BANCO BPM
GROUP

Consolidated 2018 Annual Report

Consolidated 2018
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
Administrative headquarters: Piazza Nogara, 2 - 37121 Verona
Fully paid up share capital as at 31 December 2018: EUR 7,100,000,000.00
Tax Code and Milan Companies' Register Enrolment No.: 09722490969
A company representing the Banco BPM VAT Group, VAT No. 10537050964
Member of the Interbank Deposit Guarantee Fund and the National Guarantee Fund
Parent Company of the 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 30 JUNE 2018

Board of Directors

Chairman	Carlo Fratta Pasini
Acting Deputy Chairman	Mauro Paoloni (*)
Deputy Chairman	Guido Castellotti (*)
Deputy Chairman	Maurizio Comoli (*)
Managing Director	Giuseppe Castagna (*)
Directors	Mario Anolli
	Michele Cerqua
	Rita Laura D'Ecclesia
	Carlo Frascarolo
	Paola Elisabetta Maria Galbiati
	Cristina Galeotti
	Marisa Golo
	Piero Sergio Lonardi (*)
	Giulio Pedrollo
	Fabio Ravanelli
	Pier Francesco Saviotti (*)
	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
Alternate Auditors	Claudia Rossi
	Alfonso Sonato
	Chiara Benciolini
	Marco Bronzato
	Paola Simonelli

General Management

General Manager	Maurizio Faroni
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 THE SHAREHOLDERS

The Ordinary Shareholders' Meeting of 6 April is convened to approve the financial statements for the second financial year of our Bank, created by the merger between Banco Popolare and Banca Popolare di Milano.
The separate and consolidated financial statements close with a loss which, although limited, still postpones the expected distribution of a dividend.
Nevertheless, the year just ended was marked by intense work that produced many positive results, well beyond the expectations of the markets.
During the year, the Bank successfully completed all the operations provided for in the merger plan, simplifying and bringing the structure of the new Group up and running; this made it possible to significantly reduce administrative costs and reducing the number of branches and staff, reaching and far exceeding the targets set out in the business plan.
Moreover, in line with the expectations of the financial markets and going beyond the agreements reached with the regulator, the Bank has concluded in advance, essentially in just two years, the entire de-risking project aimed at aligning the quality of its assets with that of its best domestic competitors. The total of recovery and divestment actions has made it possible to reduce the stock of 18 billion euro, which becomes more than 21 billion, gross of entry flows.
The worsening of market conditions for domestic NPLs, which occurred after the sharp rise in the BTP-BUND spread in mid-2018, and the consequences of this sharp rise in the value of the Bank's government bonds and in market aversion to the "Italy risk" made this operation more complex, more expensive and more impacting on the Bank's capital ratios.
However, the determination of all to pursue the objective and the ability of the Chief Executive Officer and his collaborators to structure the divestment operations with recourse to GACS, combined with two well-designed and conducted competitive procedures, made it possible to announce the achievement of the objective within the year just ended.
Finally, through an intelligent reorganisation of the consumer credit sector, management was able to recover the resources to restore, already in the first half of this year, the Bank's capital profile to a level of sufficient comfort. The effects of this last operation, if recorded in the year just ended, would have allowed the achievement of profit already in 2018.
This result surprised the market favourably, even though in a period of particularly critical attention to banks, and in particular to Italian banks; moreover, there were the first acknowledgements also by the Supervisory Authorities.
In this regard, we are pleased to note the reduction (only for our Institute in the Italian context) of the additional PILLAR 2 capital requirement by the ECB, as part of the recently concluded SREP process, as well as the words with which Danièle Nouy, then chairman of the Supervisory Board of the Single Supervisory Mechanism, acknowledged the uniqueness of our aggregation at European level and the full overcoming of the critical issues related to the grounding of a complicated merger process, further conditioned by internal constraints related to the level of NPL and by an unfavourable external environment.
There is therefore, a growing awareness, albeit gradual, within and around the Bank, among the Authorities and in the markets that the burdensome legacy of the previous difficult years has been almost completely disposed of and that, in any case, Banco BPM has the managerial skills and asset quality to enable it to respond promptly and independently to any negative emergency without any need to resort to the capital market, as demonstrated in the two-year period just ended.
This also applies to the involvement of our Institute, like other important Italian banks, in the diamond affair. As soon as Banco BPM's top management took account of past events and their consequences, they set up strict internal and external audits, collaborated with the authorities, made discontinuity decisions and made adequate provisions. The Bank has therefore adopted and will continue to adopt all measures, however painful, that prove necessary and appropriate, in order to restore relations with customers who were involved in the past.
Turning now to the 2019 financial year, the awareness of the objectives achieved and the consequent opportunity to finally start on an equal footing with the best, is accompanied by a conscious vision of the critical issues that still await us.
The challenge of profitability and productivity is the Bank's theme for 2019. It does not seem obvious, but rather more difficult than it appeared to be only a few months ago.
The commercial results of Banco BPM for the past year show the benefits of the merger only partially and, in particular, in the corporate segment and for medium-large companies, while delays in the growth of volumes and commissions still characterise the Bank's activities in the other segments. The results of Banca Akros and Banca Aletti,

which have also just completed a process of reorganisation in Investment Banking and Wealth Management, can still be greatly improved.
In addition, macroeconomic conditions show significant signs of worsening, in our country more than elsewhere. Finally, the continuous increase in regulatory requirements, from capital to liquidity (with the incipient stress test and the entry into force of the MREL rules) and leverage, risks further reducing the profitability potential of the banking system.
For traditional banks such as ours, the effects of the PSD2 Directive are added, which favour the entry of large electronic and telephone commerce operators in the area of collections and payments, as well as the assault, sometimes disordered and unregulated, by the so-called Fintech on many activities that are first and foremost the exclusive prerogative, or almost the prerogative, of the banks.
Once the theme of integration has been overcome, the theme of change is now unavoidable.
And yet, the two-year period so positively completed; the consequent structural improvement of Banco BPM, both in terms of quantity and quality; the results of this first part of the year; the ability that our Bank has been able to demonstrate in dealing promptly with threats and sudden changes in the scenario, as well as in proceeding with radical changes in legal status and scope, are all elements on which our positive vision of the future of Banco BPM is based; a vision which, we are confident, will be confirmed day after day by the economic results and will acquire measure and strategic scope with the new industrial plan, which will be presented next autumn to the authorities and the financial community.

It will remain a central aspect of the Bank's mission to implement the important commitments of the business plan in a logic of sustainable relations with all stakeholders, enhancing our presence in the communities of reference through initiatives that can increasingly combine the role of financial institution, which has grown in size and services offered to customers, with the needs of individual territories.

The Board of Directors

Verona/Milan, Italy, 28 February 2019

The Board of Directors

CONTENTS

Notice of call – Ordinary shareholder's meeting 8

REPORTS AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 13

Group structure 14
Group territorial network 16
Group financial highlights and economic ratios 18

Group's Report on Operations 21
Economic scenario 23
Significant Events During the Financial Year 29
Results 35
Consolidated income statement figures 38
Consolidated balance sheet figures 52
Results by Business Segment 71
Retail 73
Corporate 85
Institutional 90
Private 94
Investment Banking 96
Strategic Partnerships 100
Leasing 101
Corporate Centre 102
Risk Management 108
Guidance, control and support activities 111
Human Resources 111
Internal audit 114
Compliance 115
Research and development 118
Projects and technology investments 118
Communication 121
Investor Relations 123
Other information 124
Performance of the main Group companies 126
Outlook for business operations 130

Statement from the Managing Director and the Manager Responsible for Preparing the company's financial reports 133

Independent Auditor's Report on the Consolidated Financial Statements 137

Consolidated financial statements 151
Consolidated balance sheet 152
Consolidated income statement 154
Statement of consolidated comprehensive income 155
Statement of changes of consolidated Shareholders' Equity 156
Consolidated cashflow statement 158

Notes to the consolidated financial statements 161
Part A – Accounting policies 163
Part B – Information on the Consolidated Balance Sheet.....229
Part C – Information on the Consolidated Income Statement 305
Part D – Statement of Consolidated Comprehensive Income 327
Part E – Information on risks and related hedging policies 328
Part F – Information on Consolidated shareholders' equity 433
Part G – Business combinations regarding companies or divisions 435
Part H – Transactions with related parties 437
Part I – Share-based payment agreements 446
Part L – Segment reporting.....450
Other information 456
Appendix - Disclosure on the first adoption of the Accounting standards IFRS 9 Financial instruments and IFRS 15 Revenue from contracts with customers 458

Attachments 493

NOTICE OF CALL – ORDINARY SHAREHOLDER'S MEETING

In accordance with articles 13 and 43 of the Company By-Laws, the ordinary Shareholders' Meeting of Banco BPM S.p.A. shall be convened in a single call on **Saturday 06 April 2019 at 9 a.m. in Verona, at the "Cattolica Center",** Via Germania 33, to discuss and deliberate the following

AGENDA

1) Approval of the financial statements at 31 December 2018 of Banco BPM S.p.A., along with those of the companies incorporated into the parent company, BP Property Management – limited liability consortium company, and Società Gestione Servizi BP – joint-stock consortium company, accompanied by the reports of the Board of Directors, the Board of Auditors and the Independent Auditors. Presentation of the consolidated financial statements of the Banco BPM Group. Relevant and consequent resolutions.
2) Supplementation, following proposal with justification of the Board of Statutory Auditors, of the fee for the independent auditors PricewaterhouseCoopers S.p.A., responsible for the statutory audit of the accounts for the period 2017-2025. Relevant and consequent resolutions.
3) Remuneration policies:
   a. decisions on remuneration and incentive policies; approval of the report in compliance with the current legal provisions. Relevant and consequent resolutions.
   b. approval of the criteria for calculating the amounts to be granted in the event of early termination of employment or early cessation of service, including the limits set on such amounts. Relevant and consequent resolutions.
   c. share-based compensation plan of Banco BPM S.p.A.: annual incentive scheme (2019). Relevant and consequent resolutions.
4) Request for authorisation of the purchase and sale of own shares in support of the share-based compensation plan of Banco BPM S.p.A.. Relevant and consequent resolutions.

The necessary information is provided below in compliance with the provisions of article 125-*bis* of Italian Legislative Decree 58/1998 as amended (Consolidated Finance Law).

ATTENDANCE AT THE SHAREHOLDERS' MEETING AND REPRESENTATION

All shareholders with voting rights who, within the prescribed time limits under the law (**03 April 2019**, third trading day prior to the date of the Meeting), 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, have the right to participate in the Shareholders' Meeting.
In compliance with article 83-*sexies* of the Consolidated Finance Law and article 22 of the Bank of Italy – Consob Joint Order of 22/02/2008 as amended (the "Joint Order"), this notification to the Company issued by the authorised intermediary shall be based on the records at the end of the accounting day of the seventh trading day prior to the date of the Shareholders' Meeting (**28 March 2019 - so-called "record date"**).
Anyone whose shareholding has been recorded after the above date will not be entitled to attend and to vote at the Shareholders' Meeting.
The right to participate and vote shall remain valid should the notifications are received by the Company after the aforementioned date of 03 April 2019 as long as they are received by the start of the work of the Meeting.
Shareholders whose shares have already been deposited in a custody and administration account with the Parent Company Banco BPM S.p.A., with BPM S.p.A. or with Banca Aletti & C. S.p.A., and as such have already been dematerialised, must in any case, under article 22 of the Joint Order, give specific instructions **by 02 April 2019** that the notification be issued, and obtain an immediate copy thereof to be valid for admission to the Shareholder's Meeting.

For Shareholders whose shares have been deposited at other authorised intermediaries, note that, pursuant to the abovementioned article 22 of the Joint Order, instructions must still be submitted **no later than 02 April 2019**, making sure to obtain a copy of the notification.

Shareholders in possession of shares that have not yet been dematerialised must turn them in to Banco BPM S.p.A. or to another Bank of the Group, or to another authorised intermediary for their dematerialisation, 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. (Group Corporate Affairs Piazza Filippo Meda, 4 – 20121 Milano, Italy).
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, as well as to verify whether the meeting has been duly formed, and if the quorum has been reached.

To this purpose, all Shareholders concerned may:
(i) deliver their paper proxies at the branches of Banco BPM S.p.A., of BPM S.p.A. or of Banca Aletti & C. S.p.A. **by 02 April 2019**;
or
(ii) notify the proxies by certified e-mail to the address soci@pec.bancobpmspa.it **by 04 April 2019.**

Should the representative transmit or deliver to the Company a copy of the proxy, 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 via the same methods described above.

REPRESENTATIVE DESIGNATED BY THE COMPANY

The proxy may also be granted free of charge – with voting instructions on all or some of the proposals on the agenda – to the company Computershare S.p.A, as "Designated Representative" in accordance with article 135-*undecies* of the Consolidated Finance Law, by the end of the second trading day prior to the Shareholders' Meeting (hence **no later than 04 April 2019**). 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 grant the proxy to the Designated Representative, please use the specific form available on the website (www.bancobpm.it - *"Corporate Governance – Shareholders' Meetings"*). Where necessary, the proxy form shall be sent in paper format to the parties requesting it from Computershare S.p.A. on +39 0110923200 or Banco BPM S.p.A. (Group Corporate Affairs - Italian toll-free number +39 800.013.090).

The original proxy form, complete with the voting instructions reserved exclusively to the Designated Representative, must be submitted by the above deadline of 04 April 2019, to the following address: Computershare S.p.A., Via Nizza 262/73 - 10126 Torino, Italy, Ref.: "Delega Assemblea Banco BPM 2019", either by hand-delivering it during office hours (from 9:00 a.m. to 05:00 p.m.) or by sending it by registered mail with return receipt or courier service.
Without prejudice to the delivery of the original proxy form complete with voting instructions, the proxy may also be notified via e-mail at the certified email address bancobpm@pecserviziotitoli.it. Sending the proxy form, signed with a digital signature under the law, to the above certified e-mail address meets handwriting requirements.

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, within 16 March 2019 (ten days of publication of this notice of call), for additions to the list of items on the Meeting's agenda (with the

exception of matters to be resolved by the Shareholders' 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 article 125-*ter*, paragraph 1, Consolidated Finance Law), specifying in the request the additional subject-matters they propose, pursuant to article 13.3 of the Company By-Laws, or proposing new resolutions on items already on the agenda, in compliance with article 126-*bis* of the Consolidated Finance Law. 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 (Group Corporate Affairs, Piazza Filippo Meda, 4 - 20121 Milan) or by certified e-mail at the certified e-mail address soci@pec.bancobpmspa.it.
The legitimacy to exercise the right is attested by filing a copy of the notification or certification issued by the intermediary under current legal and regulatory provisions.
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 items 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 own 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 following the same procedure prescribed for the publication of the notice of call, at least fifteen days prior to the date scheduled for the Shareholders' Meeting (21 March 2019). Additional proposed resolutions on items already on the agenda are made available to the public following the procedures prescribed by current regulations, upon publishing the notice of the presentation.

RIGHT TO ASK QUESTIONS ON THE ITEMS ON THE AGENDA

Shareholders with voting rights may ask questions on items on the agenda even before the Shareholders' Meeting, by sending them no later than the third day prior to the date of the Shareholders' Meeting (03 April 2019) by certified email to the address soci@pec.bancobpmspa.it or delivering them in a sealed envelope for the attention of the Group Corporate Affairs office at the head office in Piazza Filippo Meda, 4 - 20121 Milan.
The applicants must deliver to the Company – through their intermediary – 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 Shareholders' Meeting, it will be sufficient to specify the notification reference details 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 Shareholders' Meeting at the latest. The Company may provide a single comprehensive answer to questions covering the same content.

INFORMATION ON THE SHARE CAPITAL

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 1,515,182,126 shares with no par value. At the date of this notice, the Company holds 4,004,510 own shares.

DOCUMENTATION

The explanatory reports on each of the items on the agenda, as well as any other document, including the proposed resolutions to be published before the Shareholders' Meeting, are made available to the public at the head office of Banco BPM S.p.A. and at Borsa Italiana S.p.A., in addition to being published on the corporate website (www.bancobpm.it, *"Corporate Governance – Shareholders' Meetings"* section) as well as on the website of the authorised central storage mechanism www.emarketstorage.com, in compliance with the terms and procedures of applicable 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 Report on corporate governance and ownership structures pursuant to art. 123-*bis*, Italian Legislative Decree no. 58 of 1998, (ii) the Declaration of a non-financial nature, pursuant to Italian Legislative Decree no. 254/2016 and Consob Resolution no. 20267 of 18 January 2018. The documents will be available to the public from the registered offices of Banco BPM S.p.A. and at Borsa Italiana S.p.A., as well as on the company website (www.bancobpm.it, under the section *"Corporate Governance"*) and on the website of the authorised central storage mechanism www.emarketstorage.com in compliance with the terms and procedures of applicable law.

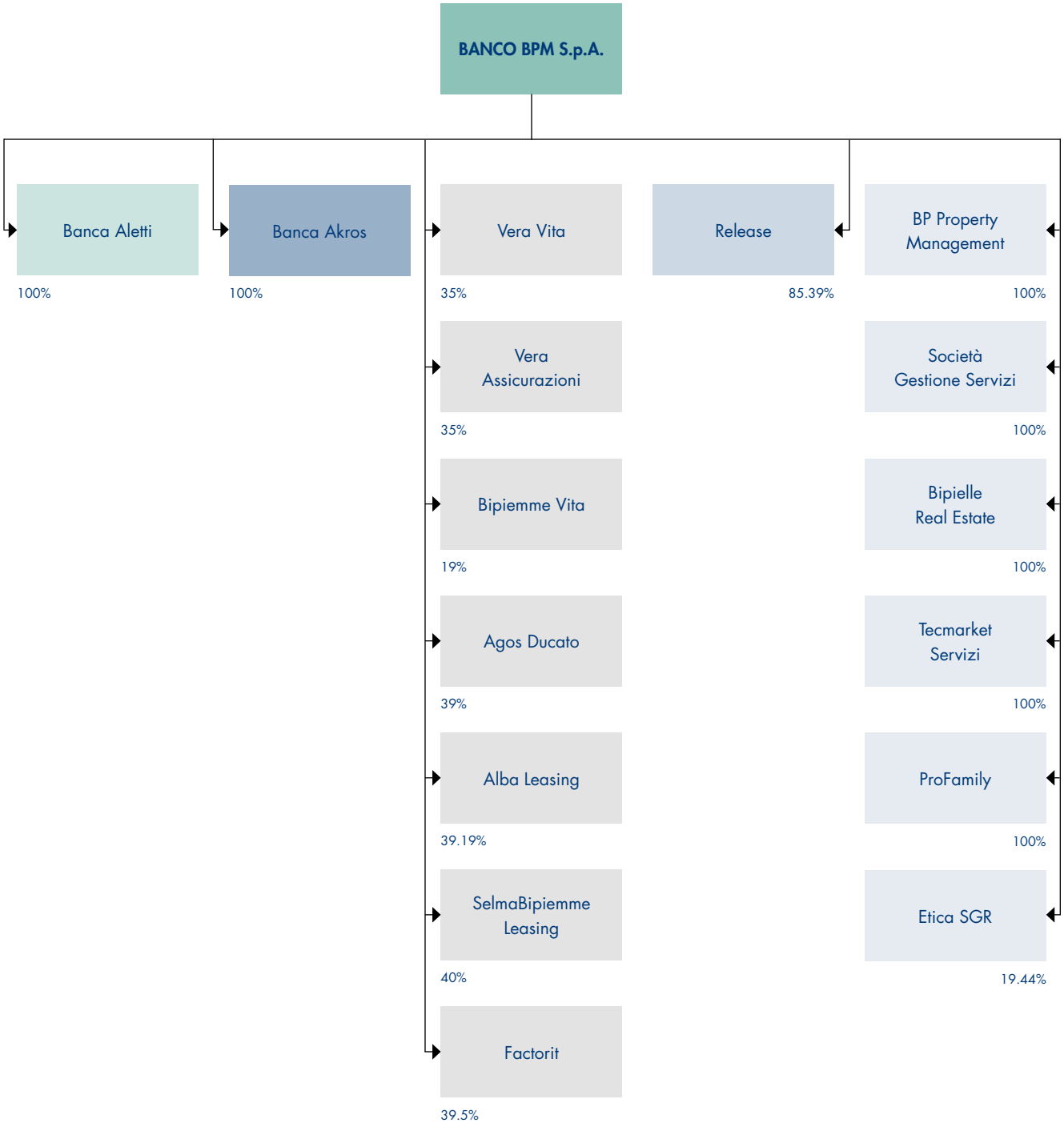
This notice of call – issued also for the purposes of article 84 of the Consob Regulation 11971/99 as amended (Issuers Regulation) – shall be published, in accordance with articles 125-*bis* of the Consolidated Finance Law and 13.4 of the Company By-Laws, in the daily newspapers "Il Sole 24 Ore" and "MF" as well as by the other methods indicated above.
Further information regarding the methods of taking part in the Shareholders' Meeting may be requested from Banco BPM S.p.A. (Group Corporate Affairs, Piazza Filippo Meda n. 4 – 20121 Milano, Italy) by calling the Italian toll-free number +39 800 013 090 on working days from 9 a.m. to 5 p.m. or by sending an email to the certified email address soci@pec.bancobpmspa.it.
In accordance with the privacy regulations (Regulation [EU] 2016/679 of the European Parliament and of the Council of 27 April 2016) the Data Controller is Banco BPM S.p.A. Complete information on the processing of data with regard to the exercise of the rights relating to the Shareholders' Meeting is provided on the website www.bancobpm.it, *"Corporate Governance – Shareholders' Meetings"* section.

Milan-Verona, 28 February 2019

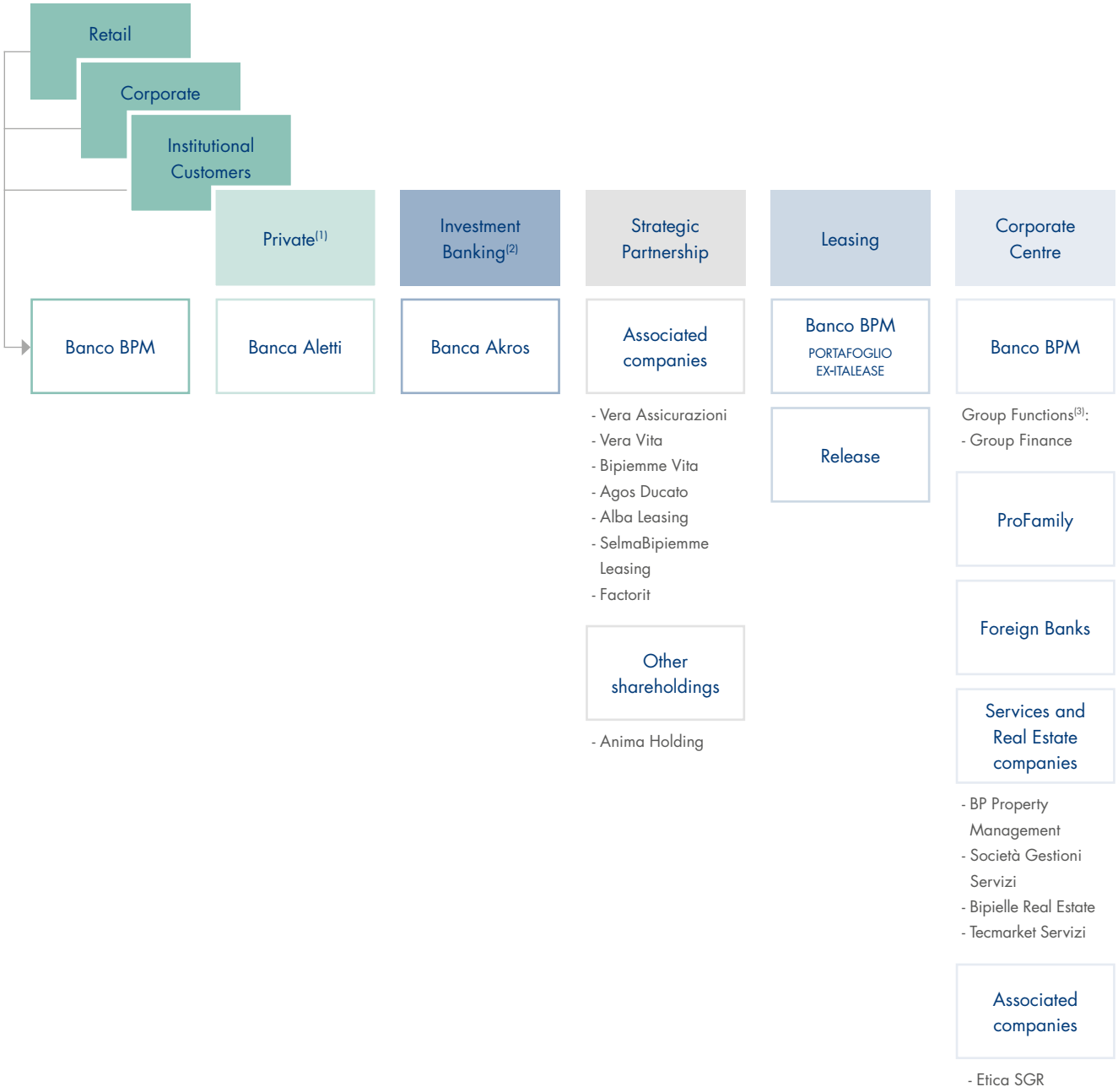
On behalf of the BOARD OF DIRECTORS
The Chairman
(Mr Carlo Fratta Pasini)

Reports and consolidated financial statements for the year

GROUP STRUCTURE: MAIN COMPANIES



GROUP STRUCTURE: BUSINESS LINES



(1) Includes exclusively the contribution of Banca Aletti's Private Banking business unit.

(2) Includes the contribution from Banca Aletti's Investment Banking business unit, transferred to Banca Akros on 01 October 2018.

(3) Includes the contribution of Custodian Banking business until 30 September 2018.

GROUP TERRITORIAL NETWORK

N° BRANCHES	
NORTH	1,380
CENTRE	274
SOUTH AND ISLANDS	150
TOTAL	1,804

Banco BPM Group Branches in Italy	Number
Banco BPM	1,748
Banca Aletti	55
Banca Akros	1
Total	**1,804**

Presence abroad

The Group's foreign operations include the subsidiary company Banca Aletti Suisse and Representative Offices in China (Hong King) and India (Mumbai). The procedure to close the Representative Office in Shanghai has been initiated.

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)	2018 IFRS 9	2017 IAS 39 (*)	Change
Income statement figures			
Financial margin	2,452.0	2,279.5	7.6%
Net fee and commission income	1,848.8	1,950.4	(5.2%)
Operating income	4,772.9	4,483.8	6.4%
Operating expenses	(2,792.8)	(2,924.1)	(4.5%)
Profit (loss) from operations	1,980.1	1,559.6	27.0%
Profit (loss) before tax from continuing operations	(129.7)	(229.6)	(43.5%)
Profit (loss) for the year excluding Badwill and impairment	(56.5)	557.8	
Parent Company's net income (loss) for the period	(59.4)	2,616.4	

(*) The figures for the previous financial year, originally calculated in compliance with IAS 39, have been reclassified to provide a like-for-like comparison. Provided in the attachments is a reconciliation schedule between the reclassified income statement published in the annual financial Report, as at 31 December 2017 and the reclassified income statement given here.

(millions of euro)	31/12/2018 IFRS 9	01/01/2018 IFRS 9	31/12/2017 IAS 39	Changes on 31/12/2017
Balance sheet figures				
Total assets	160,464.8	160,206.1	161,206.8	(0.5%)
Loans to customers (gross)	109,472.8	120,001.6	120,453.0	(9.1%)
Financial assets and hedging derivatives	36,852.9	34,884.8	34,533.2	6.7%
Shareholders' equity	10,259.5	10,834.6	11,900.2	(13.8%)
Customers' financial assets				
Direct funding	105,219.7	107,525.1	107,509.8	(2.1%)
Indirect funding	88,212.7	101,328.5	101,328.5	(12.9%)
- Asset management	55,689.6	60,545.2	60,545.2	(8.0%)
- Mutual funds and SICAVs	35,992.0	37,605.3	37,605.3	(4.3%)
- Securities and fund management	4,804.7	6,941.1	6,941.1	(30.8%)
- Insurance policies	14,892.9	15,998.8	15,998.8	(6.9%)
- Administered assets	32,523.1	40,783.3	40,783.3	(20.3%)
Information on the organisation				
Average number of employees and other staff (*)	21,846	23,227	23,227	
Number of bank branches	1,804	2,320	2,320	

(*) 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

	2018 IFRS 9	2017 IAS 39 (*)
Alternative performance measures		
Profitability ratios (%)		
Financial margin / Operating income	51.37%	50.84%
Net fee and commission income / Operating income	38.73%	43.50%
Operating expenses / Operating income	58.51%	65.22%
Operational productivity figures (1000s of euro)		
Loans to customers (gross) per employee (**)	5,011.1	5,185.9
Operating income per employee (**)	218.5	193.0
Operating expenses per employee (**)	127.8	125.9
Credit risk ratios (%)		
Net bad loans / Loans to customers (net)	1.53%	6.02%
Unlikely to pay / Loans to customers (net)	4.85%	5.99%
Net bad loans / Shareholders' equity	15.51%	54.52%
Other ratios		
Financial assets and hedging derivatives / Total assets	22.97%	21.42%
Derivative assets / Total assets	1.16%	1.33%
- trading derivatives / total assets	1.08%	1.18%
- hedging derivatives / total assets	0.08%	0.15%
Net trading derivatives (***) / Total assets	0.62%	0.78%
Gross loans / Direct funding	104.04%	112.04%
Regulatory capitalisation and liquidity ratios		
Common equity tier 1 ratio (CET1 capital ratio)	12.06%	12.36%
Tier 1 capital ratio	12.26%	12.66%
Total capital ratio	14.68%	15.21%
Liquidity Coverage Ratio (LCR)	154.13%	125.61%
Leverage ratio	4.57%	5.59%
Banco BPM stock		
Number of outstanding shares	1,515,182,126	1,515,182,126
Official closing prices of the stock		
- Final	1.968	2.620
- Maximum	3.146	3.508
- Minimum	1.556	2.162
- Average	2.480	2.863
Basic EPS	(0.037)	0.368
Diluted EPS	(0.037)	0.368

(*) The ratios are determined by excluding the merger difference (badwill in the income statement) and with reference to the data calculated in compliance with IAS 39.
(**) 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 Balance Sheet item 20 a) of assets, "Financial assets designated at fair value through profit and loss - held for trading", and item 20 of liabilities, "Financial liabilities held for trading".

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.
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 the Banco BPM Group's operations. The APIs are not provided according to IAS/IFRS international accounting standards 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 the calculation formula has been provided for each API, 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's report on operations

ECONOMIC SCENARIO

The International Scenario

After a positive start, caused by the inertial drag exerted by the remarkable closure of global manufacturing and foreign trade in the second half of 2017, the world economy gradually lost momentum during 2018. This slowdown was mainly due to the loss of investor confidence in the outlook for global growth and, in particular, by the establishment of protectionist measures by the United States against China and some industrialised countries and by their retaliatory reactions. Thus, protectionist rhetoric has made the outlook for international trade more uncertain, influencing investment decisions. The outcome of Brexit was an additional element of uncertainty that marked the period. Just a few weeks before the deadline to complete the negotiations, following on from the British Parliament's rejection of the agreement with the EU put forward by Prime Minister Theresa May, no solution has yet been reached and Great Britain's disorderly exit from the European Union remains a possibility.
However, the latest estimates calculated by the International Monetary Fund indicate growth in the world economy: average growth in 2018 was 3.5%, two-tenths lower than the growth rate recorded in 2017 (3.7%). However, at the end of the year, the first signs of a "tariff truce" and the prospect of the beginning of negotiations between China and the USA, which should distinguish the entire first half of 2019, restored confidence in international trade activities and stimulated growth, especially in industrialised countries.
Specifically, despite the slowdown factors, the US economy recorded significant growth during the year, boosted by tax cuts and by the increase in public spending that drove aggregate demand, albeit within the context of a less expansive monetary policy. In the third quarter, the US GDP saw annualised growth of 3.4% (4.2% in the second quarter) while the most corroborated forecasts show growth of 2.9% for 2018, in the presence of a more sustained trend compared to past inflation. Concerning inflation, estimates for all of 2018 are 2.3%, while in November consumer prices rose by 2.2% yoy.
In the third quarter, the Japanese economy experienced a sharp slowdown of an unprecedented size considering the last four years, suffering the consequences of a series of natural disasters on the domestic side and the repercussions of international trade tensions on the foreign side. GDP in the third quarter fell sharply, which brought annualised growth to -2.5% for the quarter. Compared to the -1.2% of the initial preliminary estimate, it is the worst figure since the second quarter of 2014. The slowdown affected consumer prices, the annual economic growth for which stood at 0.3% (0.9% for the core figure) in December against a decline of 0.3% on a monthly basis, which revived fears of a new deflationary phase.
The period also saw a slowdown in the Chinese economy, which has already partly suffered the consequences of the trade dispute with the USA. In the fourth quarter, growth was 6.4% yoy (6.5% in the third quarter), the weakest figure since the financial crisis of 2008. On the basis of this, preliminary estimates indicate a closure for the whole of 2018 of 6.6% for GDP (compared to a government forecast of 6.5%), accompanied by a rate of inflation in significant moderation: 2.0% annually (2.9% in 2017).
In regard to commodity prices, the sharply fluctuating trend in oil prices translated into limited stimulus for international inflation in the first half of the year, in line with the prevailing phase of growth. During the second half of the year, and especially at the end of the year, the abrupt fall in share prices, on the other hand, attenuated the global inflationary trend. While on one hand, the decline confirmed the weakened global economy, on the other hand, it represented a supporting factor for growth in the immediate future, which continues to characterise the global economic cycle. International inflation overall remains low due to the moderation that has also characterised the prices of other main commodities.

The European and Italian Scenario

The growth of EMU in 2018 was also penalised by the factors mentioned above, linked to the international context, due to the resulting sharp slowdown in exports, amplified by the worsening of the terms of trade as a consequence of the depreciation of many emerging country currencies against the Euro. According to the first preliminary estimate released by Eurostat, the economy of the euro zone, after recording a growth of 0.2% in the fourth quarter, seems to be up by 1.8% in the recently closed year, with a marked slowdown compared to 2017 (+2.5%). In the third quarter – the last quarter for which details of GDP components are available – growth was recorded at +0,2% on a cyclical basis, down compared to the second quarter (+0,4%), and at +1,6% against the same period last year (+2,2% at the end of June).

All components had contributed to this slowdown, albeit to different extents. Gross fixed capital formation in particular, while remaining up on the previous quarter, suffered a sharp slowdown: from +1.5% in the second quarter to +0.2% in the third. Those relating to the construction sector remained unchanged in the period (+1.3% in the second quarter), while those relating to the machinery and equipment sector grew by +0.5%, compared to +2.5% in the previous quarter.
The climate of business and consumer confidence, in the last period, has continued to deteriorate in the majority of countries in the area, reflecting more pessimistic expectations on future levels of domestic and foreign demand, as well as on the prospects of the labour market. However, in the last three months of the year, a modest recovery in economic activity is expected compared to the third quarter, linked to the easing of some of the idiosyncratic factors that have plagued the main economies.

Within the area, even in 2018, fairly marked differences in the rate of growth between the various countries persist, with Italy trailing behind. In Spain, despite a deceleration, economic activity was buoyant, driven by robust domestic demand, ensuring GDP growth above the area average. In Germany, above all, and in France, the setback compared to the previous year was more substantial, also due to specific problems: the expansion rate should be around 1.5% for both countries (+2.5% and +2.3% respectively in 2017). In Germany, in particular, where investment should have continued to increase, consumption trends were negatively affected by the introduction of new emissions standards for diesel cars, which discouraged many buyers. The French economy, on the other hand, suffered from a drop in production caused by the wave of strikes and protests against government reforms.
Despite the slowdown in the economy, which was already evident at the end of the first half of the year, consumer price dynamics in the euro zone strengthened until the end of the summer and beyond, reaching a peak of +2.2% in October, compared to 1.3% at the beginning of the year. Energy prices contributed to the acceleration, reflecting the initial jump in oil prices. Only at the end of the year was the trend reversed, partly as a result of the aforementioned violent reduction in oil prices themselves. In December, the harmonised index showed, in its first surveys, an increase of 1.6% on an annual basis. The trend in unit labour costs remained strong (+2.5% in the third quarter of 2018, compared to +1.6% in the fourth quarter of 2017). Employment also continued to grow in the first nine months of the year, albeit with rates in slight decline: in the third quarter the increase was 1.3% trend (+1.6% at the end of 2017).

