207,732
- Loans to banks	4,193,119			4,193,119
- Loans to customers	104,014,613			104,014,613
Other financial assets and hedging derivatives	36,852,942	-	-	36,852,942
- At FV through Profit or Loss	5,869,106			5,869,106
- At FV through OCI	15,351,561			15,351,561
- At AC	15,632,275			15,632,275
Equity investments	1,434,163			1,434,163
Property, plant and equipment	2,775,885	835,594	38,297	3,649,776
Intangible assets	1,277,941			1,277,941
Tax assets	5,012,477			5,012,477
Non-current assets and asset disposal groups held for sale	1,592,782			1,592,782
Other assets	2,388,852		(72,708)	2,316,144
Total assets	**160,464,791**	**835,594**	**(34,411)**	**161,265,974**
Direct funding	105,219,691	-	-	105,219,691
- Due to customers	90,197,859			90,197,859
- Securities and financial liabilities at FV	15,021,832			15,021,832
Due to banks	31,633,541			31,633,541
Lease payables	-	835,594		835,594
Other financial liabilities at fair value	7,228,829			7,228,829
Liability provisions	1,704,866		(34,411)	1,670,455
Tax liabilities	505,402			505,402
Liabilities associated with asset disposal groups held for sale	3,043			3,043
Other liabilities	3,864,345			3,864,345
Total liabilities	**150,159,717**	**835,594**	**(34,411)**	**150,960,900**
Minority interests	45,599			45,599
Group shareholders' equity	10,259,475			10,259,475
Consolidated shareholders' equity	**10,305,074**	**-**	**-**	**10,305,074**
Total liabilities and shareholders' equity	**160,464,791**	**835,594**	**(34,411)**	**161,265,974**

Reconciliation between the items in the consolidated income statement and the reclassified consolidated income statement schedule for 2019

2019	Income statement	Reclassifications	Reclassified income statement
Interest margin			**1,997,952**
10. Interest and similar income	2,513,924		
20. Interest and similar expense	(515,972)		
Profits (losses) on investments in associates and companies subject to joint control carried at equity			
250. Profits (losses) on investments in associates and companies subject to joint control		131,255 (a)	**131,255**
Financial margin			**2,129,207**
Net fee and commission income			**1,794,423**
40. Fee and commission income	1,870,979	39,773 (b)	
50. Fee and commission expense	(133,875)	16,633 (c)	
		913 (d)	
Other net operating income			**37,245**
230. Other operating expenses/income	337,674	(261,700) (e)	
		(5,283) (f)	
		(38,779) (g)	
		6,246 (h)	
		(913) (d)	
Net financial result			**332,080**
70. Dividends and similar income	69,611		
80. Profits (losses) on trading	(178,416)	(39,773) (b)	
		(16,633) (c)	
90. Fair value adjustments in hedge accounting	7,497		
100 Profits (losses) on disposal or repurchase	337,551	42,575 (i)	
110. Profits (losses) on other financial assets and liabilities measured at fair value through profit and loss	109,668		
Other operating income			**2,163,748**
Operating income			**4,292,955**
Personnel expenses			**(1,696,531)**
190 a) Personnel expenses	(1,692,122)	(9,692) (l)	
190 b) Other administrative expenses		5,283 (f)	
Other administrative expenses			
190 b) Other administrative expenses	(1,047,563)	9,692 (l)	**(638,566)**
		261,700 (e)	
		137,605 (m)	
Net value adjustments to property, plant and equipment and intangible assets			**(268,949)**
210. Net adjustments to/recoveries on property, plant and equipment	(197,689)		
220. Net adjustments to/recoveries on intangible assets	(110,039)	38,779 (g)	
230. Other operating expenses/income			
Operating expenses			**(2,604,046)**
Profit (loss) from operations			**1,688,909**
Net adjustments to loans to customers			**(778,530)**
130 a) Net losses/recoveries on credit risk related to financial assets at amortised cost	(724,741)	(262) (n)	
		353 (o)	
		(3,062) (p)	
		(42,575) (i)	
		(6,246) (h)	
140. Profit/loss from contractual changes without derecognition	(1,997)		
Profits (losses) from the fair value designation of property, plant and equipment			**(158,533)**