In the general context of the economic slowdown, the Italian economy suffered a marked setback in the course of the year just ended. The preliminary estimate of GDP in the fourth quarter, -0.2% compared to the previous quarter, translates, according to the results of ISTAT, into product growth of around 0.8% for the year average (adjusted for the effects of the calendar), down compared to the 1.6% increase in 2017. This result places Italy last in the ranking of growth among the countries of EMU. This trend was certainly affected by the deterioration in the expectations of businesses and households over the months, to which the tensions that emerged following the heated debate between the Italian Government and the European Commission on the fiscal policy objectives contained in the DEF and the Budget Law could have contributed, in addition to the aforementioned international factors. Economic growth decelerated gradually over the year, to the extent that it was concentrated in the first half of the year. In fact, after the first two quarters of expansion, respectively +0.3% and +0.2% on the previous period, in the summer months, there was a contraction in GDP of 0.1% on a cyclical basis, the first decline after fourteen consecutive quarters of expansion. On the basis of this false step in the third quarter—the last quarter for which there are, at the moment, indications regarding the detailed performance of the components of GDP—there was a disappointing trend in domestic demand, in all its components, against a contribution to the positive, albeit modest, growth of net exports (+0.1%).
Household consumption in the period in question fell by 0.1% compared to the second quarter, bringing the annual trend figure to +0.4%. Several factors have contributed to curb household spending: the labour market has shown signs of slowing down and household disposable income is struggling to grow. The total number of employees at the end of November reached 28.2 million, an increase of 0.7% compared to the end of 2017, but slightly down if compared to the peak reached in May (-0.5%). The unemployment rate stood at 10.5%, down for the month (-0.1%) and compared to the beginning of the year (-0.4%), but recovering from the lows of August (+0.4%). Household disposable income, in real terms, declined by 0.2% in the third quarter, halting the recovery seen in the first half of 2018.
In addition to the weakness of household consumption in the third quarter, there was a significant drop in gross fixed capital formation, -1.1% compared to the previous period, due to less favourable expectations on the demand side and uncertainties linked to government incentives. This resulted in a negative contribution of 0.2% to GDP. The decrease was particularly evident for the plant and machinery component, which fell by 2.8%.

The trend in inflation during the year was also influenced in Italy by the aforementioned oil price fluctuation. The initial increase in the first quarter was followed by a gradual deceleration. In December, the consumer price index for the entire local community recorded an increase of 1.1% year-over-year.
The outlook for economic activity in the last quarter of the year is rather uncertain, confirming, at least in part, the weakness that emerged in the summer months. The climate of confidence of families and businesses has continued to deteriorate. Industrial production in November fell by 1.6% compared to the previous month. In positive terms, there was an increase in retail sales, +0.7% in November, on a monthly basis, and +0.2% in the three months between September and November, over the previous quarter.
With regard to public finances, the most recent estimates indicate a level of net indebtedness of 1.8% in 2018, a value consistent with that forecast by the Government in the last Update Note to the Economic and Financial Document, down from 2.4% in 2017. Total revenue would have increased by 2.1% and total expenditure by 1.0%, thanks to a decrease of 1.0% in interest expenditure and 16.9% in capital expenditure. Current expenditure net of interest expenditure continues to increase at a rate higher than revenue (+2.9% in the year). The debt to GDP ratio would thus also increase fractionally in 2018, reaching 131.6%, compared to 131.2% at the end of 2017.

Central Banks

Since the first quarter, the Fed's policy approach to interest rates had provided for three interventions in the course of 2018, revising from two to three the number of interventions planned for 2019 with a 2020 target of 3.5% for Fed funds. This figure remained broadly unchanged throughout 2018, except for a reduction in the prospect of intervention in 2019, when the Fed set a target range of 2.0% - 2.25% at the end of November, which is close to the natural rate.

As regards the European Central Bank, the communication to the market concerned the expected end of the Asset Purchase Programme (APP), initially defined as open-end, but which was better defined in the presence of signs of recovery in inflation from March, although considered highly dependent on unconventional manoeuvres. Monthly purchases were kept at 30 billion euro until September, then reduced to 15 billion euro from October and interrupted at the end of December. The policy rate target included a first intervention from the outset in the third quarter of 2019, with a return to positive rates, a target maintained throughout the year.

The continuation of the Central Bank's Asset Purchase Programme (APP) ensured a high level of demand in the face of corporate bonds, which set new records. The contraction of the spread on European investment-grade securities, which begun before the announcement of the Corporate Sector Purchase Programme (CSPP) in March 2016, reached 100 bps, only reversing from February 2018, until it was cancelled when the plan was announced at the end of the year. The compression of the spreads, as expected, went beyond the scope of the purchasing plan, which excluded securities rated below investment grade and unsecured securities of the financial sectors, thereby benefiting all security classes, albeit to differing degrees.

Performance of Financial Markets

This year saw a substantial rise in volatility on the financial markets and a recovery of the price trend, especially in the United States and emerging countries, two factors that had distinguished 2017 with their absence. The increase, in February, in inflation expectations in the United States was accompanied by high volatility on the financial markets and a major correction on US government bonds, concentrated on the 2 to5-year segment of the sovereign yield curve, without, however, impacting the government bond market in Europe.

The return from the unconventional policies of the Central Bank was never in question, except towards the end of the year, when economic performance was still extremely buoyant. Indeed, it was only in the last part of the quarter, when the feared effects brought about by the trade war and the ongoing restrictive policies by the Fed materialised, that there was a significant correction in the American stock market (more than 10% in October alone). This was also due to fears that an excess of normalisation by the Fed would end up amplifying the first signs of a slowdown in US growth.

European stock market performance was much weaker due to the slowdown in growth, which could already be seen in the second quarter and added to multiple political risk factors that had varying degrees of significance over the

course of the year. The tensions over the budgetary policy of the new coalition government in Italy and the difficulties with the Brexit process are only some of the most relevant episodes to which questions concerning the political stability in Spain, Germany and France were added from time to time.

Disappointed by expectations of a renewed impetus for reform, Europe was—as mentioned—the centre of political risk components and was not spared from the tensions of the trade war due to the impact it has had on global demand for investments and on the automotive sector specifically.

The 12-month Dow Jones Industrial Average lost 5.6%, the S&P 500 lost 6.2% and the Nasdaq lost 3.9%. The year-end closing, however, showed a strong contraction compared to the historical contractions recorded at the end of September. December closed one of the most difficult quarters of the last decade on the financial markets. The negative trend accelerated further against a generalised expectation of recovery at the end of the year. With the exception of US Treasury bonds, all asset classes recorded significant losses. More than 90% of the quoted values closed the year with a negative performance, marking what should not be taken as a simple correction destined to run its course in a few weeks, but rather the end of a positive cycle that began with the interventions of Central Banks after the 2008 financial crisis.

The European stock market recorded a performance of -14.3% during the year (Eurostoxx 50). After the highs at the end of January, the correction that begun at the end of May saw the addition of political risk and economic slowdown, accentuating the difference in performance with respect to the American stock market. The 18.3% drop in the German market (DAX) shows how strong the impact of the so-called trade war was on stock exchanges. After achieving a performance close to 10% in the first four months, the FTSE MIB entered into correction in May, to close the year practically at the lows of the period (-16.1%).

Banking sector equity indices recorded a decrease of 28.0% in Europe and 30.3% in Italy during the year after an increase of 15.8% in the first 4 months. Premiums on credit default swaps (CDS) relating to Italian bank securities increased throughout the year, with an average increase of 150 bps since the beginning of the year, and then fell in December.

On the other hand, for the Stock Exchange, the correction in the insurance sector was only -10.1% in Europe and -4.0% in Italy, with a trend that was often contrary to the banking sector. The dominant role of the cyclical sectors in Europe effectively ceased in September, followed by oil, while the underperformance of Automotive and Technology had already begun in June as protectionist tensions intensified.

Regarding government bonds, the ECB's Asset Purchase Programme (APP) had a calming effect on market dynamics only in the first part of the year, so much so that the Italian BTP posted new highs after general elections with an uncertain outcome, leaving room for a sharp increase in country risk following the formation of the current coalition government, which is suspected to undertake a project aimed at forcing the country out of the euro zone. The widening of the spread, attributable on the market to the risk of redenomination, was close to 120 bps, with an unprecedented 2 to 4-year maturity extension that was not even seen during the sovereign debt crisis of 2011, when the 2-year spread reached 498 bps.

A narrowing of the spread in this short segment of the curve occurred in December when an agreement was reached with the European Commission on the contents of the budget package. The spread on the ten-year period, which had stopped at 280 bps (from 120 bps) in May, reached 320 bps in mid-November before returning to 255 bps at the end of the year.

Moving to the corporate bond markets, in Europe the total return in 2018 was zero on average for the AAA class (iBoxx all mat), close to 1% for government bonds and -3.4% for the High Yield segment, which saw a sharp downturn only from the beginning of November, with a specular trend compared to government bonds.

The bond yield on the US market was slightly negative, following on from an extremely positive 2017 (-0.13% from 3.46% in the 2017 VBMFX). The 10-year half point Treasury yield rose between January and February to exceed a yield of 3.2% at the beginning of November and close the year with a drop of 70 bps, following the fluctuation in long-term inflation expectations. The yield differential with respect to the German bund continuously reached new highs until the end of October, approaching 280 bps, to close the year at 256 bps, with a minimum yield of the bund at 0.25%, far from the high of the period in mid-February (0.71%).

Domestic Banking Activity

Loan volumes to the private sector grew at a moderate rate in 2018, similar to that of the previous year, thanks to strong consumer credit and mortgages, the demand for which is underpinned, *inter alia*, by still relaxed market interest rates. Tensions on government bonds that arose in May and intensified at the beginning of autumn, as highlighted by the Bank of Italy, had negative consequences for Italian banks, both directly, such as the fall in the price of government bonds valued at fair value in the portfolio, and indirectly, in relation to an increased perception of sovereign credit risk, with the consequent increase in financing costs on the markets, as well as less favourable conditions for future disposals of bad loans.
Regardless, the domestic banking sector is now stronger than during previous sovereign debt crises, not merely because of the large disposals of bad loans but also due to a higher level of capitalisation, lower funding costs, cost-cutting measures and higher revenues from savings brokerage.
Specifically, regarding credit quality, for the second consecutive year, 2018 marked an important step in the process of reducing the amount of non-performing loans. At the end of 2018, sales made by the banking system were estimated at a total value of approximately 60 billion euro, after 80 billion euro in 2017, in line with the containment strategies planned and communicated to the markets. In particular, the public guarantee on the securitisation of bad loans, introduced in 2016 and recently extended until March 2019, contributed to facilitating the disposals.
In this context, in December 2018, 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) grew by 1.6% yoy, while lending to households and businesses alone increased by 2.2%. If this latter result is broken down, it can be seen that it was supported both by the lively development of loans to households, which grew by 2.7% per annum, and by the stock of loans to businesses, which recorded an increase of 1.1%.
The dynamics of business credit, although positive, are conditioned by the weakness of the economic cycle and by the diminished intensity of investments. The related demand for financing continued to grow moderately, thanks to support from low credit costs and the need for financing for stocks and working capital.
Solid growth in loans to households was driven both by the increase in home loans and consumer credit, which expanded more intensively in the North. This was consistent with the general picture of stabilisation of real estate prices, as shown by the Bank of Italy's economic survey of the housing market in Italy. Home loans were supported by the aforementioned income growth, still low interest rates and encouraging prospects on the real estate market highlighted by the Bank of Italy.

In detail, with regard to credit quality, the gradual improvement begun at the beginning of 2017 continued at a lively pace during 2018, largely due to the conclusion of transactions for the disposal of bad loans, which had already been largely written down, as well as to a still moderately favourable economic situation and a more careful management of creditworthiness. In Italy, the rate of reduction in the ratio of impaired exposures to loans also accelerated considerably. For significant banking groups, the NPE ratio in September 2018, according to the most recent Bank of Italy estimates, fell to 9.4%, 1.7 percentage points below the level at the end of 2017. Also in September, the NPE ratio, calculated net of adjustments, improved significantly to 4.5% from 5.9% in December 2017 due to the increase in the coverage rate for impaired loans (to 54.3% from 50.6% at the end of 2017).
In the third quarter of 2018, the flow of new impaired loans on total loans, net of seasonal factors and on a year-by-year basis, stood at 1.7%, the same value as twelve months before and, in particular, the levels recorded before the crisis.
These results, associated with the massive disposal of non-performing loans carried out during the period, are reflected in the reduction in the stock of net bad loans, which fell to 37.5 billion euro in November 2018 (latest available figure), a decrease of 41% since the beginning of the year and of a decrease of 57% from the peak of 86.8 billion euro reached at the end of 2016.

Total direct funding from customers (deposits and bonds) as at December 2018 amounted to 1,717 billion euro. The trend of this stock during the year has experienced two alternating phases: a first moment of constant growth started at the end of December and lasting until mid-year, followed by a sharp decline that cancelled out what was earned, to reach a level slightly lower than that of December 2017 (-0.62%). The divergent trend in forms of short-term and medium/long-term deposits continues in 2018. As a result, the volumes 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) increased by 2.2% in December 2018 (31.9 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, bonds fell by 15.3% over the same period due to the continuing high risk premium attributed to securities issued by national credit institutions, which was also affected by market tensions in the second quarter.
In December 2018, the banking spread, calculated as the difference between the average rate on loans and the average rate on total funding, fell compared to the previous twelve months to 1.89%, compared to 1.93% in December 2017. The mark-up (calculated as the difference between the average rate on loans and the 3-month Euribor rate), in fact, fell to 286 bps. (-16 bps compared to 302 bps in the previous year), while the mark-down (calculated as the difference between the 3-month Euribor rate and the rate on total funding) closed with 12 bps, going from 109 to 97 bps over the same period.
Finally, in November 2018, the assets of Italian and foreign open-ended funds fell to 969 billion from 1,007 billion in the previous year. This value is composed for 25.2% of Italian funds and, for the remaining, 74.8% of foreign funds. Also in November 2018, there was a negative flow of net inflows from open-end funds of 3.4 billion euro (-4.4 billion euro in the previous month). The result of the first ten months of 2018, although not very remarkable, is positive: +5.1 billion. The weakness of net inflows is due in particular to the outflows of funds from bond funds as a result of tensions on Italian financial markets and net subscriptions of fund units in other sectors. In addition, in the months that followed, redemptions also involved money market funds.

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

The main events which occurred during the year that closed on 31 December 2018 are described below.

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

Reorganisation of the bancassurance sector

During the year, the reorganisation process of the Bancassurance segment was completed, which had begun last year and was formalised with agreements involving the sale of a 65% share in Popolare Vita and Avipop Assicurazioni and the start of a strategic partnership between Banco BPM and Cattolica lasting 15 years. On 29 March, following the issue of the required authorisations by the competent authorities, Banco BPM completed the purchase of 50% + 1 share of Avipop Assicurazioni and Popolare Vita for a total value of 803.4 million euro, taking its stake in the share capital of the two companies to 100%. On the same date, 65% of the total share capital held by the Group in Avipop Assicurazioni and Popolare Vita was sold to Cattolica Assicurazioni for 819.6 million euro.
In order to complete the reorganisation of the segment, the extraordinary shareholders' meetings of Avipop Assicurazioni and Popolare Vita approved the adoption of new by-laws and the change of the company names to Vera Assicurazioni S.p.A. and Vera Vita S.p.A..
As a result of this transaction, Gruppo Banco BPM benefited from a capital gain, net of price adjustments, of € 170.7 million, recognised in the income statement for the year.

Reorganisation of the commercial network

On 1 January 2018, the new commercial network model became fully operational, an important project that involved the entire commercial network and the definition of new professional roles.

The model is inspired by the principles of:

- customer centrality and high levels of service, through a specialized offer and a greater focus on commercial structures;
- territorial proximity, through the configuration of 8 Territorial Departments dedicated to specific reference territories, to which 45 Areas report, which in turn guarantee support and coordination in favour of the branches (divided into Hubs, Coordinated Independent, Spoke and Independent);
- speedy decision-making processes and proactively meeting customer needs.

The project also included the reorganisation of the Corporate Network into 5 Markets and 18 Corporate Centres to enhance the specialisation necessary for the management of Corporate customers. The organisational structure is divided into two business units (Corporate and Large Corporate) and provides for the presence of product/specialist principals for Origination, Structured Finance, Foreign Operations and Trade Finance.

This reorganisation process also underlies the streamlining of the commercial network which during 2018 saw the closure of 310 branches in July and further 208 branches in the fourth quarter that were identified among the predominately underperforming spoke branches and/or by territorial overlaps, identifying–in accordance with the new Network model–the best reallocation for customers with the aim of minimising inconvenience and retraining personnel, also to manage the staff turnover.

Reorganisation of the Asset Management segment

On 7 February 2018, as part of the capital management operations related to the strategic restructuring of the asset management sector following the sale of Aletti Gestielle SGR completed at the end of 2017, Banco BPM signed an agreement with Anima Holding that provided for the sale from Banca Aletti to Anima SGR of the delegated insurance asset management mandates carried out on behalf of the insurance joint ventures linked to the former Banco Popolare bancassurance network, and the definition of a twenty-year partnership related to the conferment to

Anima SGR of the delegated management of the assets underlying the insurance products placed by the Banco BPM Group network.
Based on this agreement, Banca Aletti maintains the activity of Banca Custodian internally for deposits relating to the transferred mandates.
The transaction, which was completed on 29 June, led to a positive impact on the income statement for the period equal to 113.6 million euro, before tax.

Transfer of the Custodian Bank business unit completed

On September 28, the Parent Company completed the sale to BNP Paribas Securities Services of a business unit intended for the activities of the Custodian Bank, Fund Administration and Paying Agent for mutual funds, closed-end funds, pension funds and real estate, as provided for in the memorandum of understanding signed by the parties on 07 February 2018 and in the subsequent preliminary agreement of last March.

The value of the transaction was € 200 million, with a net positive impact of € 145 million on the consolidated income statement for the third quarter of the year.

Reorganisation of the Private & Investment Banking activities

In March, the deed was signed for the demerger of the Banca Akros Private Banking business unit to Banca Aletti., with particular reference to the contractual relationships related to administered and managed assets business, employment relationships of personnel of the unit, the Rome branch and any other contract relating to the branch.
The demerger was completed on 1 April 2018.

In September, the deed to transfer the Banca Aletti Corporate & Investment Banking business unit to Banca Akros was signed. The demerger was completed on 1 October 2018.

The transactions described above resulted in the centralisation of Private Banking activities within Banca Aletti and Corporate & Investment Banking activities within Banca Akros.

Reorganisation of the consumer credit sector

In the reorganization process undertaken by the Group, on 20 December 2018, Banco BPM, on the one hand, and Crédit Agricole SA, Crédit Agricole Consumer Finance SA and Agos Ducato, on the other, in order to consolidate the partnership in the consumer credit sector in Italy by strengthening the leadership and market shares of the subsidiary Agos Ducato, formalised the signing of the following agreements:

(i) the Framework Agreement, between Banco BPM, Crédit Agricole and Crédit Agricole Consumer Finance, which confirms the current partnership for the next 15 years and which includes, *inter alia*, (a) the Shareholders' Agreement, (b) the Distribution Agreement, (c) the Funding Agreement; and
(ii) the contract for the sale of ProFamily between Banco BPM and Agos Ducato

The sale is subject to (i) the authorisations of the competent authorities and (ii) the completion of the demerger of all the ProFamily activities not linked to the distribution through branches of the Banco BPM Group in favour of a newly formed company 100% controlled by Banco BPM and included in the Banking Group.

More specifically, this agreement provides for the acquisition of the subsidiary ProFamily S.p.A. by Agos Ducato for a consideration of € 310 million, subject to completion of the demerger as described above. ProFamily will have an exclusive distribution agreement for 15 years on the Banco BPM Group's commercial network, with effect from the completion of the transaction, and Banco BPM will retain, at the completion of the sale, the current 39% stake in Agos (61% held by Crédit Agricole).
The transaction is expected to be completed by the end of the first half of 2019.

In the context of the renewal of the partnership, Banco BPM and Crédit Agricole also agreed to explore the possible listing of Agos through an initial public offering (IPO) within the next two years. This operation provides greater flexibility to both shareholders, while confirming and guaranteeing their strong commitment to the future development of the company.

As part of the IPO, Banco BPM will have the option, but not the obligation, to reduce its stake in Agos. In this regard, Banco BPM obtained a guaranteed put option from Crédit Agricole, for a 10% stake in Agos, at a price of €150 million, exercisable in June 2021. Exercise of the option is unlikely, however, given the wide gap between the strike price and the intrinsic value of Agos, which is set to increase further, as a result of the extension of the partnership, to the captive business of ProFamily.

Simplification of the Group's corporate structure

The merger into the Parent company Banco BPM of the subsidiaries Banca Popolare di Milano S.p.A., Società Gestione Servizi BP S.C.p.A. e BP Property Management S.C.a r.l. fall within the scope of the reorganization of the Group structure and operations.
The merger of BPM S.p.A. was completed in November, with accounting and tax effect from 1 January 2018, according to the simplified form provided for fully owned companies. As from 26 March 2018, following the merger of the ordinary shares of BPM (in the ratio of 1 new ordinary share for every 25,000 shares held), Banco BPM acquired 100% of the share capital of BPM.

The mergers of the two consortia, on the other hand, will take effect from 11 February 2019, with accounting and tax effect from 1 January 2019.
These operations meet the needs of simplifying and rationalising the structure, optimising and exploiting resources and reducing costs.

During the year, the liquidation procedure of the SPE subsidiary Pami Finance S.r.l. was also completed, with the cancellation from the Milan Business Register, and the sale to BNP Paribas Real Estate Investment Management Italy of the entire shareholding held in the subsidiary Mariner S.r.l. was completed.
Finally, in May the deed was signed for the sale of the associated company Renting Italease S.r.l., 50% owned by Bipielle Real Estate and consolidated using the equity approach.
These operations did not have an impact on the balance sheet or income statement of the Group.

The business plan and derisking activities

Assignment without recourse of bad loans

The 2018 financial year saw the completion of a derisking programme that was much more aggressive than the original objectives of the Plan, carried out by the Group to align and, as far as bad loans are concerned, exceed the targets of the best competitors in the banking market.
The achievement of these more ambitious objectives has led to the adoption of important decisions that have led to doubling the volume of sales of bad loans, compared to those provided for in the strategic plan, through the completion at the end of the first half of the securitisation operation called "Exodus Project" whose object is 5.1 billion nominal loans and the signing at the end of the year of the agreement with Credito Fondiario and Elliott International L.P. which envisages the implementation of a new securitisation operation ("ACE Project") by the end of the first half of 2019, which will allow for the derecognition from the balance sheet of a further 7.4 billion nominal loans.

Once the derecognition of receivables relating to the "ACE Project" has been completed, the nominal value of the transfers of non-performing loans carried out by Banco BPM from the date of announcement of the business plan drawn up as part of the merger operation will have reached a value of over €17 billion, more than double the initial objective. The combination of the last two transactions mentioned (ACE and Exodus) will allow a reduction in stock of 72.5%, compared with the figure at the end of 2017, at an overall price of 28.3%, a very high level if compared with those communicated by other intermediaries for transactions of comparable scope.

As part of **"Exodus" project**, in June the Parent Group approved the sale of a portfolio of bad loans with a gross nominal value of approximately 5.1 billion euro to the SPE Red Sea SPV S.r.l..
This sale was carried out by means of a securitisation transaction backed by a government guarantee on senior securities, pursuant to the Decree Law 18/2016 (so-called GACS) issued by the Italian Ministry of Economy and Finance on 5 September 2018.

The operation was carried out with the SPE issuing securities totalling approximately 1.9 billion euro, broken down as follows:

- senior securities amounting to 1,656.5 million euro, for which the process for the issue of the guarantee by the Italian government was activated as mentioned above;
- mezzanine securities for 152.9 million euro;
- junior securities for 51 million euro.

The securities were subscribed by Banco BPM, which subsequently sold 95% of the mezzanine and junior securities to a third investor (Christofferson Robb & Company).
With the placement of mezzanine and junior securities, at the end of a competitive process involving the participation of numerous Italian and international investors, the conditions were met to proceed with the derecognition of bad loans sold to the SPE, at a total sale price of 34.3%, a figure that is at the highest levels achieved on the Italian market for this type of transaction.

With reference to the **ACE project**, aimed at the sale of a further portfolio of bad loans, on 10 December 2018, the Parent Company approved the binding offer received from funds managed by Elliott Management ("Elliott") and Credito Fondiario, one of the consortia selected as potential investors.

On 6 February 2019, the securitisation was completed through the issue by the SPE Leviticus SPV S.r.l. of the following classes of securities (ABS - Asset-Backed Securities):

- Senior securities for 1,440.0 million euro;
- Mezzanine securities for 221.5 million euro;
- Junior securities amounting to approximately 248.8 million.

The senior bonds, which will have a coupon of 6M Euribor + 0.6%, have been rated BBB (SF) by DBRS and Scope Ratings. With regard to these senior securities, the procedure for the issue by the Italian government of the guarantee on the senior securities pursuant to Italian Legislative Decree 18/2016 ("GACS") is in the process of being activated.
In execution of the above agreement, Elliott has undertaken to acquire 95% of the junior and mezzanine securities issued by the SPE Leviticus SPV, to which the portfolio subject of the transaction has been sold. The completion of the sale of the securities and the consequent accounting derecognition of the receivables, at the moment, are planned at the same time for May 31 (in any case, no later than 30 June), without prejudice to the possibility for the parties to bring forward the date of execution of the transfer of the securities. The operation will enable Banco BPM Group to collect a total price of 23.6% of the receivables assigned.
In addition, the agreement provides for the launch of a dedicated partnership in debt collection, 30% of which is held by Banco BPM and 70% by Credito Fondiario. In this regard, in December, the company First Servicing S.p.A. was set up and will act as a servicer for bad loans and to which Banco BPM will transfer the business unit dedicated to debt recovery during 2019. It should be noted that, for the purposes of the 2018 financial statements, the same is not included under assets and liabilities held for sale, as at 31 December 2018, the activities aimed at defining the perimeter in detail were still in progress.

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 therefore before the merger from which Banco BPM originated, reporting of customers interested in buying diamonds was carried out to the specialised company Intermarket Diamond Business S.p.A. (IDB). 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 penalty 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 with the Tribunale Amministrativo Regionale (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 this operation, judicial investigations are also pending in relation, among other things, to the assumption of aggravated fraud.
Finally, the Court of Milan declared IDB bankrupt on 10 January 2019.

It should be noted that the Group's reporting activity was suspended and then definitively discontinued in early 2017. The Bank also terminated the existing contract with IDB, which was therefore definitively terminated between the parties.
From the date of imposition of the sanction by AGCM, the parent company and the subsidiary Banca Aletti have been affected by a growing flow of complaints from customers who have purchased diamonds from IDB. In the run-up to the approval of the 2017 draft financial statements, around 1,250 complaints were received for a total *petitum* of less than €50 million. The collective fund recorded in the financial statements at 31 December 2017, determined on the basis of information available at the time and reasonably foreseeable developments at the time, amounted to € 43 million. During the 2018 financial year, the number of complaints progressively increased, particularly in the second half of the year, reaching approximately 13,300 complaints, for a total *petitum* of approximately €430 million as at 31 January 2019 (data used for the purpose of estimating the provision for risks and charges as at 31 December 2018).
The complaints received have always been the subject of careful analysis, aimed at assessing, on a case-by-case basis, the elements highlighted by customers and their justification. In view of the growing number of complaints, customer care services, aimed at interacting with customers and signing transactions that provide adequate restitution to customers, have been progressively strengthened, even if for reasons not directly dependent on the activity carried out by the banks of the Group, also with a view to being closer with customers and in order to preserve relations with them. Acknowledging the growing number of complaints during the year, the specific internal task force dedicated full-time to complaint management and to interacting with customers and consumer associations was strengthened, raising the number of senior staff members to around 150.
Initiatives towards customers in relation to complaints and disputes generally take the form of monetary relief, in addition to maintaining the customer's ownership of the stone. On this basis, as of 31 January 2019, the task force completed its investigation of 9,499 complaints and completed 2,570 transactions. There were 80 cases pending at the same date, for a total claim of 1.5 million. In the context of relations with Consumer Associations, a protocol was also signed with two of the most representative Associations, and others were met, in order to initiate a joint assessment of the positions of the parties represented, again through a case-by-case analysis of the individual cases.
In this context, when preparing the financial statements as at 31 December 2018, the Group banks concerned decided to supplement the general provisions set aside to cover the aforementioned disputes with a specific provision based on a prudent assessment of the information available for the pending and potential complaints and disputes, without prejudice to the approach to customers indicated above. In greater detail, the provision recorded in the consolidated financial statements as at 31 December 2018 amounted to €285.2 million as a result of an additional provision of €275.3 million charged to the income statement for the year. Considering also the use of the fund in 2018 for indemnities already paid out to customers (€33.1 million), the total financial resources made available by the Group to provide restitution to customers amounted to €318.3 million.
With regard to the above, it should be noted that the Bank immediately provided its active support in collaboration with the Supervisory Authorities and the Judicial Authorities that are conducting the investigations currently underway. Progressive changes were also made to the processes, safeguards, and organisational interventions aimed at strengthening the internal control system and preventing the recurrence of such events.

Inspection activities of the European Central Bank and the Bank of Italy

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, Liquidity, Funding Risk, IRRBB and Models.

Most of the inspection activities have already been concluded with the release of the so-called "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 inspection activities are still in progress or pending receipt of the Final Follow-up Letter or the Decision:

- inspection regarding compliance with regulations on transparency of transactions and fairness of relations with customers. The on-site phase was completed at the end of January 2019, and the Bank is awaiting the decision;
- verification on the subject of Operational Risk. The on-site phase was completed at the end of January 2019, and the Bank is awaiting the decision;
- inspection of "Credit risk (PD; LGD; CCF) for the following exposure classes: Corporate - Other; Corporate - SME". The on-site phase was completed at the end of November 2018, and the Bank is awaiting the 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 ended on 28 September 2018, and the Bank is awaiting the decision;
- verification of the Targeted Review of Internal Models (TRIM) programme for credit risk (PD and LGD) with reference to portfolios classified as "Corporate" and "SME". The on-site phase of the inspection was completed on 20 April 2018, and the Bank is awaiting the decision.

EU-wide stress test: satisfactory results for Banco BPM

Gruppo Banco BPM participated in the 2018 EU-wide stress test conducted by the European Banking Authority (EBA) in collaboration with the Bank of Italy, the European Central Bank (ECB) and the European Systemic Risk Board (ESRB).
Although the results do not represent forecasts on future financial performance or expected capital ratios, they confirm the Group's ability to generate value and resilience, supported by the following results:

- CET1 ratio phased-in post-impact Stress Test Baseline scenario equal to 15.74% (14.32% fully loaded);
- CET1 ratio phased-in post-impact Stress Test Adverse scenario equal to 8.47% (6.67% fully loaded).

These results are even more satisfactory if one considers that the stress test exercise was carried out under the assumption of static financial statements as at 31 December 2017 and therefore does not consider existing and/or future company strategies and managerial actions that, if evaluated, would have contributed to a further significant improvement in the results achieved, particularly in the adverse scenario.

Impact of the application of the new international accounting standard IFRS 16

In Part A of the notes to the financial statements, reference is made to the changes that will be introduced into the accounting of leasing transactions by the new accounting standard IFRS 16 and their expected impact on Banco BPM Group, of a qualitative nature, and an indication is provided below of the initial estimates of the quantitative impacts deriving from the first application of the standard, on the basis of the processing currently available.
As explained in Part A, no impact on shareholders' equity is expected, as the Group intends to adopt the so-called modified retrospective approach, recognising, in the balance sheet assets, a right of use corresponding to the lease liability, determined by discounting the lease instalments to be paid for the expected contractual term, for the marginal interest rate in effect at the date of first application. On the basis of estimates currently available, these assets and corresponding liabilities amount to approximately 1 billion euro, mainly represented by rental contracts for properties intended for commercial activities (branches) entered into by the Parent Company with third parties. With reference to the impact on shareholders' equity, the application of the new standard is expected to result in a reduction of approximately 18 bps compared to the CET1 phase-in ratio. In this regard, it should be noted that these impacts represent the best estimate available to the Group at the date of approval of this Annual Financial Report 2018, determined on the basis of extra-accounting calculations, therefore outside the accounting-administrative procedures that will be used when fully operational to determine the actual impacts and for the related accounting. The above estimates are therefore to be understood as subject to possible changes in relation to the completion of the process of first-time adoption of IFRS 16 and the envisaged internal and external control activities.

RESULTS

Introduction

The balance sheet and income statement schedules shown below have been reclassified, according to operating criteria, in order to provide accurate 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 IFRS 9 and IFRS 15 accounting standards, as described in the specific section "Disclosure on the first adoption of the accounting standards IFRS 9 – Financial instruments and IFRS 15 – Revenue from contracts with customers" contained in appendix to the consolidated Notes. Considering the changes introduced with the application of IFRS 9, 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 2018 with the adoption of the new accounting standards, in addition to the information relating to 31 December 2017.

More specifically, **the reclassified balance sheet** as at 31 December 2018 has been adapted to reflect the new accounting categories for financial instruments, as introduced by the fifth update of Bank of Italy Circular no. 262.
In detail, the previous aggregates entitled "Financial assets and hedging derivatives", "Due from banks" and "Loans to customers" have been replaced by the following new aggregates:

- "Loans designated at amortised cost (AC)", which includes the following items:
  - "Loans to banks": these are loans to banks and are recorded under the asset item of the Bank of Italy schedule "40. Financial assets designated at amortised cost: a) due from banks". Therefore, loans represented by securities included in the aggregate of "Other financial assets" are excluded;
  - "Loans to customers": this is credit to customers represented by loans, shown under the asset item of the Bank of Italy schedule "40. Financial assets designated at amortised cost: b) Loans to customers". Therefore, loans represented by securities included in the aggregate "Other financial assets" are excluded, with the exception of the exposure represented by senior securities subscribed as part of the securitisation of bad loans originated by the Group (Exodus disposal) which continued to be indicated in the item "Loans to customers".
- "Other financial assets and hedging derivatives", consisting of the following items:
  - "Financial assets designated at fair value through profit and loss" which includes the financial instruments shown in the portfolios of "Financial assets designated at fair value through profit and loss" and "Hedging derivatives", respectively shown in items 20 and 50 of the assets in the Bank of Italy schedule;
  - "Financial assets designated at fair value through other comprehensive income (OCI)", which corresponds to item 30 of the assets of the Bank of Italy schedule;
  - "Financial assets designated at amortised cost (AC)", which includes credit exposures to banks and customers represented by debt securities (included in item 40 of the assets of the Bank of Italy schedule) with the exclusion of senior securities resulting from the Exodus disposal, as described previously.

Regarding the reclassified liability items, the previous aggregate "Due to customers, debt securities issued and financial liabilities designated at fair value" has been renamed "Direct funding", an aggregate for which separate disclosure is provided between the item "Due to customers" (item 10 b) on the liability statement of the Bank of Italy schedule) and "Debt securities issued and financial liabilities designated at fair value" (items 10 c) and 30 on the liability statement of the Bank of Italy schedule).

For the remaining balance statement items, below we provide the main aggregations:

- the residual asset item "Other assets" aggregates the "Fair value change of financial assets in macro fair value hedge portfolios" and "Other assets" (respectively asset items 60 and 130);
- the grouping of the "Liability provisions" for "Employee termination indemnities" (item 90) and "Provisions for risks and charges" (item 100) into a single item;
- the residual liability item "Other liabilities" includes the "Fair value change of financial liabilities in macro fair value hedge portfolios" and "Other liabilities" (respectively liability items 50 and 80);
- the indication of "capital and reserves" as an aggregate, net of any treasury shares held (financial statement items 120, 150, 170, 180 and 200).

With reference to the **reclassified income statement**, the adoption of IFRS 9 has led to a redefinition of the aggregates relating to net financial result and to value adjustments for impairment, according to the new categories of financial instruments and the relative measurement criteria. The reconciliation of the new items with the income statement prepared on the basis of Bank of Italy Circular 262 is illustrated below:

- the item "Net financial result" includes results arising from valuation or realisation of all financial instruments, with the exception of credit risk adjustments which are shown separately. Specifically, this item includes dividends on shares classified in the portfolios of financial assets designated at fair value through profit or loss and through other comprehensive income (item 70), profits (losses) on trading and fair value adjustments in hedge accounting (items 80 and 90), profits (losses) on disposal or repurchase (item 100), with the exception of the result related to the disposal of financial assets designated at amortised cost represented by loans, the profits (losses) on other financial assets and liabilities designated at fair value through profit and loss (item 110);
- the item "Net adjustments on loans to customers" includes item 130 a) "Net losses/recoveries on credit risk relating to financial assets designated at amortised cost" relating solely to the component represented by loans to customers and the related economic results from the disposal of the same (included in item 100 a) "Profits (losses) on disposal or repurchase of financial assets designated at amortised cost");
- the item "Net adjustments on securities and other financial assets" is represented by the expected losses recognised on securities and on loans to banks classified in the portfolios of "Financial assets designated at amortised cost" (corresponding to item 130 b) "Net losses/recoveries from credit risk relating to financial assets designated at fair value through other comprehensive income" and the residual balance of the aforementioned item 130 a) after deducting the component relating to loans to customers);
- the reclassified item "Net provisions for risks and charges" corresponds to item 200 of the income statement schedule required by Bank of Italy Circular no. 262 and also includes provisions for commitments and guarantees given.