2019	Income statement	Reclassifications	Reclassified income statement
260. Profits (losses) from the fair value designation of property, plant and equipment and intangible assets	(158,533)		
Net adjustments to securities and other financial assets			**5,759**
130 b) Net losses/recoveries on credit risk related to financial assets at fair value through other comprehensive income	2,788		
		262 (n)	
		(353) (o)	
		3,062 (p)	
Net provisions for risks and charges			**(71,025)**
200. Net provisions for risks and charges	(107,038)	36,013 (q)	
Profits (losses) on disposal of investments in associates and companies subject to joint control and other investments			**333,151**
250. Profits (losses) on investments in associates and companies subject to joint control	130,441	(131,255) (a)	
280. Profits (losses) on disposal of investments	333,965		
Profit (loss) before tax from continuing operations			**1,019,731**
Taxes on income from continuing operations			**(145,417)**
300. Taxes on income from continuing operations	(64,676)	(44,728) (m)	
		(36,013) (q)	
Charges related to the banking system, net of taxes		(92,877) (m)	**(92,877)**
Income (loss) attributable to minority interests			**15,564**
340. Income (loss) attributable to minority interests	15,564		
Parent Company's net income (loss) for the year	**797,001**	**-**	**797,001**

The letters shown beside the column "Reclassifications" have been included to give a better understanding of the reclassifications carried out.

With reference to the reconciliation provided above, please note that:

- the item "**Interest margin**" is represented by the algebraic balance of interest and similar income (item 10) and interest and similar expense (item 20);
- the item "**Profits (losses) on investments in associates and companies subject to joint control carried at equity**" shows the portion of profits (losses) pertaining to investee companies carried at equity (included in item 250) totalling 131.3 million euro (a), and together with the interest margin, the aggregate is defined as the "**Financial margin**";
- the item "**Net fee and commission income**" is represented by the algebraic balance of fee and commission income (item 40) and fee and commission expense (item 50). It also includes the reclassification of the upfront fees relating to the placement of Certificates through the Group network (39.8 million euro (b)) from item 80 of the official schedule "Profits (losses) on trading", while fee and commission expense relating to placement carried out by third party networks (16.6 million euro (c)) have been transferred to profits (losses) on trading. The portion of fee and commission income relating to charges of 0.9 million euro (d), incurred for the revision of agreements with several financial advisors, was separated from net fee and commission income and transferred to the aggregate of "Other net operating income";
- the item **"Other net operating income"** is represented by the accounting item "230 Other operating expenses/income" net of (i) recoveries for indirect taxes, legal expenses and other expenses for a total of 261.7 million euro (e), which for reclassification purposes are shown as a reduction of the item "Other administrative expenses"; (ii) the recovery of costs for training of 5.3 thousand euro (f) reclassified as a reduction of "Personnel expenses"; (iii) the portion of rental income of lease contracts, of 6.2 million euro (h), subject to retrocession in the context of the "ACE Leasing" project, allocated to the item "Net adjustments to loans to customers" of the reclassified income statement. The aggregate "Other net operating income" also includes the value adjustments to intangible assets with a finite useful life (client relationship) for 38.8 million euro (g) and the charges incurred for the revision of agreements with several financial advisors, for 0.9 million euro (d), reclassified from net fee and commission income. The effect of the aforementioned reclassifications was a negative 300.4 million euro overall;
- the income statement item "**Net financial result**" includes "Dividends and similar income" (item 70), "Profits (losses) on trading" (item 80), net of the reclassification of the amount related to upfront fees on placement of Certificates for a total of 56.4 million euro (letters (b) and (c)), booked to net fee and

commission income, “Fair value adjustments in hedge accounting” (item 90) and “Profits (losses) on other financial assets and liabilities measured at fair value through profit and loss” (item 110). It also includes “Profits (losses) on disposal or repurchase” (item 100), with the exception of the gain of 42.6 million euro (g) relating to the disposal of loans not represented by debt securities, classified in the operational aggregate “Net adjustments to loans to customers”;

- the item “**Personnel expenses**” is represented by the financial statement item “190 a) Personnel expenses” and by several charges functionally related to personnel, amounting to 9.7 million euro (l), recognised in the financial statements under item 190 b) “Other administrative expenses” and by the recovery of training costs of 5.3 million euro (f), recorded under item “230 Other operating expenses/income”, as described above;
- the item “**Other administrative expenses**” is represented by the financial statement item 190 b), net of recoveries on indirect taxes, legal fees and other expenses, totalling 261.7 million euro (e), included in the item “230 Other operating expenses/income”, as described above, and of several charges connected to personnel, recognised in the reclassified item “Personnel expenses” for 9.7 million euro (l). Ordinary and extraordinary charges totalling 137.6 million euro (m) introduced for banks under the single and national resolution funds (SRF and NRF) and the deposit guarantee scheme (DGS) are also excluded and are shown, net of the related tax effect, in the separate item “Charges related to the banking system, net of taxes”;
- the item “**Net value adjustments to property, plant and equipment and intangible assets**” corresponds to the accounting items 210 and 220, net of adjustments to intangibles with a finite useful life (client relationships), allocated to the reclassified aggregate “Other net operating income”, for 38.8 million euro (g);
- the total of “**Net adjustments to loans to customers**” and “**Net adjustments to securities and other financial assets**” starts from income statement items 130 “Net losses/recoveries on credit risk” and 140 “Profit/loss from contractual changes without derecognition”. In particular, “Net adjustments to loans to customers” include value adjustments to exposures classified in the portfolio of financial assets at amortised cost - loans to customers – loans (for 724.7 million euro), the positive result of the disposal of loans, of 42.6 million euro (i) (included in item 100), the portion of rental income of lease contracts, of 6.2 million euro (h), subject to retrocession in the context of the “ACE Leasing” project (originally recognised in item “230 Other operating expenses/income” of the official income statement), and profit/loss from contractual changes without derecognition (item 140 of the income statement);
- “**Profits (losses) from the fair value designation of property, plant and equipment**” correspond to item 260 of the official income statement;
- the aggregate of “**Net adjustments to securities and other financial assets**” includes net adjustments to exposures classified in the portfolio of financial assets at amortised cost – due from banks – loans (n), as well as net adjustments for impairment of exposures classified in the portfolio of financial assets at amortised cost consisting of debt securities (included in item 130) issued by banks (o) and by customers (p) totalling 3.0 million euro;
- the “**Net provisions for risks and charges**” correspond to item 200 of the official income statement, net of the allocation of 36.0 million euro (q) made by the subsidiary Banca Aletti for several tax disputes, recorded under the item “Taxes on income from continuing operations” of the reclassified income statement;
- “**Profits (losses) on disposal of investments in associates and companies subject to joint control and other investments**” correspond to item 280 of the official income statement and to the net income on the disposal of equity investments carried at equity (item 250 of the official income statement), net of the portion of income (losses) of the investees carried at equity, overall a positive 131.2 million euro (a) included in the reclassified aggregate “Profits (losses) on investments in associates and companies subject to joint control carried at equity”;
- the item “**Taxes on income from continuing operations**” corresponds to item 300 of the official income statement, net of the tax effect of banking industry charges, amounting to 44.7 million euro (m), and includes the allocation of 36.0 million euro (q) to provisions for risks and charges of the subsidiary Banca Aletti, described above;
- the item “**Charges related to the banking system, net of taxes**” includes the aforementioned ordinary and extraordinary charges for a total of 137.6 million euro (m) recognised in the accounts in item 190 b) of the official income statement, net of the related tax effect, amounting to 44.7 million euro (m).

Reconciliation between the items in the consolidated balance sheet and the reclassified consolidated balance sheet as at 31 December 2019

Asset items ***(thousands of euro)***	**31/12/2019**
10. Cash and cash equivalents	912,742
Cash and cash equivalents	**912,742**
40. a) Financial assets at amortised cost: due from banks	10,834,518
less: debt securities to banks at amortised cost	(790,091)
Loans at AC: loans to banks	**10,044,427**
40. b) Financial assets at amortised cost: loans to customers	122,312,599
plus: senior securities relative to disposal of "Red Sea" and "Leviticus" (GACS)	2,502,112
less: debt securities to customers at amortised cost	(18,969,247)
Loans at AC: loans to customers	**105,845,464**
20. Financial assets at fair value through profit and loss	7,181,477
50. Hedging derivatives	103,614
Financial assets and hedging derivatives at FV through Profit and Loss	**7,285,091**
30. Financial assets at fair value through other comprehensive income	12,526,772
Financial assets at FV through OCI	**12,526,772**
plus: debt securities to banks and customers at amortised cost	19,759,338
less: senior securities relative to disposal of "Red Sea" and "Leviticus" (GACS)	(2,502,112)
Financial assets at AC	**17,257,226**
70. Equity investments	1,386,079
Equity investments	**1,386,079**
90. Property, plant and equipment	3,624,312
Property, plant and equipment	**3,624,312**
100. Intangible assets	1,269,360
Intangible assets	**1,269,360**
110. Tax assets	4,619,636
Tax assets	**4,619,636**
120. Non-current assets and asset disposal groups held for sale	131,082
Non-current assets and asset disposal groups held for sale	**131,082**
60. Fair value change of financial assets in macro fair value hedge portfolios (+/-)	29,161
130. Other assets	2,106,849
Other assets	**2,136,010**
Total assets	**167,038,201**