Below is information about aggregations and the main reclassifications of other items in the reclassified income statement:

- 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";
- the amortisation of leasehold improvement costs (recorded in item 230) has been stated together with "Value adjustments on property and equipment and intangible assets", rather than stated together with "Other net operating income";
- 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 net interest income, the aggregate defined as the "Financial margin";
- amortisation relative to intangible assets connected to "client relationships" indicated with business combinations and recognised among "Net value adjustments on intangible assets" are shown under the aggregate "Other net operating income";
- the item "Impairment of goodwill and client relationships before taxes" includes adjustments to intangible assets with undefined useful life carried out following the annual impairment test, after the relative tax effects, recognised for accounting purposes in the consolidated income statement under items 220 "Net value adjustments on intangible assets" and 300 "Taxes on income from continuing operations";
- 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 "After-tax banking industry charges", rather than in "Other administrative expenses" and "Taxes on income from continuing operations".

Also note that, as is specifically allowed under accounting standard IFRS 9 (par. 7.2.15), Banco BPM elected not to restate the prior year's balances based on the new measurement criteria introduced by IFRS 9 as of 1 January 2018. However, in order to facilitate a more like-for-like comparison:

- in addition to the balance sheet balances at 31 December 2017, the reclassified balance sheet also shows the balances at 1 January 2018, recalculated in compliance with the IFRS 9 and IFRS 15 accounting standards. A reconciliation schedule between the reclassified balance sheet as at 31 December 2017 and the restated balances as at 1 January 2018 is attached;
- in the preparation of the reclassified income statement, the economic results of previous periods have been restated insofar as possible based on the available information. More specifically:

- the "Net financial result" of the previous periods under comparison was restated to include adjustments for impairment of shares classified in the former portfolio of "Financial assets available for sale", previously included in the aggregate of "Net adjustments on receivables due from banks and other assets";
- the item "Net adjustments on loans to customers" corresponds to the previous aggregate "Net adjustments on loans to customers", net of value adjustments on securities valued at amortised cost, reclassified to the item "Adjustments for credit risk: securities and other assets" and value adjustments on guarantees and commitments now reclassified to the item "Net provisions for other risks and charges";
- the item "Net adjustments on securities and other financial assets" corresponds to the previous aggregate "Net adjustments on receivables due from banks and other assets", net of value adjustments on shares but increased by value adjustments on debt securities designated at amortised cost, as shown in the previous points;
- the item "Net provisions for other risks and charges" corresponds to the same item in the previous aggregate and includes value adjustments on guarantees and commitments.

Recall that the introduction of IFRS 9 profoundly changed the criteria used to account for financial instruments with reference to classification, valuation and the impairment model. Therefore, the income statement results provided for comparison with the conventional methods shown above are not determined in the same way as the results identified during 2018.

For example, and referring only to the representation of the interest margin, the IFRS 9 accounting principle states that interest accrued on impaired financial assets (Stage 3) must be recorded in the financial statements on the basis of the amortised cost method, i.e. on the basis of the effective interest rate calculated taking into account the expected cash flows. The standard also states that the value recoveries on receivables deriving from the passing of time (time value) must also be included in interest margin. As a result of the adoption of these new rules on exposure, the interest margin for financial year 2018 increased by 190.9 million euro overall due to the combined effect of the inclusion in this aggregate of recoveries from the time until 31 December 2017 that were shown within the aggregate "Net value adjustments on loans to customers" and the net recognition of interest accrued on exposures classified as unlikely to pay (until 31 December 2017 the portion of interest considered non-recoverable was recognised within the item "Net adjustments on receivables").
As described in detail in the appendix "Disclosure on first time adoption of the accounting standards IFRS 9 – Financial instruments and IFRS 15 – Revenue from contracts with customers", note that the adoption of IFRS 9 had a significant impact on both the classification and measurement of financial instruments. In addition, the new impairment model introduced by the standard has led to profound changes both in the scope and in the calculation of value adjustments for both performing and impaired loans. Consequently, the reclassified figures (balance sheet and income statement) for the administrative periods compared with the conventional methods described above are not determined on a consistent basis.

The annexes to these financial statements include a reconciliation schedule between the income statement published in the annual financial report at 31 December 2018 and the reclassified income statement restated for comparative purposes included in this document.

Consolidated income statement figures

Reclassified consolidated income statement

Reclassified income statement items ***(thousands of euro)***	**2018**	**2017 (*)**	**Changes**
Interest margin	2,292,562	2,113,447	8.5%
Profits (losses) on investments in associates and companies subject to joint control carried at equity	159,457	166,036	(4.0%)
Financial margin	**2,452,019**	**2,279,483**	**7.6%**
Net fee and commission income	1,848,760	1,950,410	(5.2%)
Other net operating income	389,771	98,817	294.4%
Net financial result	82,360	155,049	(46.9%)
Other operating income	**2,320,891**	**2,204,276**	**5.3%**
Operating income	**4,772,910**	**4,483,759**	**6.4%**
Personnel expenses	(1,732,805)	(1,784,854)	(2.9%)
Other administrative expenses	(816,478)	(872,355)	(6.4%)
Net value adjustments on property and equipment and intangible assets	(243,498)	(266,915)	(8.8%)
Operating expenses	**(2,792,781)**	**(2,924,124)**	**(4.5%)**
Profit (loss) from operations	**1,980,129**	**1,559,635**	**27.0%**
Net adjustments on loans to customers	(1,941,116)	(1,660,963)	16.9%
Net adjustments on securities and other financial assets	3,291	(140,217)	
Net provisions for risks and charges	(345,341)	(13,757)	insignificant
Profits (Losses) on disposal of investments in associates and companies subject to joint control and other investments	173,358	25,698	574.6%
Profit (loss) before tax from continuing operations	**(129,679)**	**(229,604)**	**(43.5%)**
Taxes on income from continuing operations	162,835	92,789	75.5%
Charges related to the banking system, net of taxes	(100,218)	(77,264)	29.7%
Profit (loss) from discontinued operations	936	762,262	(99.9%)
Income (loss) attributable to minority interests	9,623	9,658	(0.4%)
Net income (loss) for the period excluding badwill and impairment on goodwill and client relationship	**(56,503)**	**557,841**	
Impairment of goodwill and client relationships net of taxes	(2,929)	(1,017,616)	(99.7%)
Merger difference (Badwill)		3,076,137	
Parent Company's net income (loss)	**(59,432)**	**2,616,362**	

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

Reclassified consolidated income statement – Quarterly changes

Reclassified income statement items *(thousands of euro)*	FY 2018				FY 2017			
	Q4	Q3	Q2	Q1	Q4 (*)	Q3 (*)	Q2 (*)	Q1 (*)
Interest margin	554,694	557,759	584,998	595,111	528,768	524,923	511,149	548,607
Profits (losses) on investments in associates and companies subject to joint control carried at equity	50,668	32,791	33,413	42,585	45,166	38,931	40,354	41,585
Financial margin	**605,362**	**590,550**	**618,411**	**637,696**	**573,934**	**563,854**	**551,503**	**590,192**
Net fee and commission income	469,875	451,372	450,993	476,520	472,096	458,935	503,605	515,774
Other net operating income	21,061	214,531	130,029	24,150	24,738	29,401	14,362	30,316
Net financial result	(73,898)	46,768	80,182	29,308	41,915	12,957	63,320	36,857
Other operating income	**417,038**	**712,671**	**661,204**	**529,978**	**538,749**	**501,293**	**581,287**	**582,947**
Operating income	**1,022,400**	**1,303,221**	**1,279,615**	**1,167,674**	**1,112,683**	**1,065,147**	**1,132,790**	**1,173,139**
Personnel expenses	(422,177)	(431,479)	(437,060)	(442,089)	(420,796)	(450,628)	(456,711)	(456,719)
Other administrative expenses	(205,705)	(196,184)	(203,102)	(211,487)	(204,704)	(236,303)	(233,055)	(198,293)
Net value adjustments on property, plant and equipment and intangible assets	(97,096)	(49,456)	(49,020)	(47,926)	(95,466)	(62,160)	(56,406)	(52,883)
Operating expenses	**(724,978)**	**(677,119)**	**(689,182)**	**(701,502)**	**(720,966)**	**(749,091)**	**(746,172)**	**(707,895)**
Profit (loss) from operations	**297,422**	**626,102**	**590,433**	**466,172**	**391,717**	**316,056**	**386,618**	**465,244**
Net adjustments on loans to customers	(987,260)	(267,405)	(360,212)	(326,239)	(673,127)	(340,816)	(354,530)	(292,490)
Net adjustments on securities and other financial assets	3,968	(1,312)	(1,593)	2,228	(12,718)	(48,322)	(70,820)	(8,357)
Net provisions for risks and charges	(227,805)	(71,865)	(20,707)	(24,964)	(9,235)	4,615	(9,641)	504
Profits (Losses) on disposal of investments in associates and companies subject to joint control and other investments	5,109	(10,301)	(1,104)	179,654	12,064	333	(3,765)	17,066
Profit (loss) before tax from continuing operations	**(908,566)**	**275,219**	**206,817**	**296,851**	**(291,299)**	**(68,134)**	**(52,138)**	**181,967**
Taxes on income from continuing operations	322,430	(72,338)	(61,320)	(25,937)	101,759	34,806	1,122	(44,898)
Charges related to the banking system, net of taxes	(668)	(32,122)	(18,391)	(49,037)	(6,187)	(26,069)	-	(45,008)
Profit (loss) from discontinued operations	-	932	18	(14)	699,971	16,498	25,790	20,003
Income (loss) attributable to minority interests	5,777	256	2,160	1,430	867	1,397	4,256	3,138
Net income (loss) for the period excluding badwill and impairment on goodwill and client relationship	**(581,027)**	**171,947**	**129,284**	**223,293**	**505,111**	**(41,502)**	**(20,970)**	**115,202**
Impairment of goodwill and client relationships net of taxes	(2,929)	-	-	-	(1,017,616)	-	-	-
Merger difference (Badwill)	**-**	**-**	**-**	**-**	-	-	-	3,076,137
Parent Company's net income (loss)	**(583,956)**	**171,947**	**129,284**	**223,293**	**(512,505)**	**(41,502)**	**(20,970)**	**3,191,339**

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

In compliance with the instructions contained in Consob Communication no. DEM/6064293 of 28 July 2006, the following paragraphs provide information on the effects that non-recurrent events or transactions had on the consolidated economic result.

The results for 2018 were affected by various significant events, which can be reasonably judged to be unrepeatable, most of which associated with the execution of the provisions of the Business Plan, in particular in terms of derisking. More specifically, during 2018 the Group completed the restructuring of its bancassurance business, disposed of its custodian bank business, completed the restructuring of managed savings with the disposal of insurance asset agent management contracts and rationalised its distribution network through the closure of a very large number of branches. In the context of the derisking strategy, the Group undertook important projects aimed at reducing its stock of non-performing loans through an initial disposal transaction completed at the end of the first half (the Exodus project, which involved the disposal of around nominal 5.1 billion in non-performing loans) and a second transaction nearing completion as of the date of this report (the ACE project, which will involve the disposal of an additional approximately 7.4 billion nominal non-performing loans).

Below, for each item in the reclassified income statement, the non-recurring economic components relative to 2018 are provided:

- the item "Other net operating income" includes 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 partnerships, as well as 200.0 million capital gain generated by the sale of the depositary bank and fund administration business line to BNP Paribas Securities Services;

- the item "Net financial result" includes the 27.9 million writedown of the investment made in the voluntary IDGF in order to support the project in favour of Carige, through the subscription of a subordinate security issued by the latter bank at the end of November 2018;
- the item "Other administrative expenses" includes non-recurring components totalling 22.6 million, mainly attributable to additional charges paid to adjust IT systems (15.5 million), as well as expenses for the closure of branches (costs to restore branches, moving expenses, etc.) for 5.1 million;
- the item "Net value adjustments on property, plant and equipment and intangible assets" includes: (i) 44.1 million in writedowns on real estate investments, to adjust their carrying value to the lower recoverable value taken from appraisal updates, (ii) 3.8 million in writedowns on intangible assets represented by software, following the integration of the Group's IT systems, (iii) 4.8 million in writedowns of capitalised expenditures for improvements on leased branches, which become non-recoverable following the closure of the branches;
- "Net adjustments on loans to customers" includes the effects of derisking operations regarding exposures classified as non-performing for a total of 713.9 million, mainly associated with the ACE project. While the transaction will be fully completed in 2019, the approval of the binding purchase offer and the specific identification of the loans which were transferred at the end of December 2018 are such as to generate impacts on the financial statements as at 31 December 2018, in terms of the classification and measurement of the items to be transferred, represented by non-performing loans. For measurement purposes, expected losses relative to the cited portfolio were quantified on the basis of the best estimate of the negotiated price that will be received following completion of the transaction;
- the item "Net provisions for risks and charges" includes allocations totalling 351.6 million relative to: additional allocations of 275.3 million aimed at guaranteeing full protection relative to legal disputes and claims, also prospective, relative to the terminated activities identifying customers interested in purchasing diamonds for the specialised company Intermarket Diamond Business S.p.A. (which was declared bankrupt at the beginning of 2019); foreseeable charges to be sustained following the closure of 518 branches during the year for 46.2 million; additional allocations for 30.1 million deriving from the decision to recalculate the conditions applied to customers for quick investigation fees and credit availability granting relative to previous years based on metrics recently defined under more severe regulations and interpretation notes issued by the supervisory bodies;
- the entire amount in the item "Gains on disposal of equity and other investments", amounting to 173.4 million, in which the major part, equal to 170.7 million, is represented by gains deriving from the reorganisation of the Bancassurance sector which saw the disposal to Cattolica of the two investments in the insurance companies Popolare Vita (now Vera Vita) and Avipop Assicurazioni (now Vera Assicurazioni);
- the item "Taxes on income from continuing operations" includes benefits deriving from the recognition of prepaid IREP tax assets, equal to 64.0 million, relative to credit adjustments carried out at first time application of IFRS 9, recognised only in the fourth quarter following the regulatory changes introduced by the 2019 budget law which allowed them to be deducted over 10 years (instead of fully in 2018), as well as the tax impacts of the non-recurring components outlined above, as a whole positive at 233.6 million;
- the item "Charges related to the banking system, net of taxes" includes 18.4 million connected to the additional contributions for the National Resolution Fund against the resolution actions begun in 2015 (amounting to 25.5 million net of the related tax effects of 7.1 million).

Overall, also taking into account the negative effects relative to minority interests (equal to 2.3 million) and the results for discontinued operations (equal to +0.9 million) the algebraic balance of the economic components pertaining to 2018 deemed non-recurring was negative at 399.3 million. The "normalised" result, taking these components into account, is positive and amounts to 342.8 million.

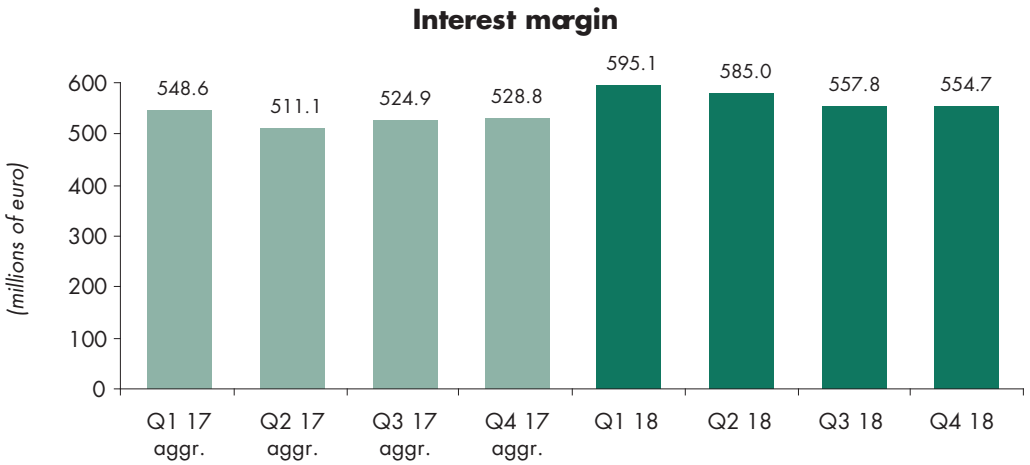
When deemed significant, information about non-recurring events or operations or those which do not occur frequently in the normal execution of the business and the impacts they have on the Group's equity and financial situation, as well as its cash flows is provided in the context of specific sections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

Operating income

Interest margin

(thousands of euro)	2018	2017 (*)	Abs. change	Change %
Financial assets (securities)	581,980	596,834	(14,854)	(2.5%)
Net interest due to customers	2,162,893	2,116,674	46,219	2.2%
Net interest due to banks	(52,957)	(10,414)	(42,543)	408.5%
Securities issued and financial liabilities designated at fair value	(381,226)	(644,972)	263,746	(40.9%)
Hedging derivatives (net balance)	(70,746)	(52,206)	(18,540)	35.5%
Net interest on other assets/liabilities	52,618	107,531	(54,913)	(51.1%)
Total	**2,292,562**	**2,113,447**	**179,115**	**8.5%**

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

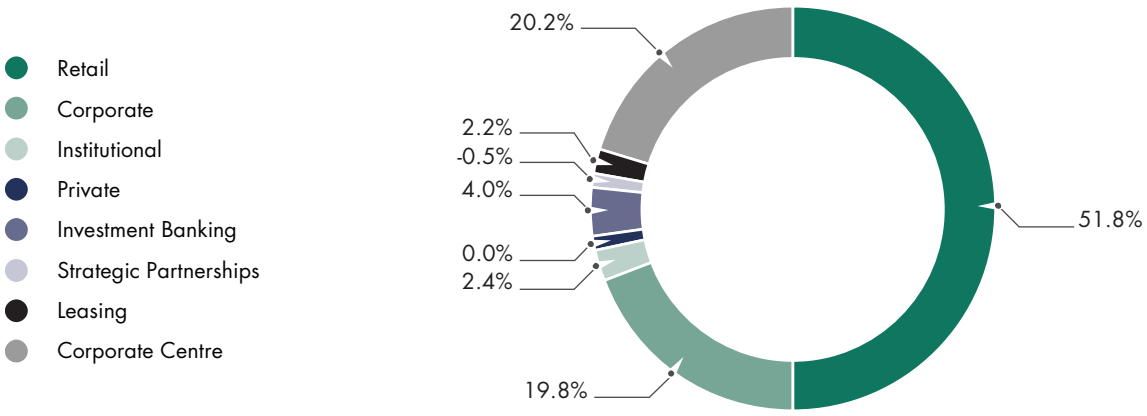


The **interest margin** amounted to 2,292.6 million euro. This figure is not entirely comparable to that from the previous year in that - following application of IFRS 9 - net interest income is influenced by the positive reclassification of the reversal due to writebacks from discounting of non-performing loans which, until 31 December 2017, were recorded among net adjustments to loans, and due to the negative reclassification due to calculation of interest on impaired exposures (probable default and past due) relative to the recoverable value of said loans, instead of their nominal value. Taking into account both these reclassifications and the effect of the PPA, net interest income came to 2,078.0 million, compared to 2,054.7 million in 2017 (+1.2%) [1]. The contribution for the fourth quarter of 2018 was 554.7 million, substantially stable with respect to the third quarter of 2018 (557.8 million), thanks to growth in volumes and the lower cost of funding, which compensated for the decrease in the spread on loans.

(thousands of euro)	2018	2017 (*)	Abs. change	Change %
Retail	1,186,528	1,063,812	122,716	11.5%
Corporate	453,255	446,905	6,350	1.4%
Institutional	56,053	62,034	(5,981)	(9.6%)
Private	277	(4,686)	4,963	
Investment Banking	92,653	120,192	(27,539)	(22.9%)
Strategic partnerships	(10,557)	(15,020)	4,463	(29.7%)
Leasing	51,000	36,313	14,687	40.4%
Corporate Centre	463,353	403,897	59,456	14.7%
Total	**2,292,562**	**2,113,447**	**179,115**	**8.5%**

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

[1] Figure constructed on a like for like basis, excluding the extraordinary component which affected 2017, recording interest income on the relative TLTRO-II financing pertaining to 2016.



As previously illustrated, the adoption of accounting standard IFRS 9 had a significant impact on the trend in net interest income (190.9 million). Net of this contribution, net interest income fell by 11.8 million. More specifically, in terms of the commercial network segments, Retail was a significant contributor, accounting for 1,030.8 million (-33.0 million compared to 2017, excluding the positive effect of IFRS 9 application), mainly down due to the effects of the reduction in the impact of the Price Purchase Agreement (PPA), following the derisking projects carried out during the year (-44.0 million). This segment also saw an improvement in the cost of funding, also due to the progressive decrease in the stock of bond issues.
The investment banking margin also fell noticeably, following the decrease in the contribution from the securities portfolio, above all the infragroup component, mainly relative to bond loans, underlying certificates issued by the parent company and subscribed by Banca Aletti (by Banca Akros as of 1 October).
Net of the application of IFRS 9 (+17.9 million), the contribution made by Leasing fell slightly due to the closure of certain Release contracts.
Corporate Center saw an increase, essentially due to the improvement in the component relative to institutional issues (+75.6 million) and the ALM centre (+100.9 million), which benefited from rate trends. These aspects balanced the decrease in the contribution from the securities portfolio (-59.5 million), also due to the greater cost of funding in foreign currencies to finance it, and of other funding components with institutional counterparties (for the most part, Cassa Compensazione e Garanzia and the ECB, which in 2017 had benefited from extraordinary interest rates relative to the 2016 TLTRO 2 for 31.7 million).

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

Profits on equity investments carried at equity was positive at 159.5 million, down from 166.0 million the previous year, due to the lower contribution from the insurance companies, also as a result of the reduced shareholding. The Q4 contribution was 50.7 million, up with respect to the 32.8 million reported in Q3. Within this aggregate, the main contribution was provided by consumer credit, driven by the investment held in Agos Ducato, for 126.0 million (116.2 the contribution seen the previous year).

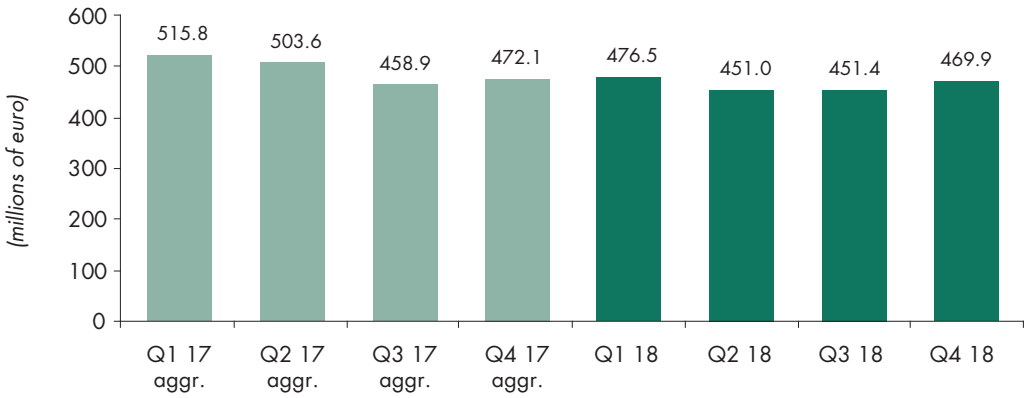
In terms of economic sector, Strategic Partnerships contributed 157.8 million, mainly including Agos Ducato, equal to 126.0 million, and that of the insurance companies for a total of 24.5 million. The contribution of Corporate Center was limited, totalling 1.6 million, and includes the contributions from minor associated companies.

Net fee and commission income

(thousands of euro)	2018	2017 (*)	Abs. change	Change %
Management, brokerage and advisory services	884,187	982,429	(98,242)	(10.0%)
Distribution of savings products	720,197	831,916	(111,719)	(13.4%)
- Placement of financial instruments	583,137	676,266	(93,129)	(13.8%)
- Portfolio management	31,255	39,867	(8,612)	(21.6%)
- Bancassurance	105,805	115,783	(9,978)	(8.6%)
Consumer credit	28,366	30,749	(2,383)	(7.7%)
Credit cards	50,933	30,587	20,346	66.5%
Custodian bank	14,367	18,861	(4,494)	(23.8%)
Trading securities, currencies and acceptance of orders	65,899	67,028	(1,129)	(1.7%)
Other	4,425	3,288	1,137	34.6%
Current account management and loans	728,221	630,894	97,327	15.4%
Collection and payment services	170,181	162,060	8,121	5.0%
Guarantees given and received	73,379	76,129	(2,750)	(3.6%)
Other services	(7,208)	98,898	(106,106)	
Total	**1,848,760**	**1,950,410**	**(101,650)**	**(5.2%)**

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

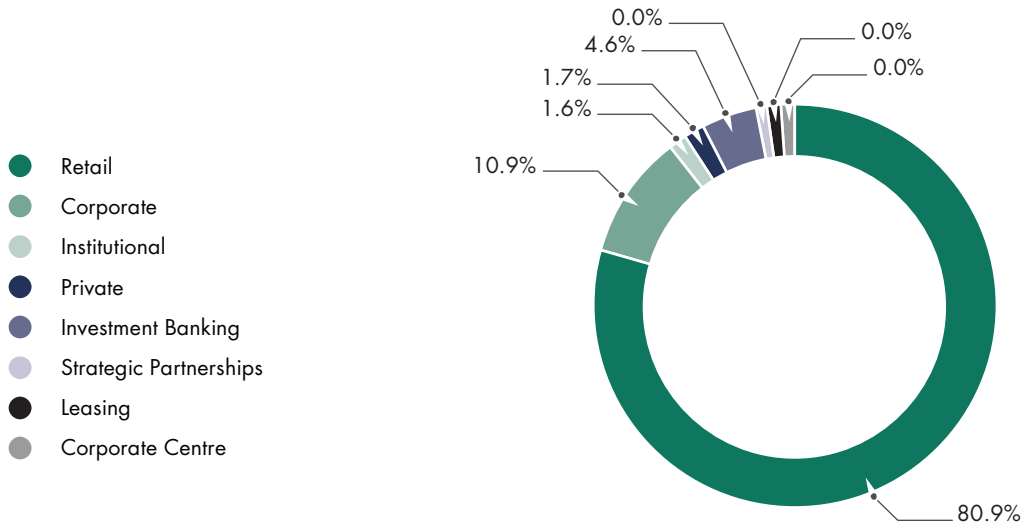
Net fee and commission income



Net fee and commission income amounted to 1,848.8 million, down by 5.2% compared to 2017, which saw net fee and commission and income of 1,950.4 million. However, it grew by 4.1% on a quarterly basis thanks to diversification between various business areas (e.g. loan fees and commissions on collection and payment services). This dip on an annual basis was mainly driven by management, brokerage and advisory services, which in absolute terms declined by 98.2 million compared to 31 December 2017, primarily due to negative market trends seen during the second half of the year.

(thousands of euro)	2018	2017 (*)	Abs. change	Change %
Retail	1,495,546	1,596,855	(101,309)	(6.3%)
Corporate	201,433	192,342	9,091	4.7%
Institutional	31,406	32,911	(1,505)	(4.6%)
Private	84,639	77,320	7,319	9.5%
Investment Banking	29,614	30,492	(878)	(2.9%)
Leasing	7	6	1	16.7%
Corporate Centre	6,115	20,484	(14,369)	(70.1%)
Total	**1,848,760**	**1,950,410**	**(101,650)**	**(5.2%)**

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

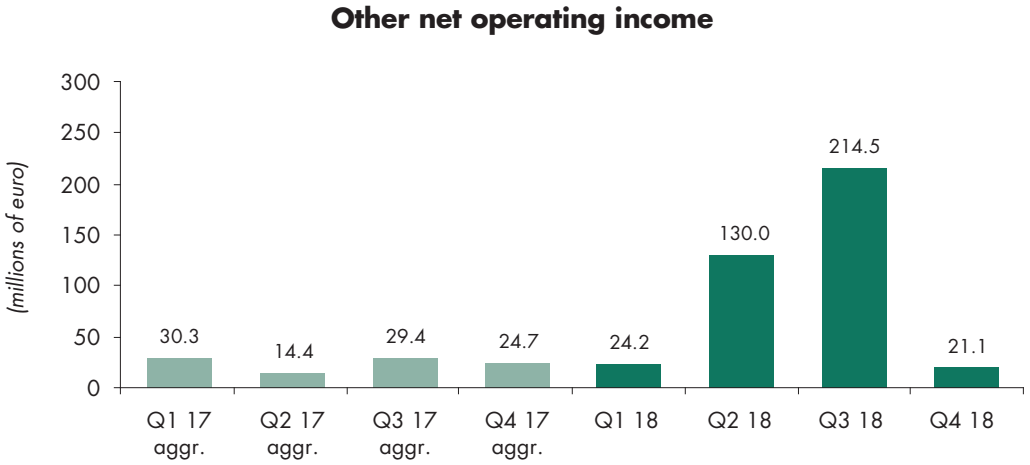


The decline seen in net fee and commission income compared to the previous year was mainly due to the decrease in placement of investment products. In fact, relative to these latter, lower placement of mutual funds had a significant impact, above all in the Retail sector (-108 million). Commissions on corporate finance rose (from 62 million to 84.8 million). Finally, we note the lower contribution from Corporate Center, due to the sale of custodian bank business in the third quarter of 2018.

Other net operating income

(thousands of euro)	2018	2017 (*)	Abs. change	Change %
Income on current accounts and loans	36,096	48,958	(12,862)	(26.3%)
Rents receivable	51,381	65,994	(14,613)	(22.1%)
Expenses on leased assets	(15,662)	(11,713)	(3,949)	33.7%
Other income and charges	360,068	41,927	318,141	758.8%
Subtotal	**431,883**	**145,166**	**286,717**	**197.5%**
Client relationship (PPA)	(42,112)	(46,349)	4,237	(9.1%)
Total	**389,771**	**98,817**	**290,954**	**294.4%**

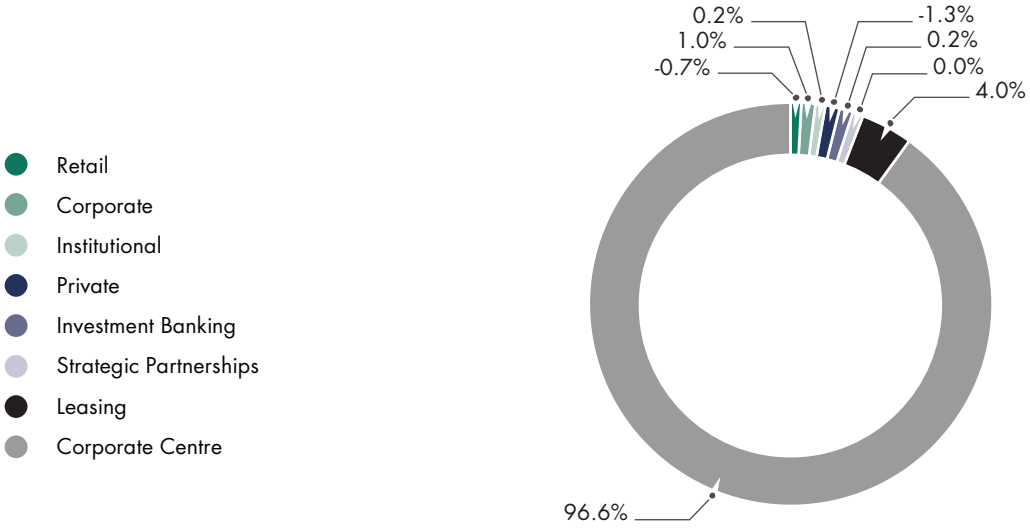
(*) The figures relating to the previous year have been restated to provide a like-for-like comparison.



Other net operating income totalled 389.8 million, including 313.6 million in capital gains generated by the sale to BNP Paribas Securities Services of the depositary bank and fund administration business line for 200.0 million, and the sale to Anima SGR for 113.6 million of the sub-advisory mandates of insurance assets carried out on behalf of the insurance joint-ventures tied to the bancassurance network of former Banco Popolare. Net of these components, the aggregate adds up to 76.1 million (98.8 million at 31 December 2017).

(thousands of euro)	2018	2017 (*)	Abs. change	Change %
Retail	(2,777)	3,640	(6,417)	
Corporate	688	815	(127)	(15.6%)
Institutional	3,990	2,287	1,703	74.5%
Private	(4,886)	(2,768)	(2,118)	76.5%
Investment Banking	879	567	312	55.0%
Leasing	15,418	21,452	(6,034)	(28.1%)
Corporate Centre	376,459	72,824	303,635	416.9%
Total	**389,771**	**98,817**	**290,954**	**294.4%**

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



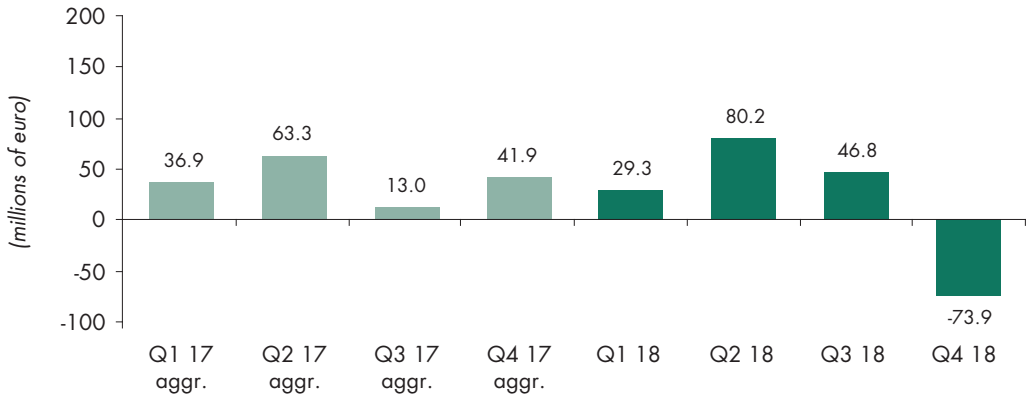
The significant increase seen in other net operating income (+291 million) is entirely due to the capital gains recorded by Corporate Center for the sale of custodian bank business and sub-advisory mandates of insurance assets (as illustrated above). The Retail segment declined due to the lower contributions from the fast enquiry fee (-12.8 million) and from the leasing business line, following the decrease seen in rents receivable (-7.4 million), following the sale of certain real estate assets.

Net financial result

(thousands of euro)	2018	2017 (*)	Abs. change	Change %
Profits (losses) on trading	(69,923)	50,355	(120,278)	
Gains/losses on the disposal of financial assets	150,331	74,726	75,605	101.2%
Dividends and similar income on financial assets	26,269	30,034	(3,765)	(12.5%)
Gains/Losses from repurchase of financial liabilities	(4,508)	(9,196)	4,688	(51.0%)
Fair value adjustments in hedge accounting	(2,657)	919	(3,576)	
Other income/expense	(17,152)	8,211	(25,363)	
Total	**82,360**	**155,049**	**(72,689)**	**(46.9%)**

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

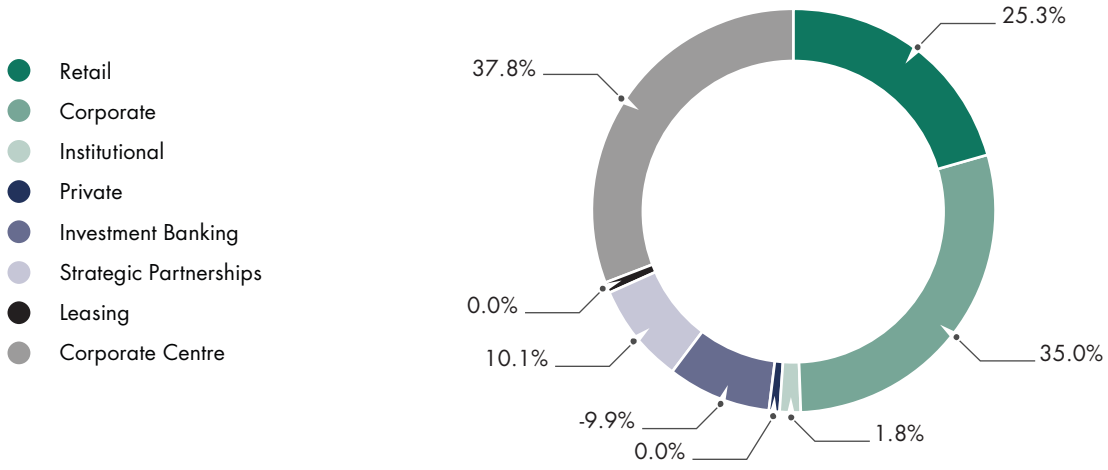
Net financial result



The **net financial result** was 82.4 million, compared to 155.0 million in the previous year. This result also takes into account the 27.9 million writedown of an indirect exposure relative to the investment made in the voluntary IDGF in order to support the project in favour of Carige, through the subscription of a subordinate security issued by the latter bank at the end of November 2018.
The lower result achieved derives, beyond greater volatility in certain valuation components following the introduction of IFRS 9 (instruments obligatorily designated at fair value), from the impacts of risk hedging strategies associated with exposures classified as assets designated at fair value through other comprehensive income.

(thousands of euro)	**2018**	**2017 (*)**	**Abs. change**	**Change %**
Retail	20,829	15,816	5,013	31.7%
Corporate	28,820	10,065	18,755	186.3%
Institutional	1,451	89	1,362	insignificant
Private	19	18	1	5.6%
Investment Banking	(8,188)	(1,901)	(6,287)	330.7%
Strategic partnerships	8,354	10,992	(2,638)	(24.0%)
Leasing	(16)	-	(16)	
Corporate Centre	31,091	119,970	(88,879)	(74.1%)
Total	**82,360**	**155,049**	**(72,689)**	**(46.9%)**

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

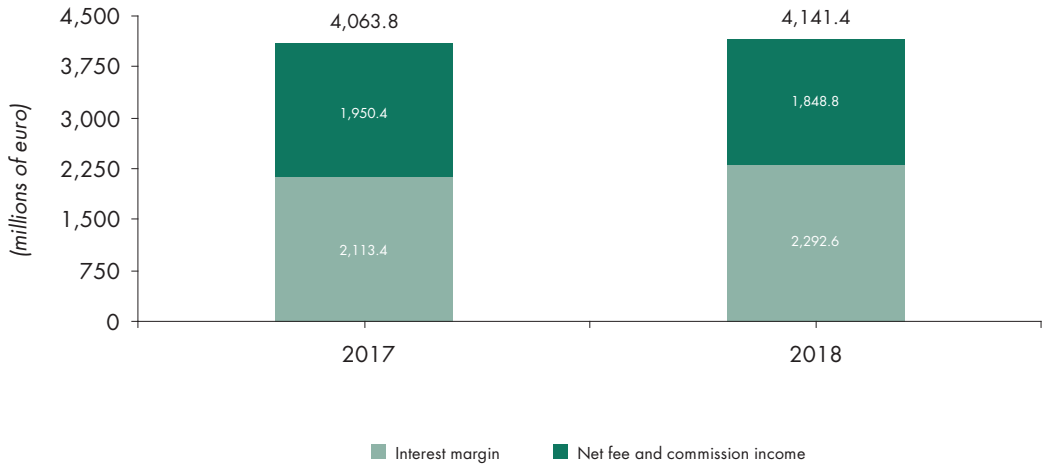


The significant decrease in the net financial result is mainly due to Corporate Center, which saw a decrease of 88.9 million, following lower contributions from the securities portfolio (-64 million) and from forex swap operations (-52.2 million), partially compensated for by the positive contribution made by valuation of certain equity investments

classified among other financial assets obligatorily designated at fair value. Also note the positive contribution from Corporate (+18.8 million), relative to the valuation of receivables that did not pass the SPPI test, introduced with the adoption of accounting standard IFRS 9.

As a result, total operating income totalled 4,772.9 million (+6.4% compared to 2017). Taking into account the cited non-recurring components, this figure is 4,487.2 million.

Core Banking Business



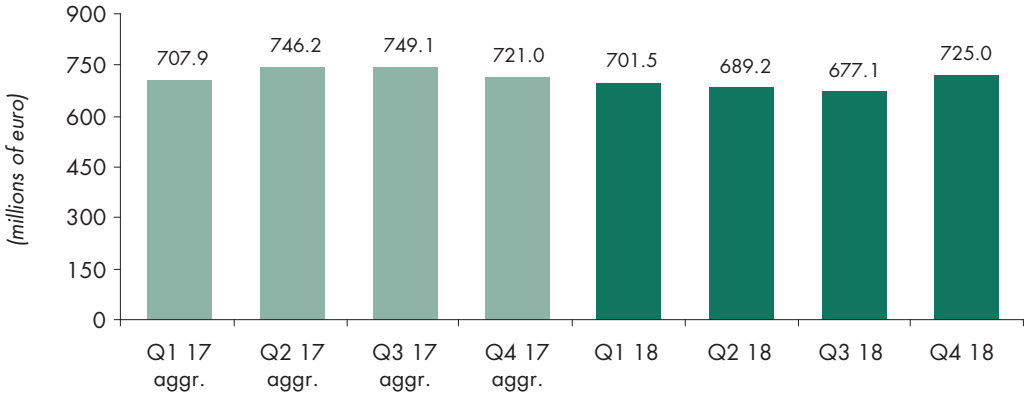
Taking only revenues from "core banking business" into account, represented by the sum of the aggregates relating to net interest income and net fee and commission income, 2018 reached 4,141.4 million, up by 1.9% with respect to the figure the previous year.

Operating expenses

(thousands of euro)	2018	2017 (*)	Abs. change	Change %
Personnel expenses	**(1,732,805)**	**(1,784,854)**	**52,049**	**(2.9%)**
- Early retirement incentives and solidarity funds		3,123	(3,123)	
- Other personnel expenses	(1,732,805)	(1,787,977)	55,172	(3.1%)
Other administrative expenses	**(816,478)**	**(872,355)**	**55,877**	**(6.4%)**
- Taxes and duties	(330,799)	(339,457)	8,658	(2.6%)
- Services and consulting	(337,777)	(399,372)	61,595	(15.4%)
- Real estate	(207,874)	(217,903)	10,029	(4.6%)
- Postal, telephone and stationery	(32,998)	(37,173)	4,175	(11.2%)
- Maintenance and fees for furniture, machines and systems	(59,467)	(63,560)	4,093	(6.4%)
- Advertising and entertainment	(16,313)	(22,138)	5,825	(26.3%)
- Other administrative expenses	(112,594)	(86,452)	(26,142)	30.2%
- Recoveries on expenses	281,344	293,700	(12,356)	(4.2%)
Value adjustments on property, plant and equipment and intangible assets	**(243,498)**	**(266,915)**	**23,417**	**(8.8%)**
- Value adjustments on property, plant and equipment	(110,958)	(114,943)	3,985	(3.5%)
- Value adjustments on intangible assets	(66,857)	(85,698)	18,841	(22.0%)
- Value adjustments on leasehold improvements	(17,775)	(13,751)	(4,024)	29.3%
- Net writedowns for impairment	(47,908)	(52,523)	4,615	(8.8%)
Total	**(2,792,781)**	**(2,924,124)**	**131,343**	**(4.5%)**

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

Operating expenses



Personnel expenses, totalling 1,732.8 million, show a 2.9% reduction with respect to the 1,784.9 million seen the previous year, with a contribution of 422.2 million in the fourth quarter, confirming the downward trend of the first three quarters of the year (431.5 million the third quarter figure). Personnel costs have been trending down as a result of the headcount reduction (- 1,016 resources compared to 31 December 2017). The total headcount was 22,247 employees at 31 December 2018, compared to 23,263 at the end of 2017 (24,608 at 31 December 2016).

Other administrative expenses[1] amounted to 816.5 million, down 6.4% compared to the figure the previous year. Excluding non-recurring items, at 31 December 2018 the figure was 793.8 million, down by 6.0% with respect to December 2017 (844.3 million), due to rigorous cost control. The fourth quarter of 2018 recorded administrative expenses of 205.7 million, including around 12.2 million of non-recurring charges deriving from the processes to integrate and rationalise the distribution structure.

Net value adjustments on property and equipment and investment property and intangible assets for the year amounted to 243.5 million euro, a decrease of 8.8% compared to 266.9 million euro at 31 December 2017, as a result of streamlining the Group's IT system. Adjustments in the fourth quarter totalled 97.1 million, including 51.2 million in extraordinary writedowns, mainly due to the adjustment of certain non-instrumental properties to the lower value identified in the most recent appraisals.

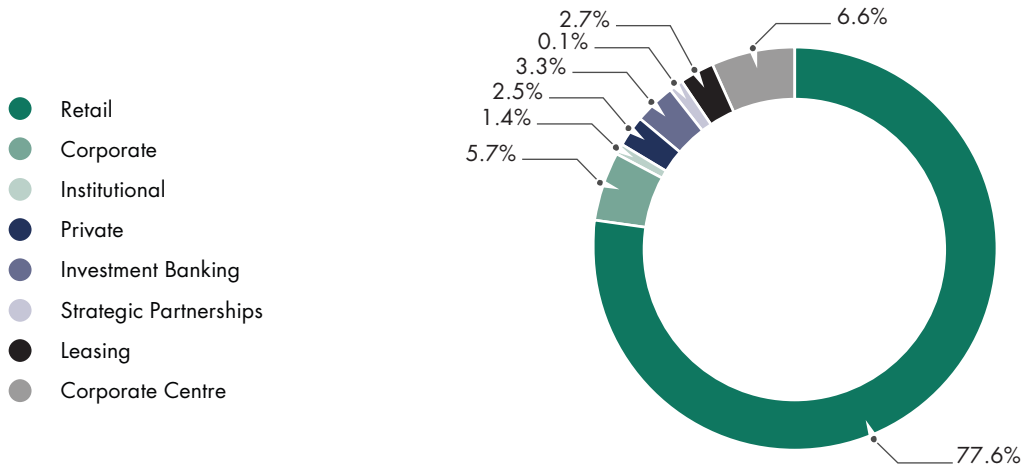
Total operating expenses, equal to 2,792.8 million, fell by 4.5% with respect to 2017. The fourth quarter figure, at 725.0 million, rose with respect to the third quarter, due to the non-recurring components indicated above.

Net of non-recurring components, operating expenses amounted to 2,717.4 million, showing a decrease of 4.5% with respect to the previous year's figure. Also at a quarterly level the figure net of non-recurring components was down by 1.6% with respect to the previous quarter.

(thousands of euro)	2018	2017 (*)	Abs. change	Change %
Retail	(2,167,785)	(2,170,875)	3,090	(0.1%)
Corporate	(159,803)	(132,010)	(27,793)	21.1%
Institutional	(39,344)	(36,861)	(2,483)	6.7%
Private	(69,747)	(74,021)	4,274	(5.8%)
Investment Banking	(93,162)	(89,593)	(3,569)	4.0%
Strategic partnerships	(2,558)	(2,506)	(52)	2.1%
Leasing	(74,811)	(70,758)	(4,053)	5.7%
Corporate Centre	(185,571)	(347,500)	161,929	(46.6%)
Total	**(2,792,781)**	**(2,924,124)**	131,343	(4.5%)

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

[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 line-item of the reclassified income statement, net of tax effect.



Operating expenses showed a significant decrease in personnel expenses (-52 million), above all in the Retail segment (-47.7 million) due to previous reductions in staff. Other administrative expenses, which fell to 816.5 million at the consolidated level, (-55.9 million compared to the previous year), showed an increase in the commercial network business line (Retail, Corporate and Institutional) as an effect of the new cost attribution methodology, which generated a benefit fro the central structures of Corporate Center.

Profit (loss) from operations

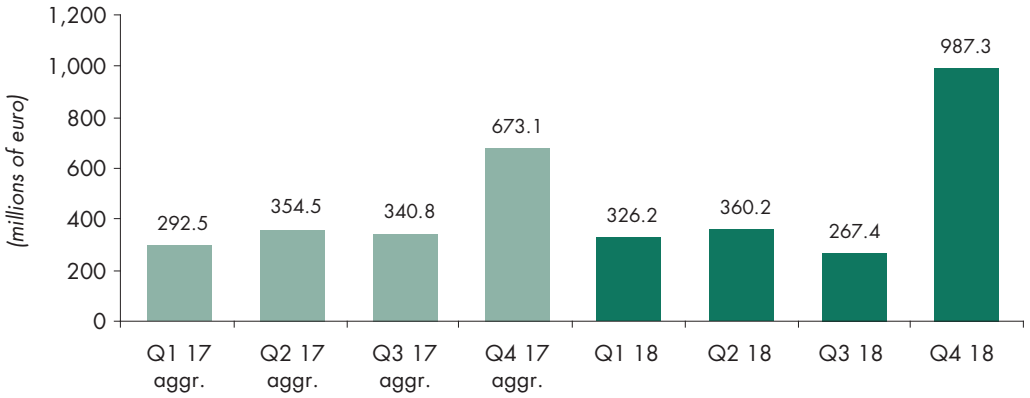
Income (loss) from operations therefore amounted to 1,980.1 million, an increase of 14.7% compared to the 1,559.6 million recorded in 2017. Net of non-recurring components, the aggregate amounted to 1,769.7 million, showing a decrease of 2.5% with respect to the previous year's figure.

Adjustments and provisions

(thousands of euro)	2018	2017 (*)	Abs. change	Change %
Net value adjustments on loans to customers	**(1,683,663)**	**(1,433,288)**	**(250,375)**	**17.5%**
Specific value adjustments: derecognitions	(140,010)	(181,195)	41,185	(22.7%)
Specific value adjustments: other	(2,747,946)	(2,238,763)	(509,183)	22.7%
Specific recoveries	1,222,016	921,652	300,364	32.6%
Net portfolio adjustments/recoveries	(17,723)	65,018	(82,741)	
Net adjustments on guarantees given		**1,329**		
Profits/(losses) on disposal of loans	**(257,453)**	**(229,004)**	**(28,449)**	**12.4%**
Total	**(1,941,116)**	**(1,660,963)**	**(280,153)**	**16.9%**

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

Net adjustments on loans to customers



Net adjustments on loans to customers amounted to 1,941.1 million (1,661.0 at 31 December 2017). This aggregate was also affected by the application of IFRS 9, due both to the new impairment model and for the above described reclassification relative to net interest income. Excluding these reclassifications, the figure relative to 31 December 2018 is 1,750.2 million (1,661.0 million in 2017).
The very significant disposal of loans noted above relative to the Exodus and ACE projects involved the recording of writedowns closely connected to the acceleration in the derisking process, meaning that these are not representative of ordinary management of impaired loans.
Net of these impacts, which can be quantified in the amount of 713.9 million, net writedowns totalled 1,227.2 million. In the fourth quarter of 2018, writedowns totalled 987.3 million. The normalised figure (net of the impacts associated with the ACE project) come to 327.4 million.
The cost of credit, obtained by the ratio between net writedowns on loans (excluding reclassifications introduced by standard IFRS 9), net of the extraordinary impacts introduced above, and net loans (including loans classified among assets held for sale), was equal to 98 basis points, compared to 154 [1]basis points the previous year.

Net adjustments on securities and other financial assets of 3.3 million were registered in the income statement for the year (at 31 December 2017, net writedowns of 140.2 million were recorded, including the impairment of the stake held in the Atlante Fund and other exposures with the Veneto banks, as well as the charges tied to the Voluntary Scheme interventions of the Interbank Deposit Guarantee Fund - Fondo Interbancario di Tutela dei Depositi).

Net other provisions for risks and charges amounted to 345.3 million and for the most part were represented (275.3 million) 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 claims, already received and expected, deriving from notification of customers interested in acquiring diamonds from the company Intermarket Diamond Business S.p.A., a company which was declared bankrupt by the Court of Milan on 10 January 2019. This item also includes the allocation of 46.2 million for foreseeable charges following the closure of 518 branches in the context of the reorganisation of the distribution network and the additional allocation against the decision to recalculate the conditions applied to customers regarding investigation fees and the granting of credit relative to previous years, based on metrics recently defined under more severe regulations and interpretative indications issued by the supervisory bodies (30.1 million). Finally, the item includes writebacks on allocations for commitments and guarantees for 12.2 million and other allocations of limited import.

During 2018, 173.4 million of **gains on disposal of equity and other investments** were reported, almost entirely tied to the impact of the Bancassurance business, with the sale to Cattolica Assicurazioni of the controlling interests in the two insurance companies Popolare Vita (now Vera Vita) and Avipop Assicurazioni (now Vera Assicurazioni).

As a result of trends described above, the **income (loss) before tax from continuing operations and system expenses** amounted to a loss of 129.7 million, compared to the 229.6 million loss recorded the previous year.

[1] This figure is not immediately comparable, as IFRS 9 has introduced a new model of impairment on receivables.

Other revenue and cost items

Income taxes for the year on continuing operations were positive at 162.8 million at 31 December 2018 (92.8 million at 31 December 2017) and included the impact of the recording of new deferred tax assets of 64.0 million as an effect of the changes introduced by the Budget Law relative to rules governing the deductibility of the impacts deriving from first time application of accounting standard IFRS 9.

100.2 million of **charges related to the banking system, net of taxes** were recognised in the income statement for the year (77.3 million the previous year), which include contributions to the Single Resolution Fund SRF amounting to 68.1 million gross (62.4 million gross at 31 December 2017), and to the Interbank Deposit Guarantee Fund for 45.2 million (44.5 million at 31 December 2017), plus the additional extraordinary contributions to the Single Resolution Fund amounting to 25.5 million gross, which were not incurred the previous year.

Considering the portion of the economic result attributable to minority interests (+9.6 million), the **net loss before impairment** came to -56.5 million, with respect to the net profit before badwill and impairment of 557.8 million achieved the previous year, mainly due to the sale of Aletti Gestielle SGR.

Impairment tests performed on goodwill and other intangibles at 31 December 2018 led to the recognition of writedowns on client relationships totalling 2.9 million after taxes. The previous year, writedowns totalling 1,017.6 million after taxes were recognised on goodwill and client relationships.

Therefore, 2018 ended with a **net loss** of -59.4 million. The previous year the badwill resulting after the completion of the PPA process, equal to 3,076.1 million, brought the net result to 2,616.4 million.

Excluding the non-recurring economic components outlined above in detail, the net "normalised" result is positive and equal to 342.8 million.

Consolidated balance sheet figures

Reclassified consolidated balance sheet

The following table compares the balance sheet at 31 December 2108 with the balances resulting from the financial statements at 31 December 2017 classified based on the new balance sheet aggregates introduced following the first time adoption of the IFRS 9 accounting standard.
A comparison is also provided with the balances at 1 January 2018, restated to take account of the first time adoption of the new IFRS 9 and IFRS 15 standards.
The annexes to the financial statements include a reconciliation schedule between the balances at 31 December 2017 and those at 1 January 2018.

(thousands of euro)	31/12/2018	01/01/2018	31/12/2017	Changes on 31/12/2017	
Cash and cash equivalents	922,017	976,686	976,686	(54,669)	(5.6)%
Loans measured at Amortised Cost	108,207,732	111,044,748	112,681,902	(4,474,170)	(4.0)%
- Loans to banks	4,193,119	4,936,507	4,939,223	(746,104)	(15.1)%
- Loans to customers	104,014,613	106,108,241	107,742,679	(3,728,066)	(3.5)%
Other financial assets and hedging derivatives	36,852,942	34,884,798	34,533,172	2,319,770	6.7%
- Designated at FV through Profit or Loss	5,869,106	6,417,083	5,184,586	684,520	13.2%
- Designated at FV through OCI	15,351,561	16,750,072	17,128,622	(1,777,061)	(10.4)%
- Designated at AC	15,632,275	11,717,643	12,219,964	3,412,311	27.9%
Equity investments	1,434,163	1,256,843	1,349,191	84,972	6.3%
Property, plant and equipment	2,775,885	2,735,182	2,735,182	40,703	1.5%
Intangible assets	1,277,941	1,297,160	1,297,160	(19,219)	(1.5)%
Tax assets	5,012,477	4,897,397	4,520,189	492,288	10.9%
Non-current assets and asset disposal groups held for sale	1,592,782	106,121	106,121	1,486,661	insignificant
Other assets	2,388,852	3,007,162	3,007,162	(618,310)	(20.6)%
Total assets	**160,464,791**	**160,206,097**	**161,206,765**	**(741,974)**	**(0.5)%**
Due to banks	31,633,541	27,199,304	27,199,304	4,434,237	16.3%
Direct funding	105,219,691	107,525,103	107,509,849	(2,290,158)	(2.1)%
- Due to customers	90,197,859	87,848,146	87,848,146	2,349,713	2.7%
- Securities and financial liabilities designated at FV	15,021,832	19,676,957	19,661,703	(4,639,871)	(23.6)%
Other financial liabilities designated at FV	7,228,829	8,704,348	8,707,966	(1,479,137)	(17.0)%
Liability provisions	1,704,866	1,617,312	1,580,461	124,405	7.9%
Tax liabilities	505,402	691,723	669,494	(164,092)	(24.5)%
Liabilities associated with asset disposal groups held for sale	3,043	35	35	3,008	insignificant
Other liabilities	3,864,345	3,576,116	3,576,116	288,229	8.1%
Total liabilities	**150,159,717**	**149,313,941**	**149,243,225**	**916,492**	**0.6%**
Minority interests	45,599	57,567	63,310	(17,711)	(28.0)%
Group shareholders' equity	10,259,475	10,834,589	11,900,230	(1,640,755)	(13.8)%
Consolidated shareholders' equity	**10,305,074**	**10,892,156**	**11,963,540**	**(1,658,466)**	**(13.9)%**
Total liabilities and shareholders' equity	**160,464,791**	**160,206,097**	**161,206,765**	**(741,974)**	**(0.5)%**

(*) 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").

Reclassified consolidated balance sheet – Quarterly changes

(thousands of euro)	31/12/2018	30/09/2018	30/06/2018	31/03/2018	01/01/2018	31/12/2017
Cash and cash equivalents	922,017	806,786	796,466	829,760	976,686	976,686
Loans measured at Amortised Cost	108,207,732	111,453,097	112,040,845	111,838,513	111,044,748	112,681,902
- Loans to banks	4,193,119	4,638,515	5,309,943	5,670,265	4,936,507	4,939,223
- Loans to customers (*)	104,014,613	106,814,582	106,730,902	106,168,248	106,108,241	107,742,679
Other financial assets and hedging derivatives	36,852,942	38,759,281	41,048,645	36,280,323	34,884,798	34,533,172
- Designated at FV through Profit or Loss	5,869,106	8,011,475	7,977,461	6,251,206	6,417,083	5,184,586
- Designated at FV through OCI	15,351,561	15,859,906	19,017,645	16,711,989	16,750,072	17,128,622
- Designated at AC	15,632,275	14,887,900	14,053,539	13,317,128	11,717,643	12,219,964
Equity investments	1,434,163	1,379,057	1,355,065	1,369,107	1,256,843	1,349,191
Property, plant and equipment	2,775,885	2,847,623	2,733,275	2,755,583	2,735,182	2,735,182
Intangible assets	1,277,941	1,284,797	1,295,196	1,303,925	1,297,160	1,297,160
Tax assets	5,012,477	4,849,728	4,903,767	4,852,396	4,897,397	4,520,189
Non-current assets and asset disposal groups held for sale	1,592,782	44,798	44,861	4,678	106,121	106,121
Other assets	2,388,852	2,459,139	2,810,958	3,018,459	3,007,162	3,007,162
Total assets	**160,464,791**	**163,884,306**	**167,029,078**	**162,252,744**	**160,206,097**	**161,206,765**
Due to banks	31,633,541	30,979,381	31,550,552	29,555,476	27,199,304	27,199,304
Direct funding	105,219,691	107,998,512	105,505,599	107,056,042	107,525,103	107,509,849
- Due to customers	90,197,859	91,339,533	87,659,619	88,683,413	87,848,146	87,848,146
- Securities and financial liabilities designated at FV	15,021,832	16,658,979	17,845,980	18,372,629	19,676,957	19,661,703
Other financial liabilities designated at FV	7,228,829	8,484,442	8,964,218	8,414,115	8,704,348	8,707,966
Liability provisions	1,704,866	1,553,204	1,532,028	1,562,694	1,617,312	1,580,461
Tax liabilities	505,402	564,107	606,246	663,282	691,723	669,494
Liabilities associated with asset disposal groups held for sale	3,043	-	4,212,805	53	35	35
Other liabilities	3,864,345	3,362,719	3,771,085	3,871,914	3,576,116	3,576,116
Total liabilities	**150,159,717**	**152,942,365**	**156,142,533**	**151,123,576**	**149,313,941**	**149,243,225**
Minority interests	45,599	52,210	52,510	54,857	57,567	63,310
Group shareholders' equity	10,259,475	10,889,731	10,834,035	11,074,311	10,834,589	11,900,230
Consolidated shareholders' equity	**10,305,074**	**10,941,941**	**10,886,545**	**11,129,168**	**10,892,156**	**11,963,540**
Total liabilities and shareholders' equity	**160,464,791**	**163,884,306**	**167,029,078**	**162,252,744**	**160,206,097**	**161,206,765**

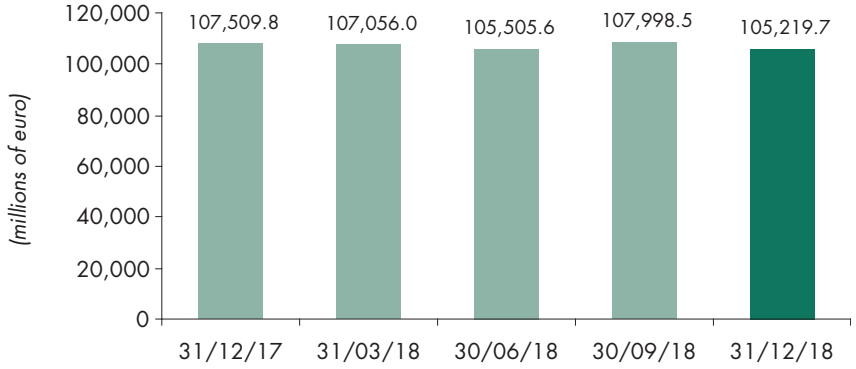
The changes in the main balance sheet items at 31 December 2018 are described below.

Loan brokering activities

Direct funding

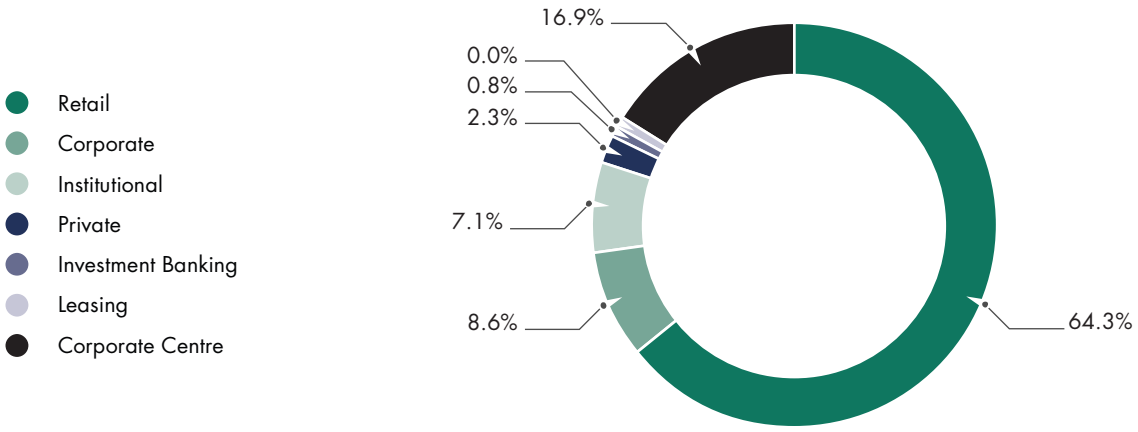
(thousands of euro)	31/12/2018	% impact	01/01/2018	% impact	31/12/2017	% impact	Changes on 31/12/2017	
Current accounts and deposits	**81,124,139**	**77.1%**	**80,988,958**	**75.3%**	**80,988,958**	**75.3%**	**135,181**	**0.2%**
- current accounts and demand deposits	78,713,896	74.8%	77,390,766	72.0%	77,390,766	72.0%	1,323,130	1.7%
- time deposits and other restricted current accounts	2,410,243	2.3%	3,598,192	3.3%	3,598,192	3.3%	(1,187,949)	(33.0%)
Securities	**15,021,832**	**14.3%**	**19,676,957**	**18.3%**	**19,661,703**	**18.3%**	**(4,639,871)**	**(23.6%)**
- bonds and liabilities designated at fair value	14,853,170	14.1%	18,909,917	17.6%	18,894,663	17.6%	(4,041,493)	(21.4%)
- certificates of deposit and other securities	168,662	0.2%	767,040	0.7%	767,040	0.7%	(598,378)	(78.0%)
Repurchase agreements	**7,110,267**	**6.8%**	**4,180,122**	**3.9%**	**4,180,122**	**3.9%**	**2,930,145**	**70.1%**
Loans and other payables	**1,963,453**	**1.9%**	**2,679,066**	**2.5%**	**2,679,066**	**2.5%**	**(715,613)**	**(26.7%)**
Total direct funding	**105,219,691**	**100.0%**	**107,525,103**	**100.0%**	**107,509,849**	**100.0%**	**(2,290,158)**	**(2.1%)**

Direct funding



As at 31 December 2018, **direct funding** totalled 105.2 billion euro, showing a decrease of 2.1% compared to the 107.5 billion euro as at 31 December 2017. The decrease seen during the year can mainly be attributed to the sale of custodian bank business at the end of September. More specifically, a positive trend was seen in the component representing current accounts and demand deposits, which grew by 1.3 billion (+1.7%), against the decrease in the bonds and certificates of deposit segment, which saw a reduction of 4.6 billion with respect to the beginning of the year (-23.6%).
This trend is in line with the policy aimed at a gradual reduction in the cost of funding thanks to a reduction in the most expensive forms of funding. Repurchase agreements with customers increased (+2.9 billion euro).
The aggregate does not include the stable funding guaranteed by the stock of certificates issued by the Group, which, as at 31 December 2018, was 3.4 billion euro, down compared to the figures at 31 December 2017, equal to 4.0 billion euro.

(thousands of euro)	31/12/2018	% impact	31/12/2017	% impact	Abs. change	Change %
Retail	67,696,786	64.3%	70,167,867	65.3%	(2,471,081)	(3.5%)
Corporate	9,045,237	8.6%	8,341,857	7.8%	703,380	8.4%
Institutional	7,474,794	7.1%	8,881,274	8.3%	(1,406,480)	(15.8%)
Private	2,438,999	2.3%	2,894,188	2.7%	(455,189)	(15.7%)
Investment Banking	826,764	0.8%	1,638,772	1.5%	(812,008)	(49.5%)
Leasing	5,369	0.0%	9,047	0.0%	(3,678)	(40.7%)
Corporate Centre	17,731,742	16.9%	15,576,844	14.5%	2,154,898	13.8%
Total direct funding	**105,219,691**	**100.0%**	**107,509,849**	**100.0%**	**(2,290,158)**	**(2.1%)**



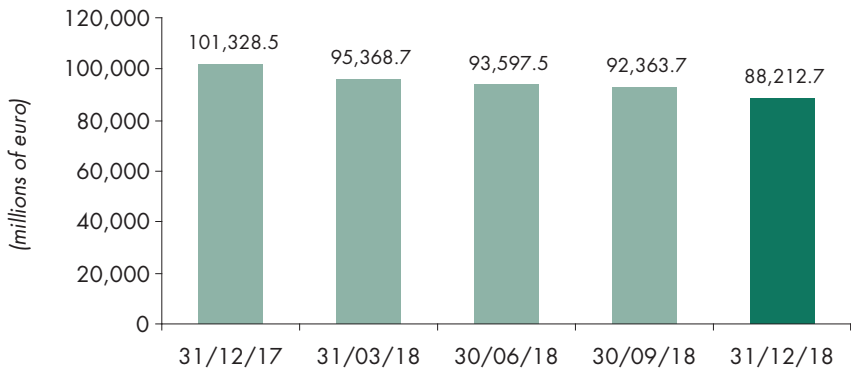
Total direct funding relative to the commercial network (Retail, Corporate, Institutional and Private) fell by around 4%, thanks to the decease seen in the Retail segment (-3.52% compared to the end of 2017), with restructuring

between time deposits and demand deposits. This adjustment made it possible to privilege demand deposit funding, reducing time deposits, and improving the funding cost profile. Bond loans also feel, due to the high availability of low cost funds provided by the ECB.
Direct funding for the Institutional segment also fell compared to the end of 2017, more so in the non-restricted components, in contrast to Corporate which saw a significant increase in that technical form. Funding associated with Corporate Center saw an increase, essentially due to an increase in operations with Cassa Compensazione e Garanzia.

Indirect funding

(thousands of euro)	31/12/2018	% impact	01/01/2018	% impact	31/12/2017	% impact	Changes on 31/12/2017	
Managed assets	**55,689,606**	**63.1%**	**60,545,187**	**59.8%**	**60,545,187**	**59.8%**	**(4,855,581)**	**(8.0%)**
mutual funds and SICAVs	35,992,009	40.8%	37,605,308	37.1%	37,605,308	37.1%	(1,613,299)	(4.3%)
securities and fund management	4,804,669	5.4%	6,941,119	6.9%	6,941,119	6.9%	(2,136,450)	(30.8%)
insurance policies	14,892,928	16.9%	15,998,760	15.8%	15,998,760	15.8%	(1,105,832)	(6.9%)
Administered assets	**32,523,095**	**36.9%**	**40,783,277**	**40.2%**	**40,783,277**	**40.2%**	**(8,260,182)**	**(20.3%)**
Total indirect funding	**88,212,701**	**100.0%**	**101,328,464**	**100.0%**	**101,328,464**	**100.0%**	**(13,115,763)**	**(12.9%)**

Indirect funding

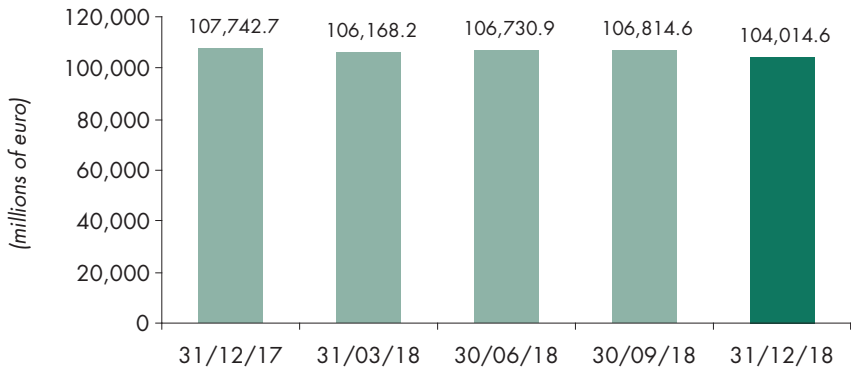


As at 31 December 2018, **indirect funding**, including certificates, totalled 88.2 billion euro, down compared to the 101.3 billion euro as at 31 December 2017.
More specifically, administered assets amounted to 32.5 billion euro, showing a decrease of 8.3 billion euro. The aggregate included the exit of an institutional customer in the first quarter, with administered assets amounting to 4.8 billion euro, with extremely low margins, and a decrease, starting with the second quarter, attributable mainly to the negative performance of markets, which affected the value of securities held in custody. Net of these effects, administered assets were on the rise both compared to the figure at the end of December 2017 (+1.7 billion), and with respect to last 30 September (+2.1 billion).
On the other hand, managed assets amounted to 55.7 billion euro, with a decrease of 8.0% compared to the 60.5 billion euro as at 31 December 2017, recorded mainly in portfolio management and insurance, partly due to the effect of the reorganisation that is under way in the sector. Excluding effects deriving from the decrease in market prices for financial assets, especially penalised in the fourth quarter, the aggregate for funding from mutual funds and SICAVs grew by 1.9 billion over the beginning of the year.

Loans to customers

(thousands of euro)	31/12/2018	% impact	31/12/2017	% impact	Abs. change	Change %
Mortgage loans	61,677,406	59.3%	62,663,514	58.2%	(986,108)	(1.6%)
Current accounts	12,198,635	11.7%	13,331,195	12.4%	(1,132,560)	(8.5%)
Repurchase agreements	6,233,274	6.0%	6,364,149	5.9%	(130,875)	(2.1%)
Financial leases	2,085,657	2.0%	2,620,811	2.4%	(535,154)	(20.4%)
Credit cards, personal loans and salary-backed loans	1,943,781	1.9%	2,099,943	1.9%	(156,162)	(7.4%)
Other transactions	18,447,246	17.7%	20,663,067	19.2%	(2,215,821)	(10.7%)
Senior securities relative to Project Exodus (GACS)	1,428,614	1.4%	-		1,428,614	
Total net loans to customers	**104,014,613**	**100.0%**	**107,742,679**	**100.0%**	**(3,728,066)**	**(3.5%)**

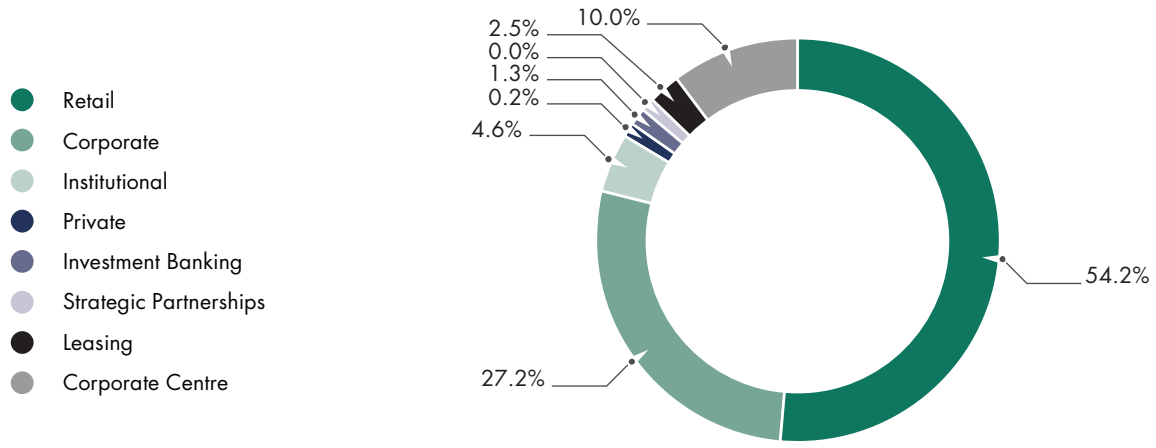
Net loans to customers



Net customer loans[1] came to 104.0 billion at 31 December 2018, down by 3.7 billion with respect to the figure at 31 December 2017, due to the disposal of NPLs carried out during the year and IFRS 9 adjustments mainly involving NPLs. The aggregate for performing loans rose by 1.1 billion (+1.2%) compared to 31 December 2017, also considering the effect of the senior securities subscribed as part of the Exodus project. Performing loans came to 97.3 billion, showing growth of 2.7% compared to 31 December 2017.