Liability items ***(thousands of euro)***		**31/12/2019**
10. b)	Financial liabilities at amortised cost: due to customers	94,099,912
	less: lease payables due to customers	(724,886)
10. c)	Financial liabilities at amortised cost: debt securities issued	15,710,712
30.	Financial liabilities at fair value	420,561
	Direct funding	**109,506,299**
10. a)	Financial liabilities at amortised cost: due to banks	28,523,335
	less: lease payables due to banks	(7,650)
	Due to banks	**28,515,685**
	plus: lease payables due to banks	7,650
	plus: lease payables due to customers	724,886
	Lease payables	**732,536**
20.	Financial liabilities held for trading	10,366,668
40.	Hedging derivatives	552,761
	Other financial liabilities at fair value	**10,919,429**
90.	Employee termination indemnities	384,886
100.	Provisions for risks and charges	1,101,797
	Liability provisions	**1,486,683**
60.	Tax liabilities	619,269
	Tax liabilities	**619,269**
70.	Liabilities associated with asset disposal groups held for sale	5,096
	Liabilities associated with asset disposal groups held for sale	**5,096**
50.	Fair value change of financial liabilities in macro fair value hedge portfolios (+/-)	62,299
80.	Other liabilities	3,303,823
	Other liabilities	**3,366,122**
	Total liabilities	**155,151,119**
190.	Minority interests (+/-)	26,076
	Minority interests	**26,076**
120.	Valuation reserves	164,836
140.	Equity instruments	298,112
150.	Reserves	3,512,575
170.	Share capital	7,100,000
180.	Treasury shares (-)	(11,518)
200.	Income/Loss for the year	797,001
	Group shareholders' equity	**11,861,006**
	Total liabilities and shareholders' equity	**167,038,201**

Country by Country Reporting

The regulations for country by country reporting, introduced with art. 89 of Directive 2013/36/EU (CRD IV), implemented in Italy with the 4th update to Bank of Italy Circular 285 of 17 December 2013 (Part One, Title III, Chapter 2), involves an annual obligation to publish the information set out in letters a), b), c), d), e) and f) of art. 89 of CRD IV.

To that end, the required information is provided, broken down by individual letter.

(A) Name of companies and nature of business

The activities carried out by Banco BPM Group are indicated in the following table, which refers to that indicated in art. 317 of Regulation 575/2013 of the European Parliament and Council (CRR), integrated with additional specific business activities.

These activities are grouped, based on criteria of prevalence, with the "business segments" which, in brief, refer to the Group's internal management structure and are referred to in the Report on Operations (section "Results by business segment", as well as in "Part L - Segment Reporting" in the Notes to the Consolidated Annual Report as at 31 December 2019).

Taken from CRR: par. 4, art. 317, Table 2		**Banco BPM Group business segments**							
Business line	**List of activities**	**Retail**	**Corporate**	**Institutional**	**Private**	**Investment Banking**	**Strategic Partnerships**	**Leases**	**Corporate Centre**
Corporate finance	Underwriting commitments of financial instruments or placement of financial instruments on the basis of an irrevocable commitment		✔			✔			
	Services associated with underwriting commitments		✔			✔			
	Investment advisory		✔			✔			
	Investment research and financial analysis and other forms of general advisory activities involving transactions in financial instruments		✔			✔			
Trading and sales	Own account trading								✔
	Receipt and transmission of orders regarding one or more financial instruments	✔			✔	✔			
	Execution of orders for customers	✔			✔	✔			
	Placement of financial instruments without irrevocable commitments	✔			✔	✔			
	Management of multilateral trading facilities								
Retail brokerage (with real persons or SMEs meeting the criteria set under art. 123 for the retail exposures class)	Receipt and transmission of orders regarding one or more financial instruments	✔			✔	✔			
	Execution of orders for customers	✔			✔	✔			
	Placement of financial instruments without irrevocable commitments	✔			✔	✔			
Commercial banking	Collection of deposits or other repayable funds	✔	✔	✔					
	Lending transactions	✔	✔	✔					
	Finance leases						✔	✔	
	Issuing of guarantees and unsecured guarantees	✔	✔	✔					
Retail banking (with real persons or SMEs meeting the criteria set under art. 123 for the retail exposures class)	Collection of deposits or other repayable funds	✔			✔				
	Lending transactions	✔					✔		
	Finance leases	✔					✔	✔	
	Issuing of guarantees and unsecured guarantees	✔							
Payment and settlement	Payment services	✔	✔						
	Issuing and management of means of payment	✔	✔						
Agency services	Custody and administration of financial instruments for customers, including custody and associated services such as management of cash/collateral					✔			✔
Portfolio management (asset management)	Portfolio management						✔		
	UCITS management								✔
	Other forms of portfolio management						✔		
Other services and support activity	Treasury management and own account funding								✔
	Equity investment portfolio management								✔
	IT asset management								✔
	Real estate asset management and maintenance								✔