The amount of net bad loans sold as part of the ACE project (for which the requirements for accounting derecognition are not yet met as of the reporting date) is recognised under the item "non-current assets and groups of assets held for sale" in the amount of 1,330 million, in line with the sale price.

[1] The aggregate does not include customer loans which, following the adoption of IFRS 9, are mandatorily at fair value. These loans, amounting to € 294 million, are included in financial assets measured at fair value



(thousands of euro)	31/12/2018	% impact	31/12/2017	% impact	Abs. change	Change %
Retail	56,412,860	54.2%	57,946,312	53.8%	(1,533,452)	(2.6%)
Corporate	28,245,574	27.2%	26,676,180	24.8%	1,569,394	5.9%
Institutional	4,778,663	4.6%	5,423,612	5.0%	(644,949)	(11.9%)
Private	221,407	0.2%	219,600	0.2%	1,807	0.8%
Investment Banking	1,401,575	1.3%	1,556,011	1.4%	(154,436)	(9.9%)
Leasing	2,577,597	2.5%	3,244,333	3.0%	(666,736)	(20.6%)
Corporate Centre	10,376,937	10.0%	12,676,631	11.8%	(2,299,694)	(18.1%)
Total net loans	**104,014,613**	**100.0%**	**107,742,679**	**100.0%**	**(3,728,066)**	**(3.5%)**

The trend of active loans to customers (excluding debt securities) shows a restructuring between the Retail and Corporate segments. In particular, Corporate saw a significant increase in pool loans, balancing out the decrease in the Retail segment, where the Exodus and ACE loan disposal projects had a more significant effect. The Institutional segment also saw a decrease, in particular in short-term loans. The decrease recorded by Corporate Center is in large part due to the impact of IFRS 9, seen entirely in this segment.

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 budgetary consolidation", 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 differential 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 impaired loans immediately understandable.
Additionally, in order to provide more complete representation of the loans aggregate at 31 December 2018 and relative covering, the credit quality tables are also provided in a format that takes into account the loans which will be disposed of, mainly as part of the ACE project which is nearing completion, and recognised among assets held for sale in the accounts.
The ProFamily loans which will be sold to Agos are also included within the loans classified as assets held for sale.

Loans to customers at amortised cost

(thousands of euro)	31/12/2018		01/01/2018		31/12/2017		Change on 31/12/2017	
	Net exposure	% impact	Net exposure	% impact	Net exposure	% impact	ass.	%
Bad loans	1,591,446	1.5%	5,241,780	4.9%	6,487,624	6.0%	(4,896,178)	(75.5%)
Unlikely to pay	5,047,921	4.9%	6,272,729	5.9%	6,458,818	6.0%	(1,410,897)	(21.8%)
Past due - non-performing	87,535	0.1%	80,425	0.1%	80,425	0.1%	7,110	8.8%
Non-performing loans	**6,726,902**	**6.5%**	**11,594,934**	**10.9%**	**13,026,867**	**12.1%**	**(6,299,965)**	**(48.4%)**
Performing loans	95,859,097	92.2%	94,513,307	89.1%	94,715,812	87.9%	1,143,285	1.2%
Senior securities relative to Project Exodus (GACS)	1,428,614	1.4%	-	-	-	-	1,428,614	
Performing loans	**97,287,711**	**93.5%**	**94,513,307**	**89.1%**	**94,715,812**	**87.9%**	**2,571,899**	2.7%
Total loans to customers	**104,014,613**	**100.0%**	**106,108,241**	**100.0%**	**107,742,679**	**100.0%**	**(3,728,066)**	**(3.5%)**

Loans to customers at amortised cost including loans held for sale

(thousands of euro)	31/12/2018		01/01/2018		31/12/2017		Change on 31/12/2017	
	Net exposure	% impact	Net exposure	% impact	Net exposure	% impact	ass.	%
Bad loans	2,921,446	2.8%	5,241,780	4.9%	6,487,624	6.0%	(3,566,178)	(55.0%)
Unlikely to pay	5,048,085	4.8%	6,272,729	5.9%	6,458,818	6.0%	(1,410,733)	(21.8%)
Past due - non-performing	88,197	0.1%	80,425	0.1%	80,425	0.1%	7,772	9.7%
Non-performing loans	**8,057,728**	**7.6%**	**11,594,934**	**10.9%**	**13,026,867**	**12.1%**	**(4,969,139)**	**(38.1%)**
Performing loans	96,104,430	91.0%	94,513,307	89.1%	94,715,812	87.9%	1,388,618	1.5%
Senior securities relative to Project Exodus (GACS)	1,428,614	1.4%	-	-	-	-	1,428,614	
Performing loans	**97,533,044**	**92.4%**	**94,513,307**	**89.1%**	**94,715,812**	**87.9%**	**2,817,232**	**3.0%**
Total loans to customers	**105,590,772**	**100.0%**	**106,108,241**	**100.0%**	**107,742,679**	**100.0%**	**(2,151,907)**	**(2.0%)**

Loans to customers at amortised cost

(thousands of euro)	31/12/2018				31/12/2017				Change in gross exposure	Change in gross exposure %	Change in total value adjustments
	Gross exposure	Total value adjustments	Net exposure	Coverage	Gross exposure	Total value adjustments	Net exposure	Coverage			
Bad loans	3,939,378	(2,347,932)	1,591,446	59.6%	15,793,632	(9,306,008)	6,487,624	58.9%	(11,854,254)	(75.1%)	(6,958,076)
Unlikely to pay	7,768,401	(2,720,480)	5,047,921	35.0%	9,545,664	(3,086,846)	6,458,818	32.3%	(1,777,263)	(18.6%)	(366,366)
Past due - non-performing	106,101	(18,566)	87,535	17.5%	95,394	(14,969)	80,425	15.7%	10,707	11.2%	3,597
Non-performing loans	**11,813,880**	**(5,086,978)**	**6,726,902**	**43.1%**	**25,434,690**	**(12,407,823)**	**13,026,867**	**48.8%**	**(13,620,810)**	**(53.6%)**	**(7,320,845)**
of which: forborne	*4,905,846*	*(1,709,364)*	*3,196,482*		*7,225,055*	*(2,538,408)*	*4,686,647*		(2,319,209)	(32.1%)	(829,044)
Performing loans (*)	**97,658,906**	**(371,195)**	**97,287,711**	**0.4%**	**95,018,344**	**(302,532)**	**94,715,812**	**0.3%**	**2,640,562**	**2.8%**	**68,663**
of which: first stage	*90,439,344*	*(120,408)*	*90,318,936*	*0.1%*							
of which: second stage	*7,219,562*	*(250,787)*	*6,968,775*	*3.5%*							
of which: forborne	*2,059,326*	*(68,621)*	*1,990,705*		*2,430,545*	*(30,715)*	*2,399,830*		(371,219)	(15.3%)	37,906
Total loans to customers	**109,472,786**	**(5,458,173)**	**104,014,613**	**5.0%**	**120,453,034**	**(12,710,355)**	**107,742,679**	**10.6%**	**(10,980,248)**	**(9.1%)**	**(7,252,182)**

(*) Includes senior securities related to Project Exodus for 1,428.6 million euro (1,430.2 million euro of gross exposure and 1.6 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 Project Exodus, which included the disposal of bad loans for approximately 5 billion euro gross.
Without considering this reclassification, the net amount indicated corresponds to the item "Loans" reported in table 4.2 of the Consolidated Notes, Part B, Consolidated Balance Sheet Disclosure, "Financial assets designated at amortised cost: breakdown by product for loans to customers".

Net non-performing exposures (bad loans, unlikely-to-pay and past dues) at 31 December 2018 totalled 6.7 billion, down both with respect to last 30 September (-26.3%) and to 31 December 2017 (-6.3 billion, -48.4%). The decrease in the aggregate derives from the disposal operations carried out during the year, as well as the application of IFRS 9, which led to additional bad loan write-downs, and by constant and significant work-out activities.

An analysis of the individual items shows the following changes:

- net bad loans totalling 1.6 billion, down by 75.5% with respect to 31 December 2017, and by 54.9% with respect to 30 September (also due to the effects of the adjustments made to the loans included in the ACE project);
- net unlikely to pay loans of 5.0 billion, down by 21.8% compared to 31 December 2017, and by 8.3% compared to 30 September 2018;
- net past due loans of 88 million, showing not significant changes with respect to 31 December 2017 (+ 7 million) and last 30 September (- 6 million).

The coverage rate for the entire impaired loans aggregate was 43.1%, compared to 48.8% at 31 December 2017, due to the sales.

More specifically, at 31 December 2018, the coverage rate was as follows:

- bad loans 59.6% (58.9% at 31 December 2017 and 65.0% at 30 September 2018); considering also the loans subject to disposal as part of the ACE project, the coverage ratio increases to 71.1%;
- Unlikely-to-pay 35.0% (32.3% at 31 December 2017 and 33.6% at 30 September 2018);
- Past due 17.5% (15.7% at 31 December 2017 and 17.7% at 30 September 2018).

The coverage ratio of performing loans came out at 0.38%, up compared to 0.32% at 31 December 2017, and stable compared to last 30 September (0.39%). Net of repo transactions, which are practically risk-free, the performing loans coverage ratio goes up to 0.41% (0.34% at 31 December 2017 and 0,41% at the end of September 2018). The increase in hedging is mainly due to the adoption of the new impairment model provided for by IFRS 9.

Loans to customers at amortised cost including loans held for sale

(thousands of euro)	31/12/2018				31/12/2017				Change in gross exposure	Change in gross exposure %	Change in total value adjustments
	Gross exposure	Total value adjustments	Net exposure	Coverage	Gross exposure	Total value adjustments	Net exposure	Coverage			
Bad loans	10,095,063	(7,173,617)	2,921,446	71.1%	15,793,632	(9,306,008)	6,487,624	58.9%	(5,698,569)	(36.1%)	(2,132,391)
Unlikely to pay	7,768,837	(2,720,752)	5,048,085	35.0%	9,545,664	(3,086,846)	6,458,818	32.3%	(1,776,827)	(18.6%)	(366,094)
Past due - non-performing	107,064	(18,867)	88,197	17.6%	95,394	(14,969)	80,425	15.7%	11,670	12.2%	3,898
Non-performing loans	**17,970,964**	**(9,913,236)**	**8,057,728**	**55.2%**	**25,434,690**	**(12,407,823)**	**13,026,867**	**48.8%**	**(7,463,726)**	**(29.34%)**	**(2,494,587)**
Performing loans (*)	97,904,946	(371,902)	97,533,044	0.4%	95,018,344	(302,532)	94,715,812	0.3%	2,886,602	3.04%	69,370
Total loans to customers	**115,875,910**	**(10,285,138)**	**105,590,772**	**8.9%**	**120,453,034**	**(12,710,355)**	**107,742,679**	**10.6%**	**(4,577,124)**	**(3.80%)**	**(2,425,217)**

Financial assets

(thousands of euro)	31/12/2018	% impact	01/01/2018	% impact	31/12/2017	% impact	Changes on 31/12/2017	
Debt securities (*)	32,877,292	89.2%	30,273,551	86.8%	30,229,949	87.5%	2,647,343	8.8%
Equity instruments	1,320,031	3.6%	1,687,056	4.8%	1,687,056	4.9%	(367,025)	(21.8%)
UCIT units	492,425	1.3%	467,109	1.3%	467,109	1.4%	25,316	5.4%
Total securities portfolio	**34,689,748**	**94.1%**	**32,427,716**	**93.0%**	**32,384,114**	**93.8%**	**2,305,634**	**7.1%**
Derivative trading and hedging instruments	1,868,793	5.1%	2,149,058	6.2%	2,149,058	6.2%	(280,265)	(13.0%)
Loans	294,401	0.8%	308,024	0.9%	-	0.0%	294,401	
Total financial assets	**36,852,942**	**100.0%**	**34,884,798**	**100.0%**	**34,533,172**	**100.0%**	**2,319,770**	**6.7%**

(*) 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 amount to 36.9 billion euro, an increase of 6.7% compared to 34.5 billion euro as at 31 December 2017. This aggregate includes debt securities amounting to 32.9 billion euro, equity securities and UCIT units amounting to 1.8 billion euro and the fair value of derivatives amounting to 1.9 billion euro; furthermore, following the introduction of IFRS 9, financial assets (equalling 0.3 billion euro) also include loans mandatorily at fair value.
The overall increase compared to the end of 2017 was driven by the increase in debt securities classified under the "Hold to Collect" (+3.4 billion). Government bonds totalled 27.5 billion (+ 2.3 billion compared to 31 December 2017). In this area diversification continued, with the impact of Italian government securities falling to 64.1% of total government securities, compared to 82.1% in December 2017, with a significant decline in those classified as HTCS (- 1.2 billion). The worsening of the Italian government securities spread caused the reduction in total gross reserves on debt securities held in the Hold to Collect & Sell portfolio, from € 165 million reported at 31 December 2017 to - € 196.5 million at 31 December 2018.

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

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

(thousands of euro)	31/12/2018	% impact	01/01/2018	% impact	31/12/2017	% impact	Changes on 31/12/2017	
Debt securities	2,390,289	40.7%	2,565,169	40.0%	2,293,323	44.2%	96,966	4.2%
Equity instruments	823,198	14.0%	927,723	14.5%	275,096	5.3%	548,102	199.2%
UCIT units	492,425	8.4%	467,109	7.3%	467,109	9.0%	25,316	5.4%
Total securities portfolio	**3,705,912**	**63.1%**	**3,960,001**	**61.7%**	**3,035,528**	**58.5%**	**670,384**	**22.1%**
Financial and lending derivatives	1,868,793	31.8%	2,149,058	33.5%	2,149,058	41.5%	(280,265)	(13.0%)
Loans	294,401	5.0%	308,024	4.8%	-	0.0%	294,401	
Overall total	**5,869,106**	**100.0%**	**6,417,083**	**100.0%**	**5,184,586**	**100.0%**	**684,520**	**13.2%**

Financial assets designated at fair value through other comprehensive income

(thousands of euro)	31/12/2018	% impact	01/01/2018	% impact	31/12/2017	% impact	Changes on 31/12/2017	
Debt securities	14,854,728	96.8%	15,990,739	95.5%	15,716,662	91.8%	(861,934)	(5.5%)
Equity instruments	496,833	3.2%	759,333	4.5%	1,411,960	8.2%	(915,127)	(64.8%)
Total	**15,351,561**	**100.0%**	**16,750,072**	**100.0%**	**17,128,622**	**100.0%**	**(1,777,061)**	**(10.4%)**

Financial assets designated at amortised cost

(thousands of euro)	31/12/2018	% impact	01/01/2018	% impact	31/12/2017	% impact	Changes on 31/12/2017	
Debt securities (*)	15,632,275	100.0%	11,717,643	100.0%	12,219,964	100.0%	3,412,311	27.9%
Total	**15,632,275**	**100.0%**	**11,717,643**	**100.0%**	**12,219,964**	**100.0%**	**3,412,311**	**27.9%**

(*) 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

During 2018, Italian sovereign risk was put again under the spotlight by the European financial markets. The period began positively: the satisfactory structure of the stock markets at the global level and continuing growth in the main developed economies, including in Italy, favoured moderate optimism. However, the results of the elections on 4 March did not immediately give rise to a majority government, increasing the tensions that had already arisen as the elections grew near, in the light of the expansionist programmes for public spending presented by some of the parties. The agreement subsequently reached between the Northern League and the Five Star Movement in the form of a "government contract" made it possible, after a difficult period regarding the appointment of the Minister of the Treasury, for the selection of Giuseppe Conte as Prime Minister, on 31 May. During this period, the spread between the 10 year BTP and Bund reached 250 basis points (against 153 basis points at the beginning of the year and 114 on 24 April). However, in the weeks that followed, partly due to the active supervision of the ECB, tensions eased somewhat, limiting contagion effects on the European sovereign debt market, in terms of both intensity and time.
Nonetheless, after the summer tensions regarding returns on Italian government securities once again appeared. In fact, the new government had declared repeatedly its desire to use an increase in public debt to finance the two symbol planks of their electoral campaigns: the introduction of a "100" mechanism (representing the sum of years of contribution and biological age for pensioners) to overcome the Fornero Law, and the "citizen's income", a measure to support the incomes of less-well off citizens.
At the end of the period, market worries were further justified by the publication of an update to the 2018 Economy and Finance Document (DEF) which foresaw a deficit/GDP ratio of 2.4% in 2019 (the previous objective was 0.8%), only slightly lower in the subsequent two years, as well as an 0.8% increase in the structural deficit of GDP the first year, in contrast to a commitment to a 0.6% reduction in GDP. The document was not positively received by the Budget Office, nor was the subsequent OECD document, and the spread reached 300 basis points at the beginning of October.
In mid-October, after the approval of the text of the project by the Council of Ministers, the Minister of the Treasury received a letter from the Commission which defined the provision's deviation from EU rules as "unprecedented". In fact, on 23 October the European Commission rejected the Italian plan, proposing the infraction procedure and requesting, as an alternative, that amendments be made to the plan, to be presented within three weeks. At this point the government began serious and intense negotiations with the European authorities. During this phase, and until the beginning of the negotiations, the BTP/Bund spread reached the maximum for the year, at around 329 basis points, with returns on Italian ten-year bonds exceeding 3.6% at times.
Finally, on 19 December an agreement with the European authorities was reached, which foresaw a deficit/GDP ratio of 2.04% for 2019, with the hypothesis of a 1.0% increase in GDP. The revised Budget Law was brought to the Parliament and definitively approved on 30 December.
The BTP/Bund spread ended the year at around 260 basis points, a level that is still high in historic terms. However, in contrast to that which occurred in 2011, the turbulence originating relative to Italian sovereign risk did not create significant contagion relative to the securities of other Eurozone countries with weak public finance, even in the second half of 2018, when the tensions became more severe. The ten-year Bonos-Bund spread, which during the year had reached a maximum of 135 basis points, in fact was around 131 basis points at the time of the highest tension for the BTP/Bund spread, a high level but lower than the maximum and less than half of that for the Italian security. The spread between Greek securities and the ten-year Bund, while still reflecting during the peak phases some measure of the tensions transmitted by the Italian crisis, it also saw relatively tranquil performance, oscillating between 489 - 353 basis points, lower than the amplitude seen in the BTP/Bund (329 - 114 basis points).

The Group's total exposure in sovereign debt securities as at 31 December 2018 was euro 27,533.6 million, and is provided below, broken down by country (in thousands of euro):

Countries	Debt securities	of which Parent Group
Italy	17,650,778	17,057,921
Spain	1,553,055	1,553,055
Ireland	19,908	19,908
Germany	954,990	954,989
France	3,179,563	3,179,563
Austria	140,215	140,215
Other EU countries	178,613	178,610
Total EU Countries	**23,677,122**	**23,084,261**
USA	3,856,397	3,856,393
Argentina	87	87
Total other countries	**3,856,484**	**3,856,480**
Total	**27,533,606**	**26,940,741**

Exposure is mainly concentrated within the parent company which at 31 December held a total of 26,940.4 million, mostly relative to Italian government securities.

Investments in sovereign debt securities with EU countries are classified in the portfolio of financial assets at fair value through profit or loss for approximately 3%, in the portfolio of financial assets at fair value through other comprehensive income for 43%, and the remaining 54% is classified in the segment of financial assets designated at amortised cost.
The tables below provide more detailed information about the breakdown by accounting portfolio, residual life brackets and fair value hierarchy.

Financial assets designated at fair value through profit and loss:

Country	Maturity date within 2019	Maturity from 2019 to 2023	Maturity from 2023 to 2028	Maturity date after 2028	Total fair value as at 31/12/2018	Total fair value by hierarchy		
						LEVEL 1	LEVEL 2	LEVEL 3
Italy	161,401	432,833	157,536	16	751,786	751,784	-	2
Greece	-	-	-	1	1	1	-	-
Germany				2	2	2		-
Other EU countries	2	1	-	-	3	3	-	-
Total	**161,403**	**432,834**	**157,536**	**19**	**751,792**	**751,790**	**-**	**2**
of which parent company		368,618	157,531	3	526,152	526,150		2

Financial assets designated at fair value through other comprehensive income

Country	Maturing by 2019	Matures between 2019 and 2023	Matures between 2023 and 2028	Matures beyond 2028	Total fair value as at 31/12/2018	Net Reserve FVTOCI	Value adjustments	Total fair value by hierarchy		
								LEVEL 1	LEVEL 2	LEVEL 3
Italy	1,419,829	3,663,581	1,479,274	-	6,562,684	(102,901)	-	6,562,684	-	-
Spain	-	50,111	859,499	-	909,610	(4,943)	-	909,610	-	-
France	-	-	2,097,043	-	2,097,043	(3,715)	-	2,097,043	-	-
Germany			576,139	-	576,139	7,679		576,139		
Other EU countries	-	-	50,344	-	50,344	(260)	-	50,344	-	-
Total	**1,419,829**	**3,713,692**	**5,062,299**	**-**	**10,195,820**	**(104,140)**	**-**	**10,195,820**	**-**	**-**
of which parent company	1,419,829	3,346,472	5,062,299	-	9,828,600	(97,825)		9,828,600	-	

Financial assets designated at amortised cost

Country	Maturity date within 2019	Maturity date from 2019 to 2023	Maturity date from 2023 to 2028	Maturity date after 2028	Total book value at 31/12/2018	Total fair value	Total fair value by hierarchy		
							LEVEL 1	LEVEL 2	LEVEL 3
Italy	-	5,001,923	5,334,385	-	10,336,308	10,164,304	10,164,304	-	-
Spain	-	149,091	494,354	-	643,445	646,039	646,039	-	-
France	-	-	1,082,520	-	1,082,520	1,087,475	1,087,475	-	-
Ireland	-	-	19,908	-	19,908	20,106	20,106	-	-
Germany			378,849	-	378,849	388,284	388,284		
Other EU countries	-	-	268,481	-	268,481	272,139	272,139	-	-
Total	**-**	**5,151,014**	**7,578,497**	**-**	**12,729,511**	**12,578,347**	**12,578,347**	**-**	**-**
of which parent company	-	5,151,013	7,578,495	-	12,729,508	12,578,343	12,578,343	-	-

Net Interbank Position

Due from banks

(thousands of euro)	31/12/2018	% impact	01/01/2018	% impact	31/12/2017	% impact	Changes on 31/12/2017	
Due from central banks	**575,536**	**13.7%**	**2,001,231**	**40.5%**	**2,001,231**	**40.5%**	**(1,425,695)**	**(71.2%)**
Due from other banks	**3,617,583**	**86.3%**	**2,935,276**	**59.5%**	**2,937,992**	**59.5%**	**679,591**	**23.1%**
Current accounts and demand deposits	1,094,490	26.1%	979,528	19.8%	979,528	19.8%	114,962	11.7%
Fixed-term deposits	129,295	3.1%	208,181	4.2%	208,181	4.2%	(78,886)	(37.9%)
Repurchase agreements	758,169	18.1%	94,612	1.9%	94,612	1.9%	663,557	701.3%
Other loans	1,635,629	39.0%	1,652,955	33.5%	1,655,671	33.5%	(20,042)	(1.2%)
Total loans (A)	**4,193,119**	**100.0%**	**4,936,507**	**100.0%**	**4,939,223**	**100.0%**	**(746,104)**	**(15.1%)**

Due to banks

(thousands of euro)	31/12/2018	% impact	01/01/2018	% impact	31/12/2017	% impact	Changes on 31/12/2017	
Due to central banks	**21,289,947**	**67.3%**	**21,383,001**	**78.6%**	**21,383,001**	**78.6%**	**(93,054)**	**(0.4%)**
Refinancing operations (TLTRO2)	21,237,501	67.1%	21,346,369	78.5%	21,346,369	78.5%	(108,868)	(0.5%)
Other payables	52,446	0.2%	36,632	0.1%	36,632	0.1%	15,814	43.2%
Due to other banks	**10,343,594**	**32.7%**	**5,816,303**	**21.4%**	**5,816,303**	**21.4%**	**4,527,291**	**77.8%**
Current accounts and demand deposits	877,462	2.8%	594,482	2.2%	594,482	2.2%	282,980	47.6%
Fixed-term deposits	158,955	0.5%	187,645	0.7%	187,645	0.7%	(28,690)	(15.3%)
Repurchase agreements	8,194,818	25.9%	3,534,794	13.0%	3,534,794	13.0%	4,660,024	131.8%
Other payables	1,112,359	3.5%	1,499,382	5.5%	1,499,382	5.5%	(387,023)	(25.8%)
Total payables (B)	**31,633,541**	**100.0%**	**27,199,304**	**100.0%**	**27,199,304**	**100.0%**	**4,434,237**	**16.3%**
Mismatch loans/payables (A) - (B)	**(27,440,422)**		**(22,262,797)**		**(22,260,081)**		**(5,180,341)**	**23.3%**
Due to central banks: refinancing operations	(21,237,501)		(21,346,369)		(21,346,369)		108,868	(0.5%)
Interbank balance (excl. refinancing operations)	(6,202,921)		(916,428)		(913,712)		(5,289,209)	578.9%
Mismatch towards central banks (excl. refinancing operations)	523,090		1,964,599		1,964,599		(1,441,509)	(73.4%)
Interbank balance towards other banks	(6,726,011)		(2,881,027)		(2,878,311)		(3,847,700)	133.7%

Net interbank exposure as at 31 December 2018 amounted to 27,440.4 million, compared to the balance of 22,260.1 million at the end of last year.
ECB exposure amounted to 21.2 billion, entirely consisting of TLTRO operations.
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 euro -6,726.0 million (euro -2,878.3 million 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 2018 amounted to 1,434.1 million euro, compared with 1,349.2 million euro as at 31 December 2017.

The changes recorded during the year also include the impact resulting from the valuation of investments in associated companies using the equity approach, relating to the share of the results recorded by the same in the period (+159.5 million); the effects of the reduction of capital of Agos Ducato (-86.6 million), Vera Vita (-112.2 million), Vera Assicurazioni (-10.6 million), Bipiemme Vita (-3.5 million), Factorit (-2.3 million) and Etica SGR (-0.6 million) following the distribution of dividends; as well as changes attributable to the Group in the reserves of these associated companies, relating to the FTA reserves relating to the impact of the introduction of IFRS 9 (-92.3 million) and valuation reserves and other reserves (-11.6 million).

Regarding the streamlining process of the Bancassurance sector, in March the purchase of 50% of Avipop Assicurazioni and Popolare Vita was completed, amounting to a total value of 803.4 million euro.

On the same date, the sale of 65% of the share capital of the same subsidiaries was completed for the amount, net of costs to sell, of 809 million euro, with a total economic effect of 170.7 million euro.
As at 31 December 2017, the interests held in the two companies were classified as 35% under "investments in associates and companies subject to joint control" and the remainder (15% of Popolare Vita and 14.999% of Avipop Assicurazioni, for a total of 78.8 million euro) under "Non-current assets and asset disposal groups held for sale".

Property and equipment

(thousands of euro)	31/12/2018	01/01/2018	31/12/2017	Changes on 31/12/2017	
Property and equipment used in operations	**1,382,900**	**1,477,320**	**1,477,320**	**(94,420)**	**(6.4%)**
Property and equipment held for investment purposes	**1,392,985**	**1,257,862**	**1,257,862**	**135,123**	**10.7%**
- held by Release	825,880	708,130	708,130	117,750	16.6%
- held by other Group companies	567,105	549,732	549,732	17,373	3.2%
Total property and equipment (item 90)	**2,775,885**	**2,735,182**	**2,735,182**	**40,703**	**1.5%**
Property and equipment held for sale (item 120)	**9,396**	**27,223**	**27,223**	**(17,827)**	**(65.5%)**
Total property and equipment	**2,785,281**	**2,762,405**	**2,762,405**	**22,876**	**0.8%**

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

Property, plant and equipment for functional use *(€/thousands)*	**31/12/2018**	**01/01/2018**	**31/12/2017**
1. Owned assets	**1,382,646**	**1,477,052**	**1,477,052**
- land	451,847	469,996	469,996
- buildings	789,029	843,225	843,225
- other	141,770	163,831	163,831
2. Assets acquired under financial lease	**254**	**268**	**268**
- land	-	-	-
- buildings	254	268	268
- other	-	-	-
Total	**1,382,900**	**1,477,320**	**1,477,320**

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

Property, plant and equipment held for investment purposes *(€/thousands)*	**31/12/2018**	**01/01/2018**	**31/12/2017**
1. Owned assets	**1,392,985**	**1,257,862**	**1,257,862**
- land	614,287	565,261	565,261
- buildings	778,698	692,601	692,601
2. Assets acquired under financial lease	**-**	**-**	**-**
- land	-	-	-
- buildings	-	-	-
Total	**1,392,985**	**1,257,862**	**1,257,862**

At 31 December 2018, the total property and equipment held by the Group amounted to 2,785.3 million, compared to 2,762.4 million the previous year. In the segment of property and equipment for functional use, the reduction is attributable, in addition to depreciation, to sales of real estate for around 30 million.
Property and equipment held for investment purposes totalled 1,392.9 million, showing an increase of 135.1 million with respect to the previous year, mainly relative to the contribution of the subsidiary Release, which saw the entry of real estate assets following settlements regarding disputed leasing contracts.
Regarding property and equipment held for sale, as at 31 December 2018, this item included euro 9.4 million of property and equipment (euro 27.2 million as at 31 December 2017), most of which regards properties resulting from credit collection activities of the former Italease Group. In particular, during the year Register completed the

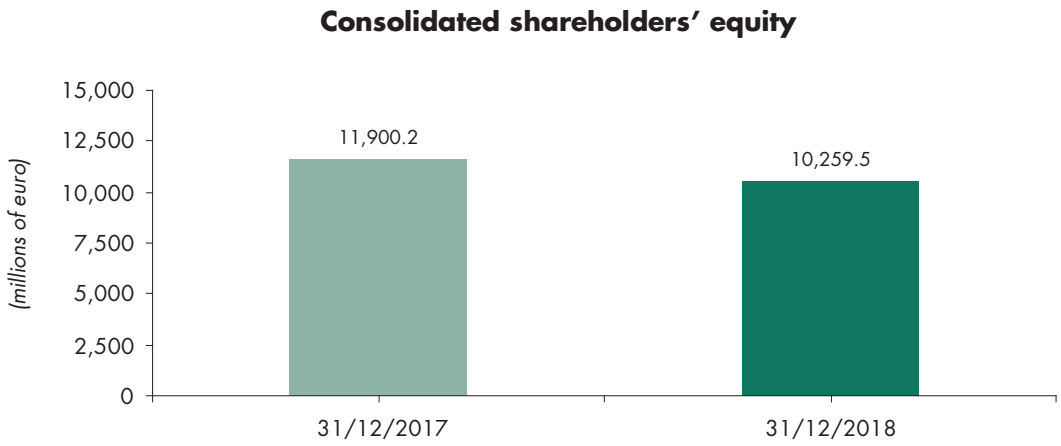
sale of a property for 25.0 million and two real estate assets entered the segment in question which had previously been classified among assets held for investment purposes, for which sales agreements were signed.

Liability provisions

At 31 December, liability provisions amount to 1,704.9 million (1,580.5 million last 31 December) and include the provisions for employee termination indemnities of 377.5 million (408.2 million at the end of last year), retirement plans of 150.7 million (166.8 million at 31 December 2017), allocations against commitments and guarantees given of 123.8 million (119.5 million at the end of the previous year) and other provisions for risks and charges of 1,052.9 million (886.0 million at the end of 2017).
These latter included provisions for personnel expenses for 481.3 million, mainly associated with the Solidarity Fund relative to agreements for voluntary redundancy and provisions for legal and tax disputes of 157.4 million.

In the consolidated Notes, 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



The Group's consolidated shareholders' equity as at 31 December 2018, including valuation reserves and net income for the period, amounted to 10,259.5 million euro, compared to the figure at the end of 2017 of 11,900.2 million euro.
Comprehensive income recorded at 31 December 2018, in terms of the share pertaining to the Group, was negative at 579.3 million, due to the net losses of 59.4 million and the negative change of 519.9 million in valuation reserves.

The following table shows the breakdown of valuation reserves:

(thousands of euro)	31/12/2018	31/12/2017
Financial assets designated at fair value through other comprehensive income	(297,943)	
Financial assets available for sale (former IAS 39)		297,875
Property, plant and equipment	217	217
Foreign investment hedges	1,051	1,805
Cash flow hedges	(7,034)	(8,182)
Exchange rate differences	20,999	18,278
Financial liabilities designated at fair value through profit and loss (changes in own creditworthiness)	9,875	14,517
Actuarial gains/(losses) on defined benefit pension plans	(74,028)	(79,436)
Share of valuation reserves related to investments in associates carried at equity	(1,889)	4,318
Special revaluation laws	2,314	2,314
Total	**(346,438)**	**251,706**

Valuation reserves at 31 December 2018 were negative and amounted to 346.4 million euro compared to the positive figure of 251.7 million euro as at 31 December 2017.

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

(thousands of euro)	Shareholders' equity	Result for the year
Balance as at 31/12/2018 as per the Parent Company's financial statements	**9,112,762**	**(75,420)**
Impact of the consolidation of subsidiaries	1,080,759	426,853
Impact of the valuation at net equity of associated companies	59,480	159,457
Cancellation of the dividends received during the period from subsidiaries and associates	-	(533,219)
Other consolidation adjustments	6,474	(37,103)
Balance at 31/12/2018 as per the consolidated financial statements	**10,259,475**	**(59,432)**

Capital ratios

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 new regulations have introduced a transition period, during which several items will be calculated or deducted at different percentages for each year. Generally, a share is attributed to Common Equity Tier 1 (CET1), while the remainder of the aggregate is split between Additional Tier 1 (AT1) and Tier 2 (T2) capital, or attributed to Risk-Weighted Assets (RWA).
A gradual process of elimination (phase-out over a period of time extended to 2021 under the "grandfathering" system) is also envisaged for equity instruments that do not fully meet the calculation requirements of the new regulations.

The minimum capital requirements for 2018 are as follows:

- a minimum common equity tier 1 capital ratio (Common Equity Tier 1 ratio - "CET1 ratio"), minimum: 4.5% + Pillar 2 requirement of 2.5% + 1.875% Capital Conservation Buffer ("CCB"); Tier 1 capital ratio, minimum: 6.0% + Pillar 2 requirement of 2.5% + *1.875%* CCB;
- minimum total capital ratio: 8% + Pillar 2 requirement of 2.5% + 1.875% CCB.

The capital conservation buffer must, in any event, consist of CET1 funds.

With regard to the measurement of risk-weighted assets, note that the Banco BPM Group is authorised to use the following methods based on its own internal models:

- internal system to measure credit risk relating to corporate and retail customers, according to the advanced approach (Advanced IRB), to calculate the relative consolidated and separate capital requirements.
  The model applies only to the credit exposures presented in the financial statements of the Parent Company Banco BPM S.p.A.;
- internal model to measure market risk (generic and specific on equity instruments, generic on debt securities and position-related for UCIT units) to calculate the relative separate and consolidated capital requirements.
  The model applies only to the exposures presented in the financial statements of the parent company Banco BPM S.p.A. and Banca Akros S.p.A.;
- internal model to measure operating risk (AMA) to calculate the relative separate and consolidated capital requirements.
  The model applies to the parent company Banco BPM S.p.A., SGS Soc. cons., BP Property Management S.c.a r.l. and the parent company's Leasing Division.[1]

On 30 November 2017, the Bank of Italy identified the Banco BPM Banking Group as an 'Other Systemically Important Institution' (O-SII).
The Group, once fully up to speed, must maintain an O-SII capital reserve equal to 0.25% of its total risk-weighted exposures, achieving this level in a gradual manner: 0.06% as of 1/1/2019, 0.13% as of 1/1/2020, 0.19% as of 1/1/2021, 0.25% as of 1/1/2022.

On 27 December 2017, the European Central Bank (ECB) notified Banco BPM of its final decision on the minimum capital ratios to be complied with by the Banco BPM on an ongoing basis.
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.
Therefore, in compliance with At. 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, a requirement of 2.50% was introduced to be added to the requirements highlighted above.
Taking into account the aforementioned requirements deriving from the communication, at consolidated level the Banco BPM Group is required to meet the following capital ratios:

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

In a communication dated 23 September 2018, the Bank of Italy stated that the countercyclical capital buffer (CCyB) for the fourth quarter of 2018 was set at zero percent.

Applying the transitional regime in effect at 31 December 2018, the equity ratios are as follows:

- Common Equity Tier1 (CET1) Ratio of 12.06%, compared to 12.36% at the end of the December 2017;
- Tier 1 Capital Ratio of 12.26%, with respect to the 12.66% at the end of December 2017;
- Total Capital Ratio of 14.68%, compared to 15.21% at the end of December 2017.

Own fund levels at 31 December 2018 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.

Negative equity impacts deriving from the extremely large derisking project on the situation at 31 December 2018 will be compensated for by capital management actions already begun on the basis of agreements signed with counterparties, which are expected to be finalised by 30 June 2019.
Considering the pro-forma impacts expected from the completion of these actions, the expected pro-forma Common Equity Tier 1 ratio (CET 1 ratio phased-in) is 13.5% (12.1% the actual figure relative to 31 December 2018).
Pro-forma CET 1 ratio fully phased is equal to 11.5% (10.0% the actual figure at 31 December 2018).
The Tier 1 ratio came out at 12.3% (pro-forma 13.7%), while the Total Capital Ratio was 14.7% (pro-forma 16.2%).

[1] European Central Bank decision, received 15 June 2016.

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 2018, the Banco BPM has a consolidated LCR of 154.1%.

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%.

Finally, with regards to the leverage ratio, the figure was 4.57% at 31 December 2018, while the indicator when fully operational is estimated at 3.74%.

To that end, note that starting in September 2016, the legislative changes set forth in the (EU) Delegated Regulation 2015/62 of 10 October 2014 and the new technical standards set forth in (EU) Implementing Regulation 2016/428 of 23 March 2016 came into force. Both elements of balance sheet assets that constitute exposures and the composition of the aggregates which give rise to the ratio were modified.

Note that this ratio is currently not mandatory. The Basel Committee has proposed a minimum level of 3%.

[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, also highlighted are operating segments that are below the quantitative thresholds put forward in paragraph 13 of IFRS 8.

Due to the business combination between the Banco Popolare Group and the BPM Group in 2017, it was necessary to partially modify the operating segments previously identified by Banco Popolare (defined as the buyer from the accounting perspective). Subsequently, during the current financial year, further changes were introduced in order to fully implement the Group's business model, as set out in the 2017-2019 Strategic Plan. In particular, a new structure for the Commercial Network was defined. The changes in question were also made as a result of the extraordinary transactions, which profoundly changed the presence of the Banco BPM Group in asset management (disposal of Aletti Gestielle SGR at the end of December 2017) and in bancassurance and which will give a specialist connotation to Banca Akros S.p.A. and Banca Aletti S.p.A.

For 2018, the operating segments taken as a reference to provide the disclosure in question are as follows:

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

Lastly, note that the justification for identifying leasing as an operating segment lies in the need to provide separate evidence of a run-off activity, the economic contribution indicated of which 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 within 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 mainly carried out by the Commercial Network of the Parent Company;
- 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 mainly carried out by the Commercial Network of the Parent Company;
- the "Institutional" segment includes the management and marketing of banking and financing services/products and loan brokering, which are mainly aimed mainly aimed at bodies and institutions (UCIT units, SICAVs, insurance companies, pension funds and banking foundations). These activities are mainly carried out by the Commercial Network of the Parent Company;
- 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 the structuring of financial products, access to regulated markets, and the support and development of specialised financial services. These activities, after the sale of the investment banking division, which occurred on the 01 October 2018, by Banca Aletti to Banca Akros, are carried out by the latter;
- the "Strategic Partnerships" segment includes the contribution of shares held in Agos Ducato, Vera Vita, Vera Assicurazioni, Bipiemme Vita, Factorit, Alba Leasing, SelmaBipiemme Leasing and Anima Holding;
- the "Leasing" 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, service companies and companies operating in the real estate sector. Lastly, all the consolidation entries are included in this residual segment.

Note that for the purpose of reconciling segment results with consolidated results, the effects of the subsequent introduction, from 01 January 2018, of the IFRS 9 accounting standard, replacing the IAS 39 accounting standard, were incorporated within the individual business lines, together with the Purchase Price Allocation (PPA), which was allocated during the previous financial year.

	Group	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leasing	Corporate Centre
Operating income									
2018	**4,772,910**	2,700,126	684,196	92,900	80,049	114,958	155,637	66,409	878,635
2017 (*)	**4,483,759**	2,680,123	650,127	97,321	69,884	149,350	160,400	57,771	618,783
Operating expenses									
2018	**(2,792,781)**	(2,167,785)	(159,803)	(39,344)	(69,747)	(93,162)	(2,558)	(74,811)	(185,571)
2017 (*)	**(2,924,124)**	(2,178,766)	(132,010)	(36,861)	(66,130)	(89,593)	(2,506)	(70,758)	(347,500)
Profit (loss) from operations									
2018	**1,980,129**	532,341	524,393	53,556	10,302	21,796	153,079	(8,402)	693,064
2017 (*)	**1,559,635**	501,357	518,117	60,460	3,754	59,757	157,894	(12,987)	271,283
Income (loss) for the year									
2018	**(59,432)**	(745,218)	(6,325)	15,813	(9,052)	14,838	335,735	(71,827)	406,604
2017 (*)	**2,616,362**	(451,250)	16,136	43,892	508	35,216	163,219	(82,562)	2,891,203
Net loans									
2018	**104,014,613**	56,412,860	28,245,574	4,778,663	221,407	1,401,575	-	2,577,597	10,376,937
2017 (*)	**107,742,679**	57,946,312	26,676,180	5,423,612	219,600	1,556,011	-	3,244,333	12,676,631
Direct funding									
2018	**105,219,691**	67,696,786	9,045,237	7,474,794	2,438,999	826,764	-	5,369	17,731,742
2017 (*)	**107,509,849**	72,431,055	10,423,546	9,190,326	2,920,197	1,638,771	-	9,047	10,896,907

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

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

	2018	2017 (*)	absolute change	change %
Interest margin	1,186,528	1,063,812	122,716	11.5%
Financial margin	**1,186,528**	**1,063,812**	**122,716**	**11.5%**
Net fee and commission income	1,495,546	1,596,855	(101,309)	(6.3%)
Other net operating income	(2,777)	3,640	(6,417)	
Net financial result	20,829	15,816	5,013	31.7%
Other operating income	**1,513,598**	**1,616,311**	**(102,713)**	**(6.4%)**
Operating income	**2,700,126**	**2,680,123**	**20,003**	**0.7%**
Personnel expenses	(1,123,217)	(1,170,887)	47,670	(4.1%)
Other administrative expenses	(1,044,568)	(999,988)	(44,580)	4.5%
Operating expenses	**(2,167,785)**	**(2,170,875)**	**3,090**	**(0.1%)**
Profit (loss) from operations	**532,341**	**509,248**	**23,093**	**4.5%**
Net adjustments on loans to customers	(1,252,319)	(1,033,338)	(218,981)	21.2%
Net provisions for risks and charges	(281,592)	(14,908)	(266,684)	not significant
Profit (loss) before tax from continuing operations	**(1,001,570)**	**(538,998)**	**(462,572)**	**85.8%**
Taxes on income from continuing operations	314,449	148,225	166,224	112.1%
Charges related to the banking system, net of taxes	(58,097)	(54,756)	(3,341)	6.1%
Income (loss) attributable to the Parent Company	**(745,218)**	**(445,529)**	**(299,689)**	**67.3%**

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

Economic performance of the sector

Total operating income from the Retail segment amounts to 2,700 million euro, which is largely in line with the previous year. This result is largely due to the increase in net interest income (+11.5%) due to the introduction of IFRS 9 to replace IAS 39, which lead to the net interest income reclassification of 155.7 million euro, fully offsetting the negative results seen in net fee and commission income (-101.3 million euro). Excluding the positive effect of the adoption of IFRS 9, net interest income fell by 33.0 million euro compared to 2017, mainly due to the reduction in the impact of the Price Purchase Agreement (PPA) following the derisking transactions conducted during the year (-44.0 million euro).
The trend in outstanding loans (excluding bad loans) contributed to this result, which was largely in line with the end of 2017, as did the trend in direct funding, which was down by 3.5% and saw a change in the composition between time deposits and demand deposits. This rebalancing has made it possible to prioritise the collection of demand deposits, thus reducing time deposits and allowing the funding cost profile to improve.

Other operating income highlights a decrease of 6.4% compared to the previous year, which was mainly die to the lower contribution of investment products placed with customers. Fast track fees paid by clients fell due to the regularisation of positions and the additional review of list prices. The amount of commissions on investment products also fell, which led to lower revenues streams compared to 2017 (290.6 million euro against the 395.2 million euro in the previous year).
Commissions on medium/long-term loans fell by 4.9 %, coming to 93.3 million, representing a substantial price reduction with disbursement volumes substantially stable; margins on current accounts also reduced (-5.6%), in line with market trends.
The specialist segment of corporate finance increased by 171.9%, reaching 5.4 million euro. Foreign commissions decreased by 2.5% compared to 2017, coming to 34.9 million euro. Transaction fees rose by 3.2%, reaching 278.2 million euro. Consumer credit brought 2018 margins to 45.8 million euro with growth of 21.5 %.

Total operating expenses amounted to 2,167.8 million euro, compared to 2,170.9 million euro in 2017, and were thus substantially stable. The 44.6 million euro increase in other administrative expenses was offset by the fall recorded in personnel expenses due to the staff reduction policies.

As a result of the trend described above, the income (loss) from operations shows growth of 23.1 million euro, reaching 532.3 million euro.

Net adjustments on loans to customers, which came to 1,252.3 million euro, increased by 21.2% compared to the previous year (1,033.3 million euro as at 31 December 2017). This increase is mainly due to the extraordinary impact of the Exodus and ACE projects to the amount of approximately 553.4 million euro. The adoption of the IFRS 9 accounting standard, for both the new impairment model introduced and for the reclassifications on net interest income described above, also contributed.

The provisions for risks and charges amounted to 281.6 million euro, compared to the 14.9 million euro in 2017. The trend is largely determined by extraordinary supplementary provisions recognised for charges that could arise from the settlement of disputes and claims, specifically those from customers reported to the company Intermarket Diamond Business S.p.A. and from the decision to recalculate the conditions applied to customers in relation to commissions for the enquiry fees and granting of credit availability relating to previous years.

Charges related to the banking system, net of taxes, of 58.1 million euro (54.8 million euro in the previous year) were charged to the income statement for the year, with a total increase of 6.1%. These charges include ordinary contributions to the Single Resolution Fund (SRF) and the Deposit Guarantee Scheme (DGS).

Given the above, the Retail operating segment closed the year with a loss of 745.2 million euro, a sharp decrease compared to the previous year (-445.5 million euro).

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 include all private individuals, natural persons with private assets of less than 1 million euro[1] who are divided into "Personal" and "Universal" customers: the first are customers with assets (deposits) of between 50,000 euro and 1 million euro; "Universal" customers have assets of less than 50,000 euro. Within this segmentation, different qualitative targets can be identified: partners, students, young people, seniors, etc.
The client portfolio of this sector also includes professional clients (self-employed professionals, artisans, shopkeepers, etc.) who are characterised by the possession of current accounts dedicated to their businesses, even though the needs expressed are largely attributable to the sphere of private needs.

In December 2018, Private customers were distributed as follows:

Segment	% clients with c/a
Universals	79.5%
Personal	16.9%
Other Retail segments	3.6%
Total Retail customers with current accounts (including debit cards)	**3.45 million**

Products, services and financing for private Retail customers

Current accounts

In 2018, Banco BPM continued to promote the offer of catalogue accounts, streamlined and harmonised across the entire network at the time of the merger in 2017. The offer is distinguished by the competitiveness of its terms and meets the needs of different target customer segments.
The YouWelcome Private Account offers competitive economic terms and has allowed us to acquire a significant share of new consumer customers by consolidating our customer base.
During the year, the Basic Account offer was revised, in its various forms, in order to promote the financial inclusion of the most vulnerable groups in the population, helping to lay the foundations for their possible financial development.

[1] For private customers with assets of more than one million euro ("Private" customers), a specific offer model and a service coordinated with Banca Aletti are envisaged.

Furthermore, a marketing campaign for an account dedicated to existing customers was launched, with a view to optimally managing the relationship over time.
The offer of accounts that can be opened online, the WeBank and YouBanking Accounts, also continued. These accounts are intended for customers who are more oriented towards self-banking, an offer that allows us to reach customers residing in regions not covered by the network.
Significant development was conducted on the network, with the aim of raising awareness and disseminating the commercial culture of the product directly.

Loyalty

The ThankYou Premium programme, now in its sixth year, has once again confirmed positive results for 2018 in terms of retaining customers who are at risk of leaving the bank, thanks to activities dedicated to restoring relationships.

In order to make the ThankYou Premium programme even more effective, a number of new features have been introduced that have improved both contact with customers and the use of the platform dedicated to managing the entire initiative.
The program, which lasts one year, offers customers advantageous terms, which remain in place even after the programme has ended, as well as the opportunity to apply for one or more rewards.
In May, the YouShop Premium programme came to a close, which was launched in 2007 and dedicated to the bank's shareholders. In 2018, more innovative programmes were introduced that included a given premium for customers when they engage in certain behaviour, which is identified on the basis of the bank's commercial strategies. These initiatives included:

- "Premia i tuoi valori", with the aim of acquiring and maintaining new assets. The customers targeted by the initiative, which ran from 1 April to 30 November 2018, were invited to increase their assets and maintain them for 6 months. The reward incentive, consisting of 4 different types of electronic vouchers, made this programme a valuable instrument for boosting new deposits;
- "Salute e Caring", created to reward private customers who signed up for Vera Assicurazione and Vera Protezione products between 28 May 2018 and 31 July 2018, such as Salute Advance, Salute Light, Vera300, TCM and TCM Plus. The cash-equivalent rewards selected for the initiative, which consisted of electronic vouchers from international partners across different product categories, were particularly appreciated by customers. "Salute e Caring" has proven to be an effective up-selling instrument, as it led to a significant increase in sales of the products marketed by the initiative.

Multi-channel

In 2018 Banco BPM continued to develop its digital offer aimed at improving the overall customer experience for both its YouWeb and YouApp services dedicated to Commercial Network customers, and in terms of Webank brand services, which have kept their distinctive position in the acquisition and management of purely digital customers .
Starting with improvements on the traditional and most-used features, such as bank transfers, payment slips, debit card activation and management of user charges (Sepa Direct Debits - SDD), significant focus has been placed on the mortgages. A new simulator was added to the bancobpm.it website that allows customers and prospective customers to find out about current terms at any time, in a simple, intuitive and clear way, and thus choose the product that best meets their needs. The simulator's integration with the CRM makes the management of interested customers efficient and helps move the customer from the digital sphere to the branch manager. For the subsequent phases in the life cycle of loans, the possibility of viewing existing loans, along with the settlement schedule, in a private area was introduced.
So as to foster the independent use of internet banking services, a Virtual Assistant has been rolled out to all customers: a chatbot that is available 24/7 to provide real-time answers on banking issues, taking into account the products owned, and to speed up navigation and use of functions. The question recognition engine, as well as the topics covered, are constantly updated through a knowledge base management programme.
A further development in the innovative digital interface, that has vast amounts of content, was the introduction of voice commands within the Webank app. This new feature uses speech-to-text technology and allows the Webank app to record the user's spoken instructions and carry out their orders. The voice assistant can perform the main banking operations, guide customers in their navigation of the pages to

facilitate and speed up access to the various features of the app, provide information on the balance and movements of the current account of the cards and offer assistance, for example, in finding the nearest branch. Thanks to these voice commands, Banco BPM earned the *Special Mention* at the 2018 Digital Payments Innovation Awards.

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

Product/Service	End of 2017 Figure	End of 2018 Figure	Delta %
No. Customers with the Home Banking service	1,849,253	1,891,830	+2.3%
No. Customers with Telephone Banking	1,760,716	1,806,422	+2.6%
No. purely digital Customers (Webank)	183,278	190,498	+3.9%

Contact centre

The Contact Centre continued to provide active support to private and corporate customers, mainly via the telephone, IVR (automatic responder), email and chat.
Its main activities in 2018 included:

- general support for customers impacted by BPM S.p.A.'s merger within Banco BPM S.p.A.;
- customer support during the pre- and post-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;
- customer support during the pre- and post-sales steps of the YouBanking products;
- monitoring of certain social media profiles (Facebook and Twitter, both for the Banco BPM Group and Webank) with a view to customer care;
- the implementation of outbound campaigns to support the commercial objectives of the network, both for the private and corporate segments (customers and prospective customers);
- management to support fraud prevention services on payment cards or direct channels.

In 2018, the application and technological convergence project for the Contact Centre's platforms was carried out, which involved standardising the services of BPM and Banco BPM private customers by merging access points (toll-free number and email address) and managing the different areas that contribute to providing the service in a uniform manner.
The Central Successions Team was expanded, within the Contact Centre, so as to be able to also manage the BPM network files, in addition to those of Banco BPM that it already handles, thereby achieving the objective of bringing in-house activities that were previously outsourced.

Payment cards

2018 saw the continuation and completion of the convergence of the payment card offer for the entire network of Banco BPM branches. The streamlining activities - which occurred within a context of development linked to the standardising of the Italian Banking Association and, thus, to the impact of activities connected with the migration of "native BPM" customers under the single Banco BPM umbrella - were in any case accompanied by the monitoring of developments linked to the evolution of payment circuits, for example, with the launch of the cash machines with c-less technology. In 2018 Banco BPM also played an active part in local initiatives, including the launch of the use of the c-less method for paying on the Milan metro and monitoring developments in cash machine digitalisation in its role as pilot bank.

Collection and payment services

During the year, the offer of collection and payment services was enhanced by the new electronic invoicing platform, YouInvoice Plus, which is now incorporated within the remote banking service, YouBusiness Banking.
In addition to allowing companies to go digital and oversee their entire invoicing process in compliance with current regulations, this choice allows the collections and payments connected to the invoicing process to be managed simply and effectively, and includes the option of requesting advance payment on credit in a completely digital manner.
Several thousand customers have already chosen YouInvoice, attesting to its validity and commercial approval.

Private mortgages

In 2018, the trend in granting mortgages to consumer households was in line with the previous year.
Mortgage lending to the Banco BPM group's private customers amounted to 2.9 billion euro. The Banco BPM group's activities were essentially based on adapting the products in its catalogue to the conditions of the economic scenario and, in 2018, the offer of mortgage loans to consumers was substantially streamlined and simplified.
As in previous years, activities to support families affected by the current economic crisis or affected by natural disasters have, of course, continued via the renegotiation of loans and initiatives to suspend payment instalments.
For 2018, innovations in the catalogue include a new product called the "Finished fixed-rate mortgage" which offers a mortgage on a monthly basis with a non-indexed annual nominal rate. The Banco BPM Group's promotional offer, based on the "Last Minute" fixed-rate mortgage and the variable-rate "Promotional Mortgage" should also be noted, which were particularly appreciated by customers thanks to the competitive spreads proposed and the duration of the loan.

Consumer credit

In 2018, consumer credit granted to consumer households increased slightly compared to the previous year: the Banco BPM group granted approximately 75 thousand consumer loans to the total amount of approximately 1 billion euro.
Almost all personal loans granted to private customers were disbursed via the product companies Agos Ducato and ProFamily, with which our now consolidated partnership continues.

Savings/investment products and services

2018 was substantially negative for all financial markets and customers increasingly turned towards asset management products that could professionally manage their exposure to financial markets.
In this regard, the bank's product policy focused mainly on offering asset management instruments; specifically, Mutual Funds and SICAVs from major Italian and international Asset Managers, Branch 1 insurance policies in particular, certified with different levels of protection.
Due to the trend in market rates, which are still sitting at extremely low levels, Banco BPM Group bonds were not offered to customers. Subscription to certificates of deposit remained constant however.

Asset management and certificates

The volumes of fund on asset management products recorded during the year confirm customers' preference for flexible forms of investment and the desire to delegate investment decisions and the diversification of portfolio financial assets to experienced professionals.
Given the above, in 2018 subscriptions to multi-asset and multi-manager SICAVs and Mutual Funds reached funding volumes of approximately 10.4 billion euro.
Regarding the offer, during the year maturity funds, with different time windows, were placed: Gestielle Cedola Multitarget V, Anima Programma Cedola 2023, Anima Programma Cedola 2023 II, Anima Traguardo Flex 2023.
With regard to the offer of closed-end SICAVs, the General Investment SICAVs (GISs) were placed: Risk Control Health Care II, Risk Control Digital Revolution, Risk Control Renewable Energies and Risk Control Global Science.
In order to complete the range of asset management products, the Banco BPM Group continued to offer various compartments from the most important and prestigious international investment firms, as well as the range of catalogue funds from Anima SGR.
With regard to certificates, in 2018 customers also continued to subscribe to Aletti/Akros Certificates for a total placed of approximately 416 million euro.
These products offer the opportunity of investing on different indices, while at the same time allowing customers to benefit from increasing levels of protection (up to 100% protection), as well as to collect conditional coupon payments.
The main structures placed over the year (e.g. "Premium Coupon", "Autocallable Step" and "Borsa Protetta") were indexed to the main stock or sector indices (e.g. Eurostoxx50, SMI, Select Dividend, DivDAX) in order to offer a broad diversification of underlyings in line with market scenarios.

Bancassurance Vita

In 2018 the Group finalised a distribution agreement for insurance products through the company Vera Vita, a joint venture built with the Cattolica Assicurazioni group, as well as via the Irish company Vera Financial dac. Additionally, the distribution agreement with the company Bipiemme Vita is still in place in some specific geographical areas.
Total premium income was approximately 1.7 billion euro, of which 439 million euro concerned the Policies Unit (Branch III and Multi-Branch) and 1.2 billion euro concerned the Branch I Life Policies.
In 2018, due to the performance of the financial markets, the placement of traditional Field I policies was preferred by clients. These products met customers' need for security, combined with the possibility of achieving growth in their capital investment in the medium term.
Finally, in order to meet the growing pension needs of customers and consequently benefit from the tax advantages offered by the product, a boost was given to the marketing of the PIP, Vera Vita's Secure Pension, with interesting results. Subscription came to approximately 93 million euro.
Unit-Linked policies were distributed through the Irish company Vera Financial dac, which invest premiums in flexible funds that amount to approximately 67 million euro.

Bancassurance Protezione

In 2018, Banco BPM Group continued its partnership with Bipiemme Assicurazioni for the distribution of insurance products across the former BPM network.
In regards to the former Banco Popolare, however, the partnership agreement with Cattolica was finalised in 2018, with the subsequent rebranding of the companies as Vera Assicurazioni and Vera Protezione, which continued to offer damage insurance solutions for people, property, homes and cars. This joint venture with Cattolica will allow the Group to increase its presence in a strategic sector and to root itself more firmly in the area and strengthen its ability to respond fully to the needs of its customers.

Corporate Customers

There were approximately 400,000 Corporate customers with a current account as at 31 December 2018, of which:

Segment	no. unique customers with c/a	% compared to total businesses
Small Economic Operators	182,415	46.7%
Small Business	141,327	36.2%
Mid Cap	9,793	2.5%
Retail SMEs	40,058	10.3%
Institutions	2,442	0.6%
Large and EX EFI	1,233	0.3%
Other businesses	13,277	3.4%
Total	**390,545**	**100%**

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 98%) already recorded in previous years, attesting to the vocation of the Banco BPM Group in its relations with medium-sized companies.

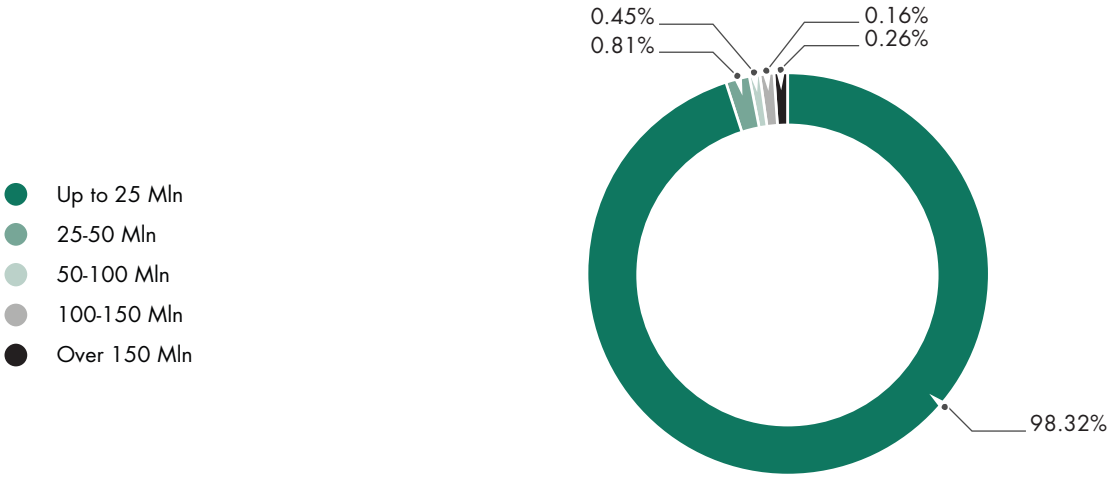


Figure 1 - 2018 distribution of Corporate Customers by turnover bracket

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

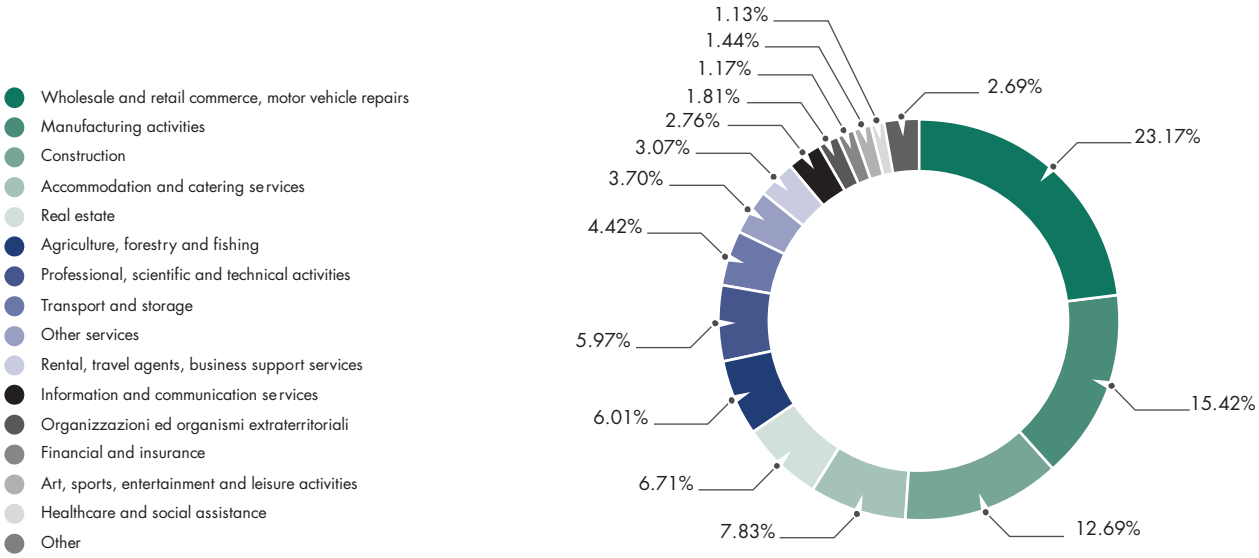


Figure 2 - 2018 distribution of Corporate Customers by sector of activity

As mentioned above, the distribution of Corporate customers includes a significant proportion of small and medium enterprises, for which the Group further strengthened its activities in 2018, thereby confirming its role as the bank of reference and support for the entrepreneurial fabric in the main areas served.
Specifically, business was developed with dedicated products and services, which are outlined below.

Current accounts

In 2018, Banco BPM continued to promote the offer of catalogue accounts, streamlined and harmonised across the entire network at the time of the merger in 2017.
The "YouWelcome Business" and "You Business" package Accounts were the most widely used and appreciated by Corporate Customers.
These products, dedicated to Small Economic Operators and "Small Business" specifically, have allowed a significant share of new business customers to be acquired.

The two "Service Pack Start" and "You Welcome Corporate" package accounts were also reserved for larger Companies.
During the year, the offer aimed at condominiums was revised and streamlined by of the creation of a new account package reserved for the segment.
This new package allows the bank to meet the needs of all kinds of condominiums, both in terms of certainty and cost reduction, and therefore represents an optimal solution for managing ordinary and extraordinary expenses.
The account is combined with the offer of dedicated financing.

Loans and financing

The financing products that make up the various Catalogues, which are unique to the entire Banco BPM Group, are designed to meet the predominant and most frequent needs of use: investments, working capital, liquidity, consolidation, advances and overdraft facilities.
In 2018, work continued to refine and develop all kinds of financing, with the aim of achieving an offer that increasingly meets customer needs.
In this regard, note the expansion of the range of available loans for businesses, with the release of the unsecured "Short-Term Financial Needs" product and the mortgage-land "Companies Green Building Loan" product.
Specifically, the latter 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 by FederlegnoArredo, known as S.A.L.E. (Sistema Affidabilità Legno Edilizia - Timber Construction Reliability System) or S.A.L.E. +.
During 2018, the number of "active substitute transactions for micro-enterprises" increased: the financing solutions dedicated to this purpose, both unsecured and mortgage-funded, 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 female entrepreneurship and the tourism/hotel sector:

- the bank's commitment to female entrepreneurship and credit accessibility was confirmed through the "Orizzonte Donna" catalogue, designed to provide financial support to female businesses and self-employed women, in business sector. "Orizzonte Donna" was created within the framework of the Memorandum of Understanding promoted by the Italian Banking Association (ABI) - the "Memorandum of Understanding for the growth of companies mainly involving women and self-employed women" - in agreement with the Ministry for Economic Development, the Equal Opportunities Department of the Council of Ministers and leading Associations within the business world;
- the "Tourism" loan catalogue 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.

Within an emerging social and political context - regarding increasingly elevated environmental sustainability, which leads to increasing attention on issues concerning the protection of both the health and well-being of citizens, as well as a more conscious and efficient management of energy resources - the Bank has decided to expand its "Condominium Catalogue" product range, adding the new product "Condominium Credit Efficiency", intended to finance those "Condominium" customers who are renovating or redeveloping the building to improve its energy efficiency and who are being assisted in these renovation and redevelopment works by a public grant.
Currently, Financing has been made available to Condominium customers located in the municipality of Milan who 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.

Commercial initiatives

In regard to Retail Companies, the Banco BPM Group has made a series of measures available that aim to foster the development of their business and, indirectly, consolidate the economic recovery of the system. Specifically, the main commercial initiatives were aimed at supporting the operational management of its customers. Of these, please note:

- **reference Bank objective** - This is aimed at the existing corporate customer segment, which, as they belong to sectors of economic activity of interest and have positive creditworthiness evaluations, present opportunities to increase the credit lines granted with subsequent potential growth in the use of the same, to acquire new commercial flows and for new additional opportunities/transactions. The granting of new credit by the Banco BPM Group, incrementally compared to existing credit lines, has made it possible to reach a market share for the customers in question that is appropriate to the reference bank role;
- **a bridge to PoE growth** - This initiative aims to support and encourage business immediately and then find a gradual replacement as natural growth occurs via the commercial exchange triggered with the company that has been assisted and, consequently, made a loyal customer . The target customers for this initiative are small and medium Enterprises which, due to their production/commercial characteristics and development potential, warrant an unsecured 12-month instalment loan;
- **F24 and salary initiative** - An initiative aimed at supporting our customers' financial commitments during the periods of May/August and November/December when various tax and management deadlines become due, over and above their normal monthly obligations, via the disbursement of a dedicated 12-month instalment loan with particularly competitive economic conditions;
- **BT Lending Support** - For companies that are worthy of being granted and/or having their short-term credit lines increased with a simultaneous increase in channelling operating volumes within the collections and payments cycle, both domestic and foreign. These facilities concern both opening current account credit facilities and "credit ceilings" for the advance payment of trade receivables, types of credit lines that are widely used by companies;
- **Repeat Business 2018** - Initiative aimed at assisting the best counterparties with unsecured short-term instalment loans that have already expired or are close to maturity, through the re-proposition – in view of Repeat Business – of similar new credit lines;
- **BBPM POS initiative** - In order to help merchants or self-employed professionals collect funds, an initiative has been launched to assist our customers in choosing the most suitable POS solution for their business by offering this service at particularly competitive market conditions;
- **insurance product initiatives** - During the first part of the year, a number of initiatives were prepared (Assicura Aziende, Protezione Aziende, Protection Week) to support customers in hedging the areas of business risk to which each specific customer was most exposed. The Insurance Distribution Directive (IDD), which came into force on 1 October 2018 and became law in Italy with Legislative Decree no. 68 of 21 May 2018 and by the IVASS 40 and 41 Regulations, makes identifying the insurance needs of customers compulsory. In order to comply with the new legislation, the bank adopted the Demands & Needs (D&N) questionnaire as the instrument for surveying the insurance needs of its customers. To gather customer needs in line with the regulatory requirements, in the final part of the year the "Needs Protection" initiative was launched, which saw the D&N questionnaire being given to Retail Business customers;
- **Import – Export Contract Mission** - In order to support Corporate Customers engaged in managing complex operations on foreign markets (e.g. exports to non-EU countries), the initiative in question was launched which, thanks to the proactive role of the account manager and foreign specialists, entails the offer of the wide range of "Advanced Foreign" services currently available, such as consulting services for drafting international sales contracts for goods and products, documentary credits and guarantees to reduce counterparty/country/contractual risks, etc.;
- **You Card Business initiative** – In order to render more efficient that management of business expenses, a dedicated initiative was launched that included the YouCard Business proposal, a card with debit and prepaid functions, to the companies that most highlighted the need for this type of payment support. The product in question can be used by corporate customers to achieve greater administrative efficiency, better control of expenses and prompt monitoring of the use of the same;
- **You Lounge - The Trade Club** – This initiative gave our best customers with international scope the opportunity to join an international "virtual community" - through the use of dedicated software - that allows customers who are interested to grow abroad;
- **smart digital invoice advances** – In order to support customers with increasingly innovative and "digital-oriented" tools, this year a process was developed with simplified authorisation procedures that allowed all customers involved in the initiative and subscribers of the service to proceed in a simplified way

with advances on invoices via the electronic channel. The benefits for our customers lie in greater user-friendliness, a reduction in the Bank's response time for the disinvestment of short-term loans and, more generally, an improvement in the customer experience;

- **electronic invoicing – New YouInvoice** - The "Electronic Invoicing - New YouInvoice 2018/2019" initiative was launched in light of the regulatory requirement, from 1 January 2019, that will provide for electronic invoicing for all B2B relationships and which will impact approximately 5 million Italian VAT-registered companies. This initiative involved the Group's corporate counterparties that have shown themselves to be particularly active in the advancing/collecting invoices receivable or paying invoices payable through our Bank. The customers involved were offered the innovative "YouInvoice Plus" service with promotional pricing that was particularly advantageous and competitive compared to current market offers. This service allows customers to manage the complete invoice issue/receipt cycle, as well as archiving copies in line with the highest IT security standards, and to proceed to the payment of invoices payable (receipts) and the collection of invoices receivable (issued), once the electronic invoice has been received or sent.

Alongside these initiatives, specific actions have been taken to acquire new customers with a focus on Retail Companies. Thus the goal of growing the customer base is always key to Banco BPM's commercial activity.

Support following on from catastrophic events

Following the collapse of a section of the Polcevera Viaduct on the A10 Motorway, the Bank adopted the ordinances issued by the Civil Protection Service and the Mayor of Genoa, intervening with measures to suspend the payment of mortgage instalments requested by the customers affected by the event. The activity of suspending the payment of instalments was agreed without the application of costs or enquiry fees borne by the customers.
The Banco BPM Group also intervened to support customers who were severely affected by the exceptional weather events that occurred in October 2018, in the regions of Calabria, Emilia Romagna, Friuli Venezia Giulia, Lazio, Liguria, Lombardy, Tuscany, Sardinia, Sicily, Veneto and the autonomous provinces of Trento and Bolzano. The intervention measures included:

- the suspension of loan payments for those in real need, on the condition that the registered or operational headquarters of the company were located in one of the municipalities affected, in accordance with the provisions of the law and the ordinances of the Civil Protection Service. The suspension of loan payments was agreed without the application of costs or enquiry fees to be borne by the customers;
- the allocation of a ceiling of 400 million euro for households and businesses, predominately to repair the damage caused by bad weather, establishing a priority investigation procedure for such requests and, thus, particularly short waiting times.