With reference to the main content, the business segment:

- "**Retail**" includes management, marketing and sale of banking and financial products/services and credit brokering mainly aimed at private individuals and small businesses. These activities are for the most part carried out by the Parent Company's commercial network;
- "**Corporate**" includes management, marketing and sale of banking and financial products/services and credit brokering aimed at medium and large businesses. These activities are for the most part carried out by the Parent Company's commercial network;
- "**Institutional**" includes management, marketing and sale of banking and financial products/services and credit brokering aimed at entities and institutions (UCIT, SICAVs, insurance companies, pension funds, banking foundations). These activities are for the most part carried out by the Parent Company's commercial network;
- "**Private**" includes management, marketing and sale of banking and financial products/services and credit brokering aimed at private individuals with assets which, individually and/or at the level of the commercial hub, total at least 1 million euro. These activities are carried out by Banca Aletti;
- "**Investment banking**" includes activities to structure financial products, access to regulated markets, support and development of specialised financial services. These activities are carried out by Banca Akros;
- "**Strategic partnerships**" includes shareholdings in certain companies (Vera Assicurazioni, Vera Vita, Bipiemme Vita, Agos Ducato, Alba Leasing, SelmaBipiemme Leasing, Factorit, CF Liberty Servicing and Anima Holding);
- "**Leases**" includes management and administration of finance lease contracts established by the Parent Company Banco BPM and the subsidiary Release;
- "**Corporate Centre**" includes activities falling within the context of the process used to govern the various entities within the Group and for business support. These activities are mainly performed by the centralised structures of the Parent Company and the Group's real estate companies.

To a marginal extent with respect to the Group's total volumes, certain retail activities included in the above classifications are also conducted by the foreign subsidiary Banca Aletti & C. (Suisse) S.A. (specialist financial services for private customers). With reference to 31 December 2019, the impact of foreign business can be considered negligible, both in terms of total consolidated assets and total consolidated income.

(B) Turnover

Turnover refers to net interest and other banking income, as under item 120 of the consolidated income statement, which amounted to 4,081.0 million euro as at 31 December 2019 (3,966.2 million euro as at 31 December 2018). Please see the Consolidated Income Statement schedule for 2019.

(C) Number of FTE employees

In terms of full-time equivalent employees, the figure as at 31 December 2019 totalled 20,909, including Co.Co.Pro. (temporary contract) and internship contracts (21,228 as at 31 December 2018).

(D) Profit or loss before tax

The Group's profit before tax corresponds to the sum of items 290 and 320 of the consolidated income statement, which is +846.1 million euro (-271.9 million euro as at 31 December 2018). Please see the Consolidated Income Statement schedule for 2019.

(E) Taxes on profit or loss

The tax on the Group's profit for 2019 corresponds to the amount shown in item 300 of the consolidated income statement, which is a negative figure of -64.7 million euro (+202.8 million euro as at 31 December 2018). Please see the Consolidated Income Statement schedule for 2019.

(F) Public grants received

During 2019 Banco BPM Group received public grants to provide personnel training courses totalling 5.2 million euro (4.9 million euro as at 31 December 2018).

To that end, note that in the listing of these grants, in compliance with the provisions established for preparing the disclosure in question, transactions carried out with central banks for the purposes of financial stability are excluded, as are operations with the objective of facilitating the mechanism used to transmit monetary policy.

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