Lastly, to continue to provide the utmost support to the Regions of Lazio, Marche, Umbria and Abruzzo, which were affected by the earthquake of 24 August and the subsequent earthquake of 30 October 2016, the Banco BPM Group has resolved, in accordance with legal provisions, to extend the duration of the suspension measures until the end of 2020 (or until the end of 2021, however only for economic activities and for private customers with regard to first home loans for residences that are unfit for use or destroyed, located in the "red zone" established by a specific trade union ordinance). In keeping with the spirit of the actions previously conducted for its customers, the Bank has decided, on its own initiative, to apply, solutions that improve and extend those prescribed by the relevant legal provisions that have been issued. Specifically, it extended the loan suspension measure on its own initiative, without the customer having to make an explicit request, and extended the scope for those who could benefit from this facility to also include non-resident customers who own properties within the municipalities declared as being in a state of emergency.

Other business support and development activities for corporate loans

It should also be noted that activities connected with the so-called system moratoriums continued throughout 2018, due to the effects produced by the "2015 Credit agreement" signed between the Italian Banking Association, Confindustria and other leading Trade Associations, which the Banco BPM Group joined in April 2015.
The Bank has also decided to participate in the new Credit Agreement, which was promoted in November 2018 by the Italian Banking Association and the Trade Associations and which reflects the 2015 agreement, in order to continue to offer customers the possibility of requesting payment suspensions and the extension of maturities on both short and medium/long-term transactions.

Agriculture

The "agriculture" segment continues to occupy an important position in the commercial strategies of the Banco BPM Group.
This is demonstrated by the fact that, once again in 2018, Agreements were confirmed with the main players in the farm and food supply chain, particularly in the Crop Protection Associations sector (cf. "Asnacodi" Agreement).
Furthermore, the specific agreements with the paying agencies AVEPA (Veneto Region), AGREA (Emilia Romagna Region) and AGEA (Italian paying agency operating in Regions without regional paying agency) to manage the 2018 Advance of the Common Agricultural Policy (CAP) Subsidy have been renewed. In response to these agreements, Banco BPM Group has made a financing product available that advances, also in full, the CAP subsidy owed to the agricultural company, at competitive economic conditions, and has striven to provide answers on the outcome of the creditworthiness assessment in a particularly short period of time.
In 2018, the Group continued to pursue the significant business opportunities deriving from the implementation of the Rural Development Programmes (RDPs) planned for 2014-2020, confirming its important commercial initiative "RDPs - We are with you 100%" that aims to offer financial support for the investments that companies intend to make by using the RDP Subsidies.
The RDPs and the related public subsidies envisaged for agricultural and farm and food businesses constitute an exclusive and powerful driver of investments in the agricultural sector and, subsequently, an interesting opportunity for Banco BPM, which has decided to provide financial support to businesses both with both short-term products (focused around the various possibilities of anticipating the public subsidy) and with medium/long-term products (focused around supporting investments).
For this reason, the 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 Supplies) and approved by the Regions of Valle d'Aosta, Campania and Sicily, similarly to what was previously done for the Regions of 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 2018, the use and maintenance of the creditworthiness assessment procedure for agricultural businesses continued. This is an innovative assessment system that accounts for the specific characteristics of companies in the sector. This process, combined with the service model developed through the account managers within the Network and the "Seed" financing products Catalogue, makes Banco BPM one of the most attentive banks in Italy when it comes to the safeguarding and development of the agriculture sector.

Insurance coverage

In 2018, Banco BPM Group continued its partnership with Bipiemme Assicurazioni for the distribution of insurance products across the former BPM network. In regards to the former Banco Popolare, however, the partnership agreement with Cattolica was finalised in 2018, with the subsequent rebranding of the companies as Vera Assicurazioni and Vera Protezione, which continued to offer damage insurance solutions for companies, both credit-related and stand-alone, to protect their business from various risks (fire, theft, legal protection, etc.). This joint venture with Cattolica will allow the Group to increase its presence in a strategic sector and to root itself more firmly in the area and strengthen its ability to respond fully to the needs of its customers.

Facilitated Financing and Guarantee Bodies

In 2018, Banco BPM continued its collaboration with "suppliers" of funds/financing with preferential terms.
At the supranational level, in 2018 Banco BPM granted loans using funds obtained from the European Investment Bank (EIB) to extend loans to SMEs and Mid Cap companies.
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.
Banco BPM has also signed an agreement between the Ministry of Agricultural, Food and Forestry Policies and the CDP to grant facilitated co-financing - using CDP funds - to companies in the agricultural sector that have signed "Chain Contracts" or "District Contracts" in order to implement integrated investment programmes.

Also within Italy, Banco BPM has granted facilitated financing, assisted by the "Nuova Sabatini" machinery 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.

Guarantee instruments for companies

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 conventions with the managers and providers of guarantees.
Specifically, after completing the disbursement of loans backed by the Risk Sharing Instrument portfolio guarantee, Banco BPM signed an agreement with the European Investment Fund (EIF), as part of the Juncker Plan, to support companies with a strong orientation towards technological innovation and research and development via a special guarantee mechanism known as the InnovFin SME Guarantee, which is supported by the European Strategic Investment Fund.

Banco BPM is also active in the main facilitated guarantee instruments, including the following national guarantee Funds/Bodies:

- Guarantee Fund for Small and Medium Enterprises, specialised in protecting bank loans granted to support corporate 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 aforementioned Funds benefit from the Government's last resort guarantee, which allows the Bank to reduce the production costs of the loans and to apply the same more favourable economic conditions to the loans guaranteed by them.
Much work has also been concentrated on operations with local Guarantee Institutions (Confidi), a fundamental instrument that facilitates access to credit for SMEs.
Specific agreements also govern operations within interventions aimed at combating usury, stipulated with both Confidi and Foundations active in the anti-usury sector.

Other public facilities for companies

As part of the measures aimed at SMEs, Banco BPM also directs tax relief initiatives to SMEs (interest rate subsidies or non-repayable grants) provided for by national and regional regulations, such as, for example, the interest rate subsidies allocated by the Lombardy Region for industrial, commercial and tourism businesses within the "Credito Adesso - Credit Now" initiative, the interest rate subsidies for artisan businesses in Liguria granted by Artigiancassa (managing body) pursuant to Italian Law 949/52 and the operating subsidies granted by the Puglia Region to SMEs in the various sectors of economic activity which engage in productive investments.

Corporate

	2018	2017 (*)	absolute change	change %
Interest margin	453,255	446,905	6,350	1.4%
Financial margin	**453,255**	**446,905**	**6,350**	**1.4%**
Net fee and commission income	201,433	192,342	9,091	4.7%
Other net operating income	688	815	(127)	(15.6%)
Net financial result	28,820	10,065	18,755	186.3%
Other operating income	**230,941**	**203,222**	**27,719**	**13.6%**
Operating income	**684,196**	**650,127**	**34,069**	**5.2%**
Personnel expenses	(60,105)	(51,835)	(8,270)	16.0%
Other administrative expenses	(99,698)	(80,175)	(19,523)	24.4%
Operating expenses	**(159,803)**	**(132,010)**	**(27,793)**	**21.1%**
Profit (loss) from operations	**524,393**	**518,117**	**6,276**	**1.2%**
Net adjustments on loans to customers	(544,721)	(485,488)	(59,233)	12.2%
Net provisions for risks and charges	(369)	(3,357)	2,988	(89.0%)
Profit (loss) before tax from continuing operations	**(20,697)**	**29,272**	**(49,969)**	
Taxes on income from continuing operations	20,566	(8,050)	28,616	
Charges related to the banking system, net of taxes	(6,194)	(5,086)	(1,108)	21.8%
Income (loss) attributable to the Parent Company	**(6,325)**	**16,136**	**(22,461)**	

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

Economic performance of the sector

The Corporate segment recorded total operating income of 684.2 million euro, with an increase of 5.2% (650.1 million euro as at 31 December 2017). Net interest income and other operating income both partly contributed to this increase, which ideally represent net income from services.

The increase in the net interest income (+1.4%) is largely tied to the introduction of the IFRS 9 accounting standard, in substitution of IAS 39, which led to the reclassification of net interest income to the amount of 9.3 million euro.

Regarding net fee and commission income, it increased by 4.7% (201.4 million euro during the current year, 192.3 million euro as at 31 December 2017).
In this regard, net income from services associated with the medium/long-term financing segment decreased by 30.2%, coming to 11.3 million euro. Specifically, interest rate and exchange rate hedging products increased by 16.5%, mainly due to greater dynamism on interest rate hedges.
Net income from services regarding the specialist segment of corporate finance increased by 36.7%, taking net fee and commission income to 84.8 million euro. The sharp growth in margins on factoring and non-recourse business in Italy grew by 154.2%, amounting to 4.3 million euro.
Foreign commissions increased compared to 2017, rising by 3.9% (26.6 million euro).

Total operating expenses amounted to 159.8 million euro, compared to the 132.0 million euro recorded in 2017, up by 21.1%. Personnel expenses, which came to 60.1 million euro (+16.0%) and other administrative expenses of 99.7 million euro (+24.4%), contributed to this increase.

Due to the aforementioned trends, income (loss) from operations, 524.4 million euro, grew by 6.3 million compared to 2017, recording an increase of 1.2%.

Net adjustments on loans to customers, which came to 544.7 million euro, increased by 12.2% compared to the previous year (485.5 million euro as at 31 December 2017). The increase is mainly due to the extraordinary impact of the Exodus and ACE projects to the amount of approximately 123.1 million euro. The adoption of the IFRS 9 accounting standard, for both the new impairment model introduced and for the reclassifications on net interest income described above, also contributed.

Charges related to the banking system, net of taxes, of 6.2 million euro (5.1 million euro in the previous year) were charged to the income statement, with a total increase of 21.8%, 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 a loss of 6.3 million euro (+16.1 million euro as at 31 December 2017).

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.

The Corporate arm of Banco BPM intends to be the partner of choice for Italian Mid Cap companies, by offering all high value-added services for businesses, both in terms of the ordinary operating dynamics of corporate customers, and during periods/transactions of business discontinuity.
In order to achieve a gradually superior and more distinctive level of service, combined with aspects of commercial effectiveness and operational efficiency, in February 2018 the new organisational model was launched to serve Corporate companies.
This organisational model focuses on providing the service to the companies with a group turnover of over 75 million euro and to companies in need of superior value-added services.
A "customer oriented" approach has been adopted: it starts by identifying the specific needs of the company and then developing the most suitable "proposal configuration" in terms of service model and solutions offered.
The new Corporate network structure guarantees strong commercial and territorial oversight, through:

- a central structure that allows for the unitary control of the business at Group level, while guaranteeing a "direct handle" on the needs of the supervised business chain and its customers. These objectives are also pursued by establishing specific central organisational controls on specialist and value-added areas of offer:
  - Structured Finance,
  - Foreign Operations and Trade Finance,
  - Sectorial Oversight and Origination,
  - Commercial Planning;
- 5 Corporate Markets of regional reference (Milan, North - West, North - East, Centre North, Centre South);
- a Large Corporate structure with local offices (Milan, Turin, Verona, Bologna, Rome) dedicated to serving companies with a turnover of more than 1 billion euro;
- 18 Corporate Centres, with managers and analysts that assist the companies in their ordinary and extraordinary operations.

Corporate customers

Loans to corporate companies accounted for approximately 35% of total lending volumes (cash + endorsement credits) to customer supported by the Group's Commercial Networks, against a base of approximately 13,000 counterparties.
Specifically, the main figures within corporate scope are as follows:

- outstanding loans (cash + endorsement credits): over 32 billion euro (average annual balance);
- direct funding of over 7.6 billion euro (average annual balance);
- margins of approximately 730 million euro.

Focusing on non-financial companies, the production sectors that most benefited from credit support included: manufacturing (approximately 30% of total loans within the Corporate scope), wholesale and retail trade (approximately 12%) and construction (approximately 12%).

The offer to support corporate enterprises – specific products and services

Within the new scope of reference of the Corporate segment, in the period in question there was a volume increase in loans granted to companies. While attention was always paid to creditworthiness, particular focus was centred upon the companies most active in the recovery of the national economy.

Loans and financing
In 2018, 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 assisted customers.
Specifically, the range of loans was expanded, with interventions aimed at making them as flexible as possible, 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.
Among others, note the "Unsecured financing for internationalisation" product that was released along with the "Foreign Services and Network", to support internationalisation programmes and to meet the financial requirements connected with developing foreign turnover and/or specific investments to support growth programmes on international markets.

Main commercial initiatives
The Corporate structure worked to increase its support for assisted customers, within a logic of bank-business partnership, with constant focus on both commercial and credit risk aspects; particular efforts were taken to strengthen the market and business shares of the customers, with the subsequent improvement of their competitive position and of the role of reference bank for the assisted counterparties.

In doing so, the Corporate structure placed particular emphasis on enhancing the synergies between the Commercial Network and the Group's Product Services, such as:

- specialists per sector of economic activity (with specialisations and characteristic focus on the sectors most attractive to corporate clients);
- 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).

In this regard, the increasing industrial and commercial synergy should be noted, which was achieved during the year with the subsidiary Banca Akros, a group company focused on Corporate and Investment Banking: Capital Markets (hedging), Corporate Finance (Equity Capital Markets, Debt Capital Markets, M&A, Securitisation and Advisory).

Acquisition of trade receivables in the form of a discount without recourse
In 2018, the Banco BPM Group confirmed and consolidated its development of services in the loans to assisted companies sector by assigning 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 credits, and structuring 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, thereby also enhancing the logic of "supply chain" and "district".
With the aim greater penetration within the specific market sector, a project was launched to innovate internal procedures and adopt digital platforms capable of facilitating our customers' operational aspects.

Corporate agreements and sponsorships

2018 saw the continuation of the customer training course, "Elite Lounge" (spanning two years), in collaboration with the Italian Stock Exchange and Banca Akros.
This represents tangible proof of the Bank's commitment to supporting the growth of businesses and enhancing their potential. "Elite Lounge" is an international network that focuses on promoting training events and dedicated advisory services, aimed at helping outstanding companies implement development projects.
The selected corporate companies are accompanied throughout the life and development cycles, via a personalised training course on business/finance; this course allows the companies involved to expand their opportunities for supporting growth, also by way of non-ordinary financing solutions (e.g. Structured Finance, access to the Debt/Equity Capital Market, etc.)

During 2018, the Group implemented its two-year collaboration with Bocconi University and the ICRIOS - Lean Thinking Observatory by putting on events that involved an audience of colleagues and corporate customers on the theme of "lean strategy".

The "lean strategy" is a production, organisational and managerial model that has already been adopted by Corporate clients. It is based on the implementation of a scientific method aimed at streamlining resources and business processes through experimentation and progressively rendering all company dynamics more efficient, not merely those concerning production.

Financial risk hedging

In 2018, the Banco BPM Group reaffirmed its activity of providing specialised support to corporate customers in managing interest rate, exchange rate and commodity risks, strengthening and centralising the service in Banca Akros, which took on the competence centre role at Group level on this issue. 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.
The customer is assisted by a group of sales advisors and specialists equipped with superior technical and commercial skills present in different areas.
2018 was marked by a sharp increase in the amount of completed transactions. Over the course of the year, the Banco BPM Group concluded approximately 4,000 financial risk hedging contracts with corporate customers; there were approximately 2,000 exchange rate risk hedging transactions for a total amount of approximately 3.5 billion euro, while there were approximately 2,000 involving interest rate risk management for a total amount of approximately 3.8 billion euro.
With regard to the types, the transactions completed in 2018 to hedge interest rate risk mainly consisted of fixed rate (IRS) and maximum rate (Cap Options). Flexible forward, options and swaps represented the exchange rate hedging products.
The Banco BPM Group also supports its customers in managing commodity risk.
In 2018, OTC hedging transactions on underlyings, such as oil, diesel and precious metals, were closed.

Structured finance

In the Corporate area, which was given an additional boost in 2018 thanks to the new organisational model focusing on customer service, structured finance continued to play a fundamental role in developing relations with counterparties with more complicated financial needs.
The excellent performance of the activity carried out during the year should be noted:

- in the field of private equity funds, i.e. in financing transactions with institutional investors to acquire unlisted companies;
- in the field of project finance, i.e. in the financing of infrastructural works or energy production, predominately from renewable sources.

The area that saw the highest growth rate was "Corporate Lending" , which is intended for corporate clients for whom structured finance provides a "tailor-made" service in the structuring of loans dedicated to non-current needs.
Fees received increased by over 30% and, in the case of "Corporate Lending" alone, they rose by well over 50%, thereby proving the validity of the development process that has been undertaken.
In this sense, structured finance's role as an important driver in the development of more dynamic and sophisticated customer relations was confirmed, with the service model adopted allowing for systematic support to be given, by a specialist team, to the commercial networks during their development, negotiation and intervention structuring activities.

Origination

In 2018, in order to effectively serve its high potential Corporate customers and to incorporate internal and external offer areas, with a subsequent improvement in cross selling, the Banco BPM Group expanded its Origination Corporate unit (established in 2017), introducing:

- additional senior bankers with many years of experience in equity, consultancy and structured finance, with an industry-oriented approach dedicated to the most dynamic sectors;
- business analysts, support staff for customer analysis and the development of business hypotheses.

Specifically, the unit has identified a number of counterparties within the various Industry/Sectors that it follows with whom to offer a dedicated level of service and coverage, with a strategic development approach taken to the relationship.

Additionally, in order to further optimise the Group's commercial and operational effectiveness, the Origination unit has played a key role in developing and implementing the strategic projects of the Group, such as: optimising credit processes and strengthening the Group's analysis instruments.

Foreign operations and trade finance

Dedicated network and foreign goods unit
The 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 order to conduct its activities, the Group also relies on an Operations structure with the following foreign units - goods located in Italy and in particular: Milan, Legnano, Rome, Verona, Modena, Bergamo, Novara, 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).
Specifically, the Operations structure handles operations in documentary credits, documented remittances and international interests, complying with the applicable process regulations in force and striving to offer customers a high value-added service.

Financial Institutions
During 2018, the Financial Institution Group (F.I.G.) pursued its customer support activity, with its team of highly specialised professionals, and further reinforced the offered service:

- in the Export sector, by developing additional lines of commercial credit, both continuous and temporary, to foreign banks;
- in the Import area, by making a large network of foreign correspondents available.

By managing the foreign Representative Offices in Mumbai, Shanghai and Hong Kong, it has helped customers who operate, or intend to operate, in the areas of competence of these offices and has also contributed to the Group's foreign commercial undertakings, as well as to the dissemination of its image via targeted missions to foreign banking correspondents and participation in international banking events.

Foreign Products and Services
Banco BPM has renewed its financial guarantees agreement with SACE (Institute for Foreign Trade Insurance Services, CDP Group), which provides for the possibility of providing loans with SACE guarantees. Amongst the products created, the IT.EX (working capital financing) loan, the JET loan (to support the internationalisation projects of companies) and the discount with SACE policy transfer (discount without recourse effects guaranteed by the Supplier Credit Policy issued by SACE).
Banco BPM has also signed 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).
During 2018, Banco BPM continued to develop new digital channels, with both informative and operational features, for companies that operate or intend to operate abroad. Specifically:

- YouWorld, an information platform that gives companies access a comprehensive set of information concerning foreign trade that is constantly updated (e.g. the political and institutional framework of countries, customs and tax regulations, contractual obligations, calls for tenders and professional lists) and the references of potential foreign suppliers or buyers (organised by country, type of goods or services covered). At the end of December 2018, there were a total of 1,248 companies using the service, of which 1,172 were Retail and 76 Corporate.
- YouTrade Finance, which allows for the operational aspects linked to goods to be managed electronically, simplifying and optimising the relationship between the customer and the bank. 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) and guarantee a reduction in times and allowing the customer to monitor the processing status of the document.

Within the DOT programme, the development and implementation of the export documentary letter of credit was included, to be conducted during 2019 with delivery scheduled for the autumn.

- YouLounge, a virtual B2B platform that allows Banco BPM's corporate clients 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 the Banco BPM e-banking portal. Thanks to an agreement signed with Banco Santander, YouLounge currently participates in the Trade Club Alliance, together with 12 other leading international partner banks. Currently, the Trade Club Alliance's geographical coverage exceeds 50 countries throughout the world with a population of over 15,000 selected companies.

As of 31/12/2018, YouLounge had 251 companies, of which 225 were Retail and 26 Corporate.

The YouWorld and YouLounge platforms will be integrated during 2019 with the aim of making Banco BPM's foreign services increasingly smart, dynamic and effective.

Agreements with primary institutions
In order to expand its support for customers, Banco BPM has agreements in place with primary institutions (the Italian Trade Agency - ITA - formerly the Italian Institute for Foreign Trade - ICE, De International and the aforementioned SACE).
Specifically, the agreement with the Italian Trade Agency - ITA (agency that promotes Italian companies abroad and their internationalisation) strives to the provide internationalisation services, specific consultancy and information, furnished by the Italian Trade Agency (ITA). Thus, the bank's customers can also access services in countries where Banco BPM does not have a direct presence.
Regarding relations with the Chambers of Commerce, in 2018 Banco BPM maintained its collaboration with the Italian-Russian Chamber of Commerce (CCIR) and with the Italian-German 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.

Institutional

	2018	2017 (*)	absolute change	change %
Interest margin	56,053	62,034	(5,981)	(9.6%)
Financial margin	**56,053**	**62,034**	**(5,981)**	**(9.6%)**
Net fee and commission income	31,406	32,911	(1,505)	(4.6%)
Other net operating income	3,990	2,287	1,703	74.5%
Net financial result	1,451	89	1,362	not significant
Other operating income	**36,847**	**35,287**	**1,560**	**4.4%**
Operating income	**92,900**	**97,321**	**(4,421)**	**(4.5%)**
Personnel expenses	(6,258)	(7,701)	1,443	(18.7%)
Other administrative expenses	(33,086)	(29,160)	(3,926)	13.5%
Operating expenses	**(39,344)**	**(36,861)**	**(2,483)**	**6.7%**
Profit (loss) from operations	**53,556**	**60,460**	**(6,904)**	**(11.4%)**
Net adjustments on loans to customers	(22,596)	8,642	(31,238)	
Net provisions for risks and charges	1,181	(20)	1,201	
Profit (loss) before tax from continuing operations	**32,141**	**69,082**	**(36,941)**	**(53.5%)**
Taxes on income from continuing operations	(8,647)	(18,998)	10,351	(54.5%)
Charges related to the banking system, net of taxes	(7,681)	(6,192)	(1,489)	24.0%
Income (loss) attributable to the Parent Company	**15,813**	**43,892**	**(28,079)**	**(64.0%)**

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

Economic performance of the sector

Total operating income from the Institutional segment was 92.9 million euro, with a 4.5% decrease compared to the previous year, mainly due to the carrying costs of a buffer made up of readily liquidisable assets to meet unexpected

liquidity needs (5.6 million euro), which was not recognised in the previous year. Although present in other segments, this element had a more significant impact on the Institutions segment where it was allocated on the basis of metrics that comply with the legislation introduced by the Basel Committee for defining the Liquidity Coverage Ratio.

The trend in outstanding loans contributed to this result, which fell, to 644.9 million euro, compared to the end of 2017 (specifically, short-term credit fell by 524 million euro), as did the increase in the cost of funding, despite the rebalancing that made it possible to prioritise the collection of demand deposits, thus reducing time deposits.

Other operating income shows an increase of 4.4% compared to the previous year, largely due to higher income from the partnership with Azimut.

Commissions on medium/long-term loans, despite lower disbursement volumes, maintained their 2017 profitability at 1.3 million euro.
Margins on current accounts remained substantially stable, while interest rate and exchange rate hedging products increased, going from 0.1 million euro in 2017 to 0.3 million euro in 2018, mainly due to the higher expectations of interest rate growth in the near future.
In 2018, corporate finance transactions decreased, with a 67.6% fall in margins, while factoring and non-recourse business margins increased by 25.9%.
Foreign commissions fell compared to 2017 (-10.9%), while transaction fees increased by 2.6%.

Total operating expenses amounted to 39.3 million euro, compared to the 36.9 million euro recorded in 2017, up by 6.7%. The increase in administrative expenses (+13.5%) was offset by personnel expenses, which decreased by 18.7%, amounting to 1.4 million euro, due to the staff reduction policies.

The income (loss) from operations was 53.6 million euro, down by 6.9 million euro compared to 2017, recording a decrease of 11.4%.

Net value adjustments on loans to customers, which came to 22.6 million euro, increased by 31.2 million compared to the previous year. The aggregate is mainly due to the extraordinary impact of the Exodus and ACE projects to the amount of approximately 4.5 million euro.

Charges related to the banking system, net of taxes, of 7.7 million euro (6.2 million euro in the previous year) were charged to the income statement for the year, with a total increase of 24.04%. These charges include ordinary contributions to the Single Resolution Fund (SRF) and the Deposit Guarantee Scheme (DGS).

The Institutional operating segment closed with 15.8 million euro in profit for the year (43.9 million euro as at 31 December 2017), down by 64.0%.

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

Coordination and commercial support for institutional customers is assigned to the Institutional, Entity and Third-Sector Function, by way of monitoring the products offered, developing suitable distribution channels and advancing service models.
The Institutional, Entity and Third-Sector Function is divided into the following business Structures:

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

Institutional

Institutional Counterparties are the main so-called "supervised" entities such as Insurances and Para Banking Companies, AMCs, SBFs, open and closed-end Mutual Funds, Banking Foundations, Social Security and Welfare Funds and Pension Funds. Furthermore, Institutional Counterparties include the State, the Constitutional Bodies, the Central State Bodies and some Companies in which the Central P.A. has a stake.
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/economic activity as follows:

Type of Entity by SAE (*)	Distribution %
Mutual Funds, Pension Funds and UCITs	29%
Banking foundations	2%
Insurance	4%
Para Banking (Leasing, Factoring) and Consumer Credit	8%
Pension Funds	1%
SBFs and AMCs	6%
Other financial intermediaries	50%
Total	**100%**

(*) Group companies are not included

The activities coordinated by the institutional counterparties structure also include transactions carried out for the Companies of the Banco BPM Group.

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.

Commercial partnership with allies outside 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 the Banco BPM Group.

These alliances are governed by special commercial "partnership" agreements, which provide for the offer of "dedicated" products exclusively to the Customers of the external Ally, via a double distribution channel:

- "off-site" offer, through external Financial Consultancy;
- "on-site" offer, via "dedicated" branches within the financial stores 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 13 branches spread across Italy, to which five new openings will be added by the end of the first half of 2019.

The direct control, through a completely dedicated structure, allows for greater economic returns for Banco BPM and the improved monitoring of operational risks, especially with regard to Anti Money Laundering Regulations, in addition to the constant development of trade agreements in line with legislative developments.

Over 31,000 customers are served in this way, in collaboration with the Allies.

The market for the off-site supply 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 expertise currently acquired by Banco BPM have lain the groundwork for the strong possibility of the further development of constantly growing business on the market.

Public Administration and Entities

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 Central Administrations (State and Constitutional Bodies, Ministries and their Departments, etc.), Local Governments (Regions, Provinces and Municipalities) and Public Welfare and Assistance Bodies;
- Public Companies, i.e. entities that produce goods and/or services intended for sale and that have a public legal nature or that are directly or indirectly controlled by the Public Administrations, by way of specific laws, decrees or regulations.

Commercial activity in 2018 was conducted in full compliance with proposed guidelines and particular focus was given to not only the economic result, but also:

- the economic and financial situation of counterparties, in order to mitigate credit risks;
- the minimisation of location-based service commitments.

The Public Sector 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 2018, the certification body also successfully audited for its oversight of the design and management of Treasury and Cash Services and the provision of loans to the Public Administration.

P.A. and Entity Customers are broken down by type of SAE/economic activity as follows:

Type of Entity by SAE	Distribution %
Municipalities - Unions of Municipalities	42%
Educational institutions	32%
Health authorities and hospitals	2%
Investee companies	15%
Other entities	9%
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, which make up the Third Sector segment, and by dioceses, parishes, congregations and religious orders, which make up the Religious Entities Segment.

Third-Sector customers and Religious Entities are broken down by type of SAE/Legal nature:

Entity type by legal nature	Distribution %
Associations	50%
Foundations	2%
Religious institutions (parishes)	9%
Social Cooperatives	5%
Other entities with or without legal personality	34%
Total	**100%**

The introduction of the Third Sector Code, by means of Italian Legislative Decree no. 117 of 3 July 2017, has brought about important and positive changes, destined to have a significant impact on the sphere of "non-profit" Bodies and Institutions with the introduction of implementing decrees (not yet fully issued), including:

- the introduction of the Third Sector Entity (TSE) classification, which is also extended to social enterprises (including social cooperatives), associative networks and mutual benefit associations, in addition to associations, foundations and private non-profit bodies;
- the establishment of the Single National Register for the Third Sector (RUNTS). Registration entitles bodies to gain the Third Sector Body classification, with the related tax and administrative simplification benefits.

Given the importance attributed to the Third Sector by the Legislator, an area which offers significant development opportunities, Banco BPM has decided to strengthen its commercial presence via its dedicated structure and implement several commercial initiatives, which began in 2017 and continued during 2018:

- the development of products aimed at meeting the growing need for credit from social cooperatives, via the signing of "with recourse" transactions in agreement with the Prefectures to manage the first reception of migrants;

- customer support for fundraising, via the activation of dedicated transactional banking services;
- advance on the "cinque per mille" tax donation to beneficiary associations and bodies based on the lists published by the Tax Authority;
- the development of "partnership" agreements for developing products and services for both Bodies and the supply chain;
- the introduction of the extension of the Cooperfidi Italia guarantee on first request in favour of organisations within the extended Third Sector, i.e. also from organisations that are not registered on the Economic and Administrative Index (REA) such as associations, foundations, etc.

Private

	2018	2017 (*)	absolute change	change %
Interest margin	277	(4,686)	4,963	
Financial margin	**277**	**(4,686)**	**4,963**	
Net fee and commission income	84,639	77,320	7,319	9.5%
Other net operating income	(4,886)	(2,768)	(2,118)	76.5%
Net financial result	19	18	1	5.6%
Other operating income	**79,772**	**74,570**	**5,202**	**7.0%**
Operating income	**80,049**	**69,884**	**10,165**	**14.5%**
Personnel expenses	(50,678)	(50,114)	(564)	1.1%
Other administrative expenses	(19,069)	(23,907)	4,838	(20.2%)
Operating expenses	**(69,747)**	**(74,021)**	**4,274**	**(5.8%)**
Profit (loss) from operations	**10,302**	**(4,137)**	**14,439**	
Net adjustments on loans to customers	(300)	86	(386)	
Net provisions for risks and charges	(20,740)	(2,004)	(18,736)	not significant
Profit (loss) before tax from continuing operations	**(10,738)**	**(6,055)**	**(4,683)**	**77.3%**
Taxes on income from continuing operations	2,954	1,665	1,289	77.4%
Charges related to the banking system, net of taxes	(1,268)	(823)	(445)	54.1%
Income (loss) attributable to the Parent Company	**(9,052)**	**(5,213)**	**(3,839)**	**73.6%**

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

Economic performance of the sector

Total operating income from the Private segment was 80.0 million euro, up by 14.5% compared to the previous year due to an increase in net interest income and the positive trend in income from services within the segment (+9.5%).

Specifically, the net interest income (+5.0 million euro) was positively affected by the lower stock of bond issues compared to 2017, while net fee and commission income (+7.3%) benefited from greater income from managed assets, which increased by 20.9%.

Operating expenses fell by 4.3 million euro due to the trend in other administrative expenses, which benefited from a careful cost management policy.

The income (loss) from operations was 10.3 million euro, up by 14.4 million euro compared to 2017.

Net provisions for risks and charges amounted to 20.7 million euro, compared to the 2.0 million euro in 2017, and includes extraordinary supplementary provisions recognised for charges that could arise from the settlement of disputes and claims, specifically those from customers reported to the company Intermarket Diamond Business S.p.A. and from the decision to recalculate the conditions applied to customers in relation to commissions for the enquiry fees and granting of credit availability relating to previous years.

Charges related to the banking system, net of taxes, of 1.3 million euro (0.8 million euro in the previous year) were charged to the income statement for the year, with a total increase of 54.1%. These include ordinary contributions to the Single Resolution Fund (SRF) and the Deposit Guarantee Scheme (DGS).

The Private operating segment closed the year with losses of 9.1 million euro, down compared to 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 2018, Banca Aletti recorded a total amount of assets under management (both administered and managed) of 18.3 billion euro.
The year was characterised by a decrease in net interest and other banking income for the Private segment compared to the average figure for the previous year, arising from a significant reduction in income from services, which was partially offset by an improvement in the financial margin.
This evidence should be viewed within the unanticipated context of the highly critical states of the global financial and currency markets which recorded – with the exception of the North American markets – significantly negative performances.
While the structural yields of interbank monetary rates continued to be negative, overall uncertainties in the context caused a slowdown in the downward trend towards very short-term investments, represented by direct funding on demand.
The combined effect of the context of the financial market and outflow volumes related to outgoing private bankers in the last quarter of 2017 and in 2018 led to a decrease in the volumes of higher value-added investment and, more generally, managed assets.
The year saw the first slowdowns in the recovery within a framework of economic uncertainty and prudence on the part of customers in assessing investment choices in both the real economy and the financial markets, who preferred to assume wait-and-see positions, especially in the second half of the year. Within this framework, the many actions and strategies aimed at increasing volumes in the medium term and expanding the scope to customers have only partially provided the expected results in terms of net funding. This figure was eroded by the negative effect associated by the volumes related to outgoing private bankers in the last quarter of 2017 and in 2018.

To support development, in line with the strategy of previous years, actions have been implemented to create opportunities for contact with potential customers via a series of events throughout the local area (around 60 per year).
As a way of implementing the Group's integration plan, during the year the transfer of the Private Banking division of Banca Akros was completed, which affected the private network perimeter.
Specifically, two new Units were created: Milano Eginardo and Roma Porpora with the hiring of 8 private bankers.
At the same time, with the aforementioned business unit, 8 financial advisers joined Banca Aletti and the coordination department, Financial Advisers, was established.
Lastly, in order to strengthen our presence in the areas with the most potential, a unit was opened in Treviso and a branch office was opened in Voghera.
As at 31 December 2018, the Banca Aletti network consisted of 11 Areas, 45 Units, 10 branch offices, 269 Private Bankers and 4 Financial Advisers.

Investment Banking

	2018	2017 (*)	absolute change	change %
Interest margin	92,653	120,192	(27,539)	(22.9%)
Financial margin	**92,653**	**120,192**	**(27,539)**	**(22.9%)**
Net fee and commission income	29,614	30,492	(878)	(2.9%)
Other net operating income	879	567	312	55.0%
Net financial result	(8,188)	(1,901)	(6,287)	330.7%
Other operating income	**22,305**	**29,158**	**(6,853)**	**(23.5%)**
Operating income	**114,958**	**149,350**	**(34,392)**	**(23.0%)**
Personnel expenses	(24,989)	(34,496)	9,507	(27.6%)
Other administrative expenses	(67,141)	(47,918)	(19,223)	40.1%
Net value adjustments on property, plant and equipment and intangible assets	(1,032)	(7,179)	6,147	(85.6%)
Operating expenses	**(93,162)**	**(89,593)**	**(3,569)**	**4.0%**
Profit (loss) from operations	**21,796**	**59,757**	**(37,961)**	**(63.5%)**
Net adjustments on loans to customers	265	2,566	(2,301)	(89.7%)
Net adjustments on securities and other financial assets	767	1,178	(411)	(34.9%)
Net provisions for risks and charges	5,915	700	5,215	not significant
Profits (Losses) on disposal of investments in associates and companies subject to joint control and other investments	-	(1)	1	
Profit (loss) before tax from continuing operations	**28,743**	**64,200**	**(35,457)**	**(55.2%)**
Taxes on income from continuing operations	(9,884)	(26,434)	16,550	(62.6%)
Charges related to the banking system, net of taxes	(4,021)	(2,550)	(1,471)	57.7%
Income (loss) attributable to the Parent Company	**14,838**	**35,216**	**(20,378)**	**(57.9%)**

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

Economic performance of the sector

The segment in question consists of the legal entity Banca Akros and the contribution of Banca Aletti's investment banking activities in regard to the first nine months of the year, as on 01 October 2018 the transfer of the division from Banca Aletti to Banca Akros was completed.

The trend in the main balance sheet items marks a decrease in net interest income, due to the decrease recorded by Banca Aletti after the fall in 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 Group and subscribed to by Banca Aletti (by Banca Akros since 01 October). Other operating income, which also fell, is actually the result of the performance of Banca Aletti's income statement in this case also. Specifically, the decrease registered in net fee and commission income is due to the sale of insurance asset management schemes in the first quarter, which was only partly offset by lower entry fees recognised by the Commercial Network, following on from fewer placements. The latter aspect also explains the decrease recorded in the net financial result.

Operating expenses fell overall, both in terms of personnel expenses and in terms of net value adjustments on property and equipment and intangible assets. The latter was mainly owing to the sale of hardware and software in November 2017 to the company SGS S.p.A.

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. These activities, after the sale of the investment banking division, which occurred on the 01 October 2018, by Banca Aletti to Banca Akros, are carried out by the latter. More information on the activities managed by the business segment in question are provided below.

Trading and market making activities on own account

Market making and trading on own account in Government bonds and securities, interest rates, exchange rates, shares and other financial derivatives, conducted during the year, were negatively affected by the conditions on

financial markets which were characterised by low interest rates, a widening of the BTP-Bund spread and the fall in stock market prices in the second half of the year, which particularly affected the valuation of proprietary bond portfolios.

Over-the-counter market making on Government securities and bonds continued to be significant, despite the fall in traded volumes due to the aforementioned critical issues present. Market making activities continued on the MOT and ExtraMOT markets of the Borsa Italiana, EuroTLX, Hi-MTF and MTS-Bondvision. Also note the development of specialist activity on the Hi-MTF market, also on bonds issued by domestic banks.

Derivative instruments on equities and equity indices also continued to perform well on OTC and regulated markets (Idem of Borsa Italiana and Eurex), where Banca Akros operates as market maker on stock options and future stocks.

During the period, the interbank market for deposits in euro, now centralised within the Parent Company as part of the reorganisation of the Group's treasury activities, ceased to operate. Transactions with professional customers and qualified counterparties in repurchase agreements and securities lending on bonds and shares continued to be significant.

At the time of the demerger of Banca Aletti's Corporate & Investment Banking business unit in favour of Banca Akros, the trading/market making activities of the two banks were integrated. Trading on own account was then reorganised within the Global Markets Division, which includes the organisational units responsible for trading and financial risk management, specialised by market, and those dedicated to structuring the products requested by customers and developing quantitative financial engineering solutions.

Risk management strategies implemented during the last few months of the year were prudent, especially in Government and corporate bonds, and benefited from long, volatile positions in the stock and foreign exchange markets.

Brokerage activities

After a brilliant start, in the second half of 2018 the main Italian stock indices closed in highly negative territory (FTSE MIB -16.10%; FTSE Italia Star -16.60%).
Equity trading on the stock exchange and on the MTFs (626 billion euro in 2018, Source: Assosim) showed a trend in line with the volumes traded in the previous year, while there was a decrease of approximately 30% in the bond sector (MOT, EUROTLX and HIMTF), with total trades of approximately 170 billion euro.
Once again, trades were concentrated on the most capitalised shares in the FTSE MIB index, with a ratio of approximately 89% on total traded values (Source: Borsa Italiana), in line with the previous year.
In this regard, we note the positive results achieved in shares brokerage on behalf of third parties on domestic markets, where Banca Akros remains in fourth place among Italian and foreign intermediaries active on the Borsa Italiana's electronic stock market, with a growing market share of 8.3% (7.2% in 2017) (Source: Assosim) and ranked first on the SeDeX market, with a market share of 26.2% (25.8% in 2017). Banca Akros also ranks second on the ETFPLUS market, with a market share of 11.0% (fourth place, with a market share of 5.6% in 2017). Business also continued positively on the Equiduct market, managed by the Böerse Berlin.
In specialist activities for issuers listed on the Borsa Italiana, at the end of the year there were 29 mandates in place (14 in 2017).
The activity on foreign equity, which is also conducted within the framework of ESN – European Securities Network LLP (the partnership in equity research and trading established with other European investment banks that are independent of each other and active in their respective national equity markets), recorded an increase in volumes traded of approximately 10% compared to 2017. ESN is confirmed as a reference solution at a pan-European level, ensuring independence and broad corporate access to investors in individual countries, due to the coverage of over 500 listed companies by around 80 analysts and 110 sales staff and traders.
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 12.9% (third place with a share of 8.8% in 2017) and seventh place in the Futures market on the index with a market share of 2.72% (eighth place with a share of 1.8% in 2017).
The Bank confirmed its position in the brokerage on fixed-income investments on the behalf of third parties, also due to the contribution of SABE, the proprietary system for the automatic search of the best execution, which meets the

dictates of the 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 traded on the behalf of third parties on bonds, during the year Banca Akros ranked first on the EuroMOT, ExtraMOT and Hi-MTF markets, with market shares of 25.8%, 26.1% and 24.6% respectively, and second on the DomesticMOT and EuroTLX markets, with 15.9% and 20.8% respectively, in the ranking compiled by Assosim. Bond market shares increased compared to 2017.
Activity on the German market for EEX energy derivatives continued positively, as did activity on the French Powernext market for gas derivatives, with a significant increase in volumes traded on behalf of customers active in trading and risk hedging operations in the relative sectors.
Separated by classification and function from the aforementioned brokerage activity, yet related from a customer's perspective, the Equity Research division, made up of a team of 13 analysts, has conducted intense analysis on both large cap and SME listed securities. The Equity Research division's contribution to the numerous meetings with Italian companies and institutional investors, both domestic and foreign, was crucial.
Banca Akros is one of the few banks within Italy to bolster its focus on SMEs, in line with the strategy defined by the Banco BPM Group.

Investment Banking

Operations on the capital market, in the equity and bond segments, was positive, although the the conditions of high volatility that affected the main financial markets influenced these segments during the second half of the year.
In this regard, within Equity Capital Markets, specifically note Banca Akros' participation in the placement and listing of the SPAC, VEI1, for the amount of 100 million euro, in its role of Global Coordinator and Nomad; in the role of Joint Global Coordinator in managing the guarantee syndicate for the capital increase of 300 million euro of Anima Holding, which closed in April; as Placing Agent for the capital increase of KR Energy, which ended in July with the funding of 15 million euro and, finally, as Joint-Bookrunner in the participation in the guarantee syndicate for the capital increase operations of Credito Valtellinese, for a total of 700 million euro, concluded in March, and of Fila, for a total of 100 million euro, which concluded in December.
The Bank also coordinated the public bids on the Best Union Company, CAD IT and Vittoria Assicurazioni and acted as Sponsor for the transfer of Piteco from AIM Italia to MTA and for the demerger and listing of Aedes SIIQ on the MTA market.

In the Debt Capital Market market, note the Bank's participation, acting as Joint Bookrunner, in the placement of the following Corporate bond issues with institutional investors: KME, fixed-rate issue with that matures in 2023, for a total of 300 million euro; Piaggio, fixed-rate issue that matures in 2025, for a total of 250 million euro; Terna SpA, green bond issue that matures 2023, for a total of 750 million euro; Guala Closuers SpA, issue that matures in 2024, for a total of 455 million euro. The Bank, again as Joint Bookrunner, participated in the Initial Public Offer with direct distribution of Maire Tecnimont bonds on the MOT of Borsa Italiana, at a fixed rate and maturing in 2024, for a total of 165 million euro.
Banca Akros also acted as Other Bookrunner in the Green issue of Iren S.p.A., maturing in 2025, for a total of 500 million euro.
In the Financial Institutions segment, Banca Akros participated, as Joint-Lead manager, in the placement of three bond issues by the Parent Company, Banco BPM, placed with institutional customers: covered bonds, fixed rate, maturing in 2025, for a total of 750 million euro; senior preferred bonds, fixed rate, maturing in 2023, for a total of 500 million euro; covered bonds, also maturing in 2023, for 500 million euro. Lastly, in the same role, in the Tier II Subordinate bond issue of Vittoria Assicurazioni, maturing in 2028, for a total of 250 million euro.
In its role as Joint Bookrunner, the Bank participated in the dual tranche issue (fixed rate and variable rate) of the NEXI, maturing in 2023, for a total of 2,200 million euro.

In the Supranational issuers segment, the Bank took part, in the role of Joint-Lead Manager, in a green fixed-rate issue, maturing in 2032, for a total of 500 million euro from the European Investment Bank (EIB).
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).

In the non-performing loan disposal segment, Banca Akros acted as Joint Arranger in the securitisation of a portfolio of bad loans amounting to 5.1 billion euro carried out by the Parent Company Banco BPM, obtaining the GACS guarantee, and as Advisor in the sale of a further 7 billion euro (the ACE transaction), which will be completed in 2019. As Arranger, the Bank also carried out a multi-originator assignment of bad loans, mainly mortgages, by a

pool of Italian banks (the Multiseller NPL 2018 Project), as well as the sale of substantial non-performing mortgages and/or UTPs with positive effects on the next financial year also, known on the market as "Single Name", by a pool of Italian banks (the Single Name Italy Project).
The Bank also managed, as Joint Arranger, two securitisations of consumer loans originated by Agos Ducato, for 1,200 million euro and 1,100 million euro respectively.

The Bank has implemented the planned reinforcement of the M&A department, through the inclusion of senior specialist resources from leading operators in the sector, with the aim of focusing on M&A activities for Italian SMEs, including in cross-border transactions.
The newly formed team has fostered significant development in operations. Specifically, Banca Akros, as exclusive financial advisor, has supported the reference shareholders of Pibiplast (plastic packaging for cosmetics) in selling its controlling interest in two private equity funds; in this transaction, cross selling was also favoured towards the Parent Company Banco BPM, involved in supporting bridge financing solutions for the founding family and in the acquisition financing for the purchasers.
Two other M&A transactions were successfully concluded as advisor to the seller: the cross-border transfer of Diatec to the Austrian company Andritz and the transfer of ICloud to the F2i fund.

Corporate & Institutional Banking

The reorganisation of the hedging activities for Corporate, Bank and Financial Institution customers continued, which was assigned to the newly formed Corporate & Institutional Banking Division. This division, divided into the Banks & Investment Products, Corporate Sales and Institutional Sales departments, ensures the development of an integrated offer to customers of the Bank's products and services, in coordination with the Parent Company.

Thus the Bank operated with the new organisation and all the proprietary trading activities previously carried out separately by Banca Akros and Banca Aletti continued. Specifically, the structuring and issuing of Certificates by Banca Akros which, on the basis of customer needs and in compliance with the relevant legislation, places them with investors via the distribution networks, both inside and outside of the Group. Banca Akros also intervened in the fourth quarter in the analysis for the structuring of asset management investment products, with quantitative components, intended for management and insurance company customers.

In the fourth quarter, all sales of hedging products were centralised within Banca Akros.

In 2018, Banca Akros reaffirmed its activity of providing specialised support in hedging and risk management instruments for institutional and corporate customers, also within the context of joint coverage with the Parent Company, with a particular focus on the specific target represented by the Mid Corporate segment. This activity was reflected in an increase in customer flows on interest rate, currency and commodity derivatives.

Particular attention was also paid to issues, such as the development and internationalisation of companies, financial and technological innovation of products and processes and, more generally, those related to the concept of sustainability and Environment, Social, Governance (ESG), aware of the growing interest reserved by public opinion, institutions, consumers, the media and, lastly, investors to environmental issues and more generally to the concept of corporate social responsibility.
In this regard, Banca Akros also became the strategic partner of ELITE, the subsidiary of the Borsa Italiana which, via a training and tutoring programme, supports the most dynamic and innovative companies to achieve their growth projects. In 2018, ELITE reached the prestigious target of 1,000 companies, 600 of which were Italian. Banca Akros and Banco BPM have jointly created an "ELITE Lounge", via which around 40 customer-companies were offered a training program, with the costs partially borne by the promoters of the Lounges.
Regarding the diversification of funding sources, the Bank has developed a partnership with a national operator in the private debt sector. Today, Banca Akros has placed three Private Debt funds with institutional investors, amounting to a total value of approximately 370 million euro, which invest in Italian SMEs to finance specific growth and development projects (the acquisition of new production capacity, the acquisition of a competitor, the launch of new products, entering new markets, etc.).
Banca Akros has also consolidated its reference role within the Special Purpose Acquisition Company (SPAC) market, an innovative instrument that is mainly targeted at SMEs which safeguards the family ownership of the target company, which is subject to the business combination, while also providing the necessary capital to ensure its development, also internationally.

In 2018, Banca Akros launched a number of specific initiatives related to ESG issues, such as membership in consortia for issuing Green Bonds (IREN, Terna, BEI) and by way of collaboration with Anima SGR to develop the SICAV segments attributable to ESG criteria (renewable energy, digital revolution, global science for life), as well as developing a volatility control algorithm based on the selected indexes.

Strategic partnerships

	2018	2017 (*)	absolute change	change %
Interest margin	(10,557)	(15,020)	4,463	(29.7%)
Profits (losses) on investments in associates and companies subject to joint control carried at equity	157,840	164,428	(6,588)	(4.0%)
Financial margin	**147,283**	**149,408**	**(2,125)**	**(1.4%)**
Net financial result	8,354	10,992	(2,638)	(24.0%)
Other operating income	**8,354**	**10,992**	**(2,638)**	**(24.0%)**
Operating income	**155,637**	**160,400**	**(4,763)**	**(3.0%)**
Personnel expenses	(2,072)	(1,844)	(228)	12.4%
Other administrative expenses	(486)	(662)	176	(26.6%)
Operating expenses	**(2,558)**	**(2,506)**	**(52)**	**2.1%**
Profit (loss) from operations	**153,079**	**157,894**	**(4,815)**	**(3.0%)**
Profits (Losses) on disposal of investments in associates and companies subject to joint control and other investments	170,703	-	170,703	
Profit (loss) before tax from continuing operations	**323,782**	**157,894**	**165,888**	**105.1%**
Taxes on income from continuing operations	11,953	5,325	6,628	124.5%
Income (loss) attributable to the Parent Company	**335,735**	**163,219**	**172,516**	**105.7%**

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

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

Economic performance of the sector

The main financial items show a decrease in operating income mainly due to the lower contribution of dividends from Anima Holding and the decrease in the profits from investments in associates and companies subject to joint control. Specifically, note the lower contribution from Vera Vita (9.6 million euro in 2018, compared to the 24.1 million euro in 2017) and Vera Assicurazioni (9.1 million euro in 2017, compared to the 14.4 million euro in 2017), also following on from the extraordinary transaction relating to bancassurance activity, with a decrease in the percentage of interest held in the companies (from 50% in 2017 to 35% in 2018). In fact, it was this transaction that allowed us to achieve an important gain recognised among the profits from the disposal of the investments in associates and companies subject to joint control, which occurred in the first quarter of the year (170.7 million euro).

Leasing

	2018	2017 (*)	absolute change	change %
Interest margin	51,000	36,313	14,687	40.4%
Financial margin	**51,000**	**36,313**	**14,687**	**40.4%**
Net fee and commission income	7	6	1	16.7%
Other net operating income	15,418	21,452	(6,034)	(28.1%)
Net financial result	(16)	-	(16)	
Other operating income	**15,409**	**21,458**	**(6,049)**	**(28.2%)**
Operating income	**66,409**	**57,771**	**8,638**	**15.0%**
Personnel expenses	(6,452)	(7,739)	1,287	(16.6%)
Other administrative expenses	(35,760)	(38,815)	3,055	(7.9%)
Net value adjustments on property, plant and equipment and intangible assets	(32,599)	(24,204)	(8,395)	34.7%
Operating expenses	**(74,811)**	**(70,758)**	**(4,053)**	**5.7%**
Profit (loss) from operations	**(8,402)**	**(12,987)**	**4,585**	**(35.3%)**
Net adjustments on loans to customers	(92,710)	(103,016)	10,306	(10.0%)
Net provisions for risks and charges	(12,425)	(46)	(12,379)	not significant
Profits (Losses) on disposal of investments in associates and companies subject to joint control and other investments	(1,373)	1,825	(3,198)	
Profit (loss) before tax from continuing operations	**(114,910)**	**(114,224)**	**(686)**	**0.6%**
Taxes on income from continuing operations	33,461	20,157	13,304	66.0%
Income (loss) attributable to minority interests	9,622	11,505	(1,883)	(16.4%)
Income (loss) attributable to the Parent Company	**(71,827)**	**(82,562)**	**10,735**	**(13.0%)**

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

Economic performance of the sector

The Leasing segment, which includes figures relating to the leasing contracts of the former Banca Italease and the company Release, recorded total operating income of 66.4 million euro. The increase in 8.6 million euro, compared to the 57.8 million euro of the previous year, was mainly due to the increase in net interest income following on from the introduction of the IFRS 9 accounting standard as a replacement for the IAS 39 accounting standard, which led to a reclassification of net interest income of 17.9 million euro, which was partially absorbed by the reduction in interest income, of 7.4 million euro, due to the sale of property and termination of use.

Operating expenses (74.8 million in 2018 compared to 70.8 million in 2017) increased by 4.0 million euro, mainly as a result of impairment losses on property recorded between the value adjustments on property and equipment and tangible assets.
The effects on net operating income were an improvement on the -4.6 million compared to the previous year (-8.4 million euro against the -13.0 million euro).
Net adjustments on loans to customers came to -92.7 million euro, down compared to the -103.0 million euro from the last year, which was largely due to lower provisions for specific positions of Release that came to approximately 10 million euro.
The item "Net provisions for risks and charges" increased by 12.4 million euro due to the allocation of 10.1 million euro to cover a guarantee issued on a specific position of Release.

As illustrated above, the Leasing segment reported a loss for the year of 71.8 million euro, an improvement on the loss of 82.6 million euro for the previous year.

Corporate Centre

	2018	2017 (*)	absolute change	change %
Interest margin	463,353	403,897	59,456	14.7%
Profits (losses) on investments in associates and companies subject to joint control carried at equity	1,617	1,608	9	0.6%
Financial margin	**464,970**	**405,505**	**59,465**	**14.7%**
Net fee and commission income	6,115	20,484	(14,369)	(70.1%)
Other net operating income	376,459	72,824	303,635	416.9%
Net financial result	31,091	119,970	(88,879)	(74.1%)
Other operating income	**413,665**	**213,278**	**200,387**	**94.0%**
Operating income	**878,635**	**618,783**	**259,852**	**42.0%**
Personnel expenses	(459,034)	(460,238)	1,204	(0.3%)
Other administrative expenses	483,330	348,270	135,060	38.8%
Net value adjustments on property, plant and equipment and intangible assets	(209,867)	(235,532)	25,665	(10.9%)
Operating expenses	**(185,571)**	**(347,500)**	**161,929**	**(46.6%)**
Profit (loss) from operations	**693,064**	**271,283**	**421,781**	**155.5%**
Net adjustments on loans to customers	(28,735)	(50,415)	21,680	(43.0%)
Net adjustments on securities and other financial assets	2,524	(141,395)	143,919	
Net provisions for risks and charges	(37,311)	5,878	(43,189)	
Profits (Losses) on disposal of investments in associates and companies subject to joint control and other investments	4,028	23,874	(19,846)	(83.1%)
Profit (loss) before tax from continuing operations	**633,570**	**109,225**	**524,345**	**480.1%**
Taxes on income from continuing operations	(202,017)	(29,101)	(172,916)	not significant
Charges related to the banking system, net of taxes	(22,957)	(7,857)	(15,100)	192.2%
Profit (loss) from discontinued operations	936	762,262	(761,326)	(99.9%)
Income (loss) attributable to minority interests	1	(1,847)	1,848	
Income (loss) for the period with impairment on client relations net of taxes	**409,533**	**832,682**	**(423,149)**	**(50.8%)**
Impairment of goodwill and client relationships net of taxes	(2,929)	(1,017,616)	1,014,687	(99.7%)
Merger difference (Badwill)	-	3,076,137	(3,076,137)	
Income (loss) attributable to the Parent Company	**406,604**	**2,891,203**	**(2,484,599)**	**(85.9%)**

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

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, and of the Group's service and 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 sector

Growth in net interest income, compared to 2017, benefited from the improvement in the wholesale issue component, due to the progressive reduction of the existing stock, and the result of the ALM centre, which positively affected the trend of interest rates. These aspects balanced out the decrease in the contribution of the securities portfolio, also due to the effect of the increased cost of funding in non-euro currencies incurred to finance it, and of other funding components with institutional counterparties (largely, Cassa Compensazione e Garanzia and the ECB, which, in 2017, benefited from extraordinary interest relating to the TLTRO II 2016 to the amount of 31.7 million euro.

Fees and commissions fell, also after the disposal of the Custodian Bank business, which made it possible to generate a significant gain during the third quarter (200 million euro) recorded in other net operating income. This latter item of the income statement also benefited from the gain on the sale of Banca Aletti's insurance management contracts in the second quarter (113.6 million euro).

The net financial result fell sharply, mainly due to the forex swaps (-52.2 million euro), related to exchange rate hedging on the foreign currency component of the securities portfolio, and due to the write-down of the subordinated bond issued by Banca Cariga within the agreement stipulated with the IDGF (-27.9 million euro).

Operating expenses fell considerably, mainly due to the increase in costs attributed to the Group's other business lines. Net value adjustments on property and equipment and intangible assets also fell, due to lower write-downs.

In regard to other expense components, lower adjustments to loans and other financial assets were recorded, which registered a contribution of 56.1 million euro in 2017 to the Voluntary Scheme (IDGF), and shares held in the Atlante Fund (61 million euro) were written down. However, net provisions for risks and charges increased, largely due to charges relating to the closure of branches (46.2 million euro).

In 2017, the Income (Loss) on the disposal of equity and other investments recorded a positive impact of the valuation effects resulting from the reclassification of the investment held in Energreen (+11.7 million euro), while Profit from discontinued operations during the previous year incorporated the results of Aletti Gestielle SGR, which was sold to Anima Holding.

Charges related to the banking system, net of taxes, increased during the current financial year, due to the additional contribution to the National Resolution Fund (18.4 million euro), fully attributed to the Corporate Centre.

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

Group Finance

The Parent Company is the centre of coordination and oversight for the management policies of the structural items of the Group's own assets and liabilities and those of the other Group companies, geared towards optimising the available capital, identifying appropriate operations and funding strategies for the Group, through actions on domestic and international markets, as well as controlling liquidity needs and their dynamics, and also managing the securities portfolios and other financial instruments owned by the Group.
The operations of the Group's Finance are divided into the following operating structures: 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 2018, with an LCR that remained well above the Group's Risk Appetite Framework objectives during the year.

The overall funding position from the ECB under TLTRO II transactions remained the same at 21.4 billion euro.

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 January, a seven-year covered bond for 750 million euro and a coupon of 1%; in April, a five-year senior bond for 500 million euro and a coupon of 1.75%; in July, a five-year and two-month covered bond for 500 million euro and a coupon of 1.125%.

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 (Red Sea GACS) and the retained covered bonds; the total nominal amount of these transactions was approximately 2.5 billion euro.

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 in which the hedges are present are mainly demand items, bond issues, mortgages and the securities portfolio.

Proprietary Portfolio Management

Regarding the management of financial instruments under assets, in 2018 the strategies briefly described below were followed.

Positions in the HFT accounting category
As far as trading is concerned, it should be noted that, in line with the strategic choices made in the previous year, management remained focused on bond instruments with a particular concentration of risks on the financial component. With regard to non-government bonds, the strategy to increase the already high level of diversification of the issuers held in the portfolio continued, characterised by the prevalence of issues denominated in USD, foreign issuers (especially French, US, Japanese, French, Australian, Spanish and German), a high average rating and the partial reallocation from T2 subordinated instruments to senior and non-preferred instruments.
Regarding government bonds, the activity favoured a strategically short positioning with respect to Italian government bonds, dynamically reshaped according to the various market situations. Furthermore, the relative-value strategies on euro-core and semi-core government bonds (Germany, France and Spain) were increased. Specifically, the positioning on the German curve was mainly indirect through listed derivatives, while on the French and Spanish curves, in addition to both long and short positions on bonds, OTC option transactions were also made. Also in regard to the bond component, the use of IRSs to manage interest rate risk, both on the European and US yield curves, increased over the previous year, mitigating capital absorption and containing the volatility resulting from the erratic performance of the markets.
Equity business was complementary and particularly prudent during the year, especially considering the extremely high volatility and downward trend of the main world stock exchange indices, i.e. substantially without any negative impact on the income statement.

Positions in the HTC accounting category
In 2018, the process of diversifying positions recorded in HTC continued in line with the desire to reduce correlation risks and the average credit risk profile of government bonds in the portfolio, above all by increasing the component of former Italian government bonds, particularly those of other Eurozone countries and the USA. Therefore, overall the HTC portfolio reached a nominal amount of approximately 15.2 billion euro with an average duration of approximately 4.45 years.

Positions in the HTCS accounting category
The government bond component saw a consistent process of gradual geographical diversification of issuers in the HTCS accounting category also. Italian government bonds gradually decreased in favour of those of other countries, which reached a nominal amount of approximately 5.1 billion euro at the end of the year. Regarding non-government bond investments, there was a slight increase in the total nominal amount of the investments, reaching an amount of over 3 billion euro, as well as an increase in the number of positions on highly rated foreign financial and corporate issuers.
Indirect exposure to equity markets, resulting from the portfolio of mutual funds (FVTPLM), was substantially reduced during the year, also due to expected market developments and the desire to reduce volatility risks in the contribution to the income statement.

Private Equity and Funds
During 2018, investment activities in Alternative Investment Funds continued. While, as in previous years, favouring private equity funds focused mainly on the Italian SME segment, investment activity was also extended to private debt and venture capital funds, as an alternative and/or complementary form to private equity in order to support the organic growth of companies.

Group Treasury

In regard to the stabilisation of the Eurozone money market by the European Central Bank and relative low volatility of Euro rates, Money Market Desk activity recorded an increase in forex swap activity following the sale of the Custodian Bank and the related currency deposits. The volumes of this activity amounted to around 2.5 billion euro in December, mainly concentrated on euro/dollar forex swaps.
The achievement of the company's objectives in terms of short-term liquidity coverage indicators (Liquidity Coverage Ratio), both for the Group as a whole and for its individual legal entities, has led to the deployment of effective synergies with the other organisational units involved (specifically, Collateral Management and Liquidity Risk).

Funding on the money markets aimed to optimise available collateral and reduce the cost of financing by seeking the best conditions and greater diversification of sources of funding both in euro and in foreign currencies.
The contribution of secured financing on proprietary assets has made it possible to achieve interesting margins on short/medium-term funding activities. Low interest rates made it possible to meet liquidity needs in euro; average funding amounted to approximately 8.7 billion euro, of which 4.7 billion euro was guaranteed by CC&G, while lending amounted to approximately 7.7 billion euro, of which 4.7 billion euro through CC&G.
The diversification of maturities up to 1 year in USD, deriving, in this case, from the financing of proprietary assets also, has allowed the bank to benefit from the best financing conditions on the market within a framework of rising rates; on average, outstanding financing amounted to 2.8 billion euro.
Non-collateralised securities lending transactions with leading market counterparties were sustained due to a strong liquidity position that enabled the economic return on High Quality Liquid Asset securities to be optimised. The maximum outstanding amount of transactions concluded reached approximately 1.8 billion euro, helping to generate profitability.
In the fourth quarter of 2018, the desk traded medium-term repos with our underlying issues of retained Covered bonds and ABS with the senior tranches of the securitisation of non-performing loans guaranteed by GACS underlying them, helping to tackle the prospective depressive effects on liquidity indicators due to the approaching conclusion of the ECB's expansionary policy. It was decided to proceed, taking advantage of the still favourable market conditions, with maturities of 2, 3 and 4 years. The total amount financed, for all types, at the end of 2018, was approximately 2 billion euro.

During 2018, the foreign exchange market, as well as the implementation of the restrictive monetary policy by the Fed, gradually saw the U.S. Dollar appreciate. Trade tensions, the tightening of the US government's protectionist policy and the debate on the Brexit issue contributed to increased volatility in the second half of the year. Forex trading, which focused mainly on the main currencies, generated volumes in line with those of the previous year, while economic returns were higher than expected.

Fund management

The Corporate Centre segment also includes Banca Aletti's fund management activities, which were not sold to Anima SGR, following on from the reorganisation of the asset management segment that was implemented in 2017 with the sale of Aletti Gestielle SGR.

For all of 2018, investments of the management lines were implemented, adopting an approach more geared towards the tactical management of risk factors, compared to strategic positions.
Overall, almost all investment asset classes in the financial markets performed poorly in 2018.
Generally, in managed portfolios, the exposure of the equity asset class varied between moderately overweight, equal weight and moderately underweight. The financial duration of the portfolios has been maintained overweight, and, within the bond asset class, Corporate bonds have been favoured, where permitted, especially Investment Grade bonds, via select investments. The currency diversification of the portfolios, which aims to spread risk, was managed with a tactical approach, looking for positive contributions.

Taking management mandates as an aggregate, management lines closed the year at a loss, which was, however better than the reference parameters on average, with a more significant over-performance in the lines with the higher equity content.
As at 31 December 2018, managed assets came to 3.8 billion euro, down compared to the amounts at the end of 2017 (net of approximately 9.4 billion euro transferred to Anima SGR S.p.a. by way of the disposal of the delegated insurance asset management mandates).

Real estate segment

Real estate activity was characterised by the management of the Group's capital assets and the development and potential disposal of the non-operating assets.
The process of optimising and streamlining the structures that deal with the real estate segment is in its final phase: with the merger of BP Property Management, a Group company which, together with the Real Estate Management of Banco BPM, deals with service activities relating to the management and maintenance of Banco BPM's operating real estate assets and the non-operating real estate assets of the former BPM S.p.A., from February 2019, the management of operating real estate assets will be managed by a single structure.
With a view to increasing the efficiency of the spaces occupied and reducing their management costs, as well as the closure of the branches as envisaged by the new Commercial Network model, renegotiation of rents continued and work continued on identifying new suitable spaces for bank branches and/or offices with the aim of obtaining better market conditions and surface areas based on the number of employees involved. The new offices of the Corporate, Markets and Business Areas structure are also being prepared.

During 2018, work also continued, with most of it being carried out, to upgrade the operating properties transferred to the Eracle Fund in 2009, following the in-depth analysis shared with the fund manager.
In this regard, analyses into the composition of the portfolio is in progress, following the closure of some branches owned by the Eracle Fund, with the aim of increasing the efficiency of the costs related to the lease.
The important energy efficiency project, currently focused on remote control systems for technological systems, also continued, and the IT platform was purchased and the first remote controls were carried out during the course of the year. In 2019, the controlled installations will be put in place.

With regard to non-operating assets, the activities relating to the marketing of real estate resulting from the collection of receivables, which was assigned to the newly established NPL Property Portfolio Development unit, have been identified.

The management of the remaining non-operating assets owned by Banco BPM and its subsidiaries continues to be assigned to Bipielle Real Estate. The activity also includes the management and remarketing of properties deriving from defaulting leasing contracts, which continues from year to year, albeit with a slowdown compared to the previous year.

Bipielle Real Estate, which already incorporated a number of real estate companies in 2017, will continue the reorganisation process by incorporating other subsidiaries, so as to continue to create management and operational synergies between their respective organisational structures.
In 2018, the investment in Mariner (holder of the commercial authorisation) was also sold, as the final deed of the sale of the former Traversi Garage in 2017.
Once the company merger is completed, the management process will also be completed in 2019 with the reorganisation of resources and related real estate activities, with the intention of accelerating the disposal of non-operating assets.
The drive to market non-operating properties will also result from the signing of framework agreements with three advisers, who are tasked with driving sales of real estate assets throughout the country.

In regards to the corporate segment of the Italian real estate market, the overall size of the investments remains modest and mostly fuelled by foreign components, but without repeating the exploit recorded in 2017. The fall in prices was -0.8% for shops, while the office sector was penalised even further, recording a decrease of around 1.5%. Nevertheless, the Group's sales exceeded 140 million euro, and preliminary agreements or commitments for approximately 36 million euro have been signed.

Specifically, two important trophy assets which belonged to the Rome-based subsidiary, Release, were sold to Kryalos for a total of 65 million euro; an important commercial agreement was also signed with Dea Capital SGR for the sale of some buildings in Rome owned by Banco BPM and Release, for mixed use, for a total value of approximately 49 million euro. The most significant of these assets was a management building in Piazzale Flaminio, Rome, owned by Banco BPM, the sale of which was completed at the end of December.

Furthermore, the activity to "generate income" from free spaces continued, including those resulting from the recent closure of the branches. Approximately 60 new leases or renegotiations of existing leases were signed, for a total of new annual rentals of over 4 million euro.
The most significant income earning properties included the noteworthy 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 subsidiary Lido dei Coralli, on the other hand, signed an eight-year contract for its resort in Sardinia, guaranteeing good income over the long term for possible investors, with the right of cancellation by the owner with one year's notice.
The subsidiary Sirio Immobiliare has signed, for its only asset in Rome, a lease agreement with a subsidiary of the Lazio Region for a guaranteed duration of six years.
For the subsidiary PMG, on the other hand, a preliminary sale agreement has been defined for the property in Nervi, Genoa, which should lead to a deed by the end of 2019.
The tourist season was excellent for the income structures in Calabria belonging to Terme Ioniche, and increased the production of the agricultural company, which has obtained the allocation of grants for modernisation, renovating and innovation (the RDP).
The subsidiary Sagim Società Agricola saw good revival and targeted improvement. It owns an agricultural tourist complex in the Crete Senesi, which covers approximately 1,000 hectares. Improvements have been made both on the agritourism structure, which has a significant increase in turnover, and on the agricultural and wildlife side. The building permissions authorised for the farms will also allow the fractional transfer of the property, in the event that it is not possible to sell the entire complex.
The historic Villa San Michele in Lucca, belonging to the subsidiary BP Trading, was finally opened to the public after a long restoration, which should facilitate its marketing.

One of the most complex cases from the real estate development perspective pertains to the subsidiary Sviluppo Comparto 8, which owns, among other things, building plots in Lombardy and Piedmont: particularly critical is the area of Collegno (TO), which the Municipality has allocated entirely 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; on the other hand, the proposal for an Implementation Plan submitted to the Municipality of Cologno Monzese saw a better start, even though the urban planning process is undergoing changes, this has not prevented some commercial interest in this area.
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.

RISK MANAGEMENT

Capital adequacy and main risks

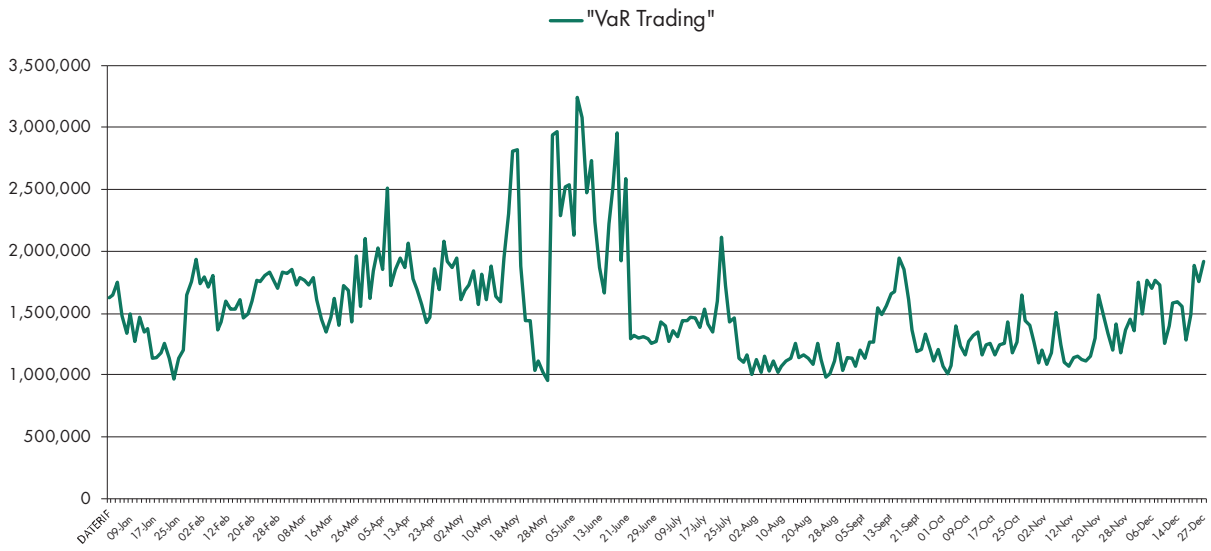
The current level of own funds and risk-weighted assets enables the Banco BPM Group to fully comply with regulatory thresholds and the specific thresholds required by the Supervisory Authority at the end of the Supervisory Review and Evaluation Process (SREP).
In order to provide its Management team, 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, the 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 entails continuously monitoring and managing the capital ratios in order to verify compliance with regulatory limits and to ensure that the minimum capitalisation levels required by Supervisory Authority are maintained. 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 Managing Body (MB), 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. From an operating perspective, risk prevention activities that are not consistent with the risk appetite are also found in the process to manage Significant Transactions (ST) (relating to credit, finance, disposal of loans, etc.) and leveraged transactions with counterparties which primarily involve the Risk Function, which is legally required to express a prior and non-binding opinion on all transactions that meet the identification parameters.
Activities to monitor the risks assumed also include an effective integrated risk reporting system that allows monitoring of all risk measures and the main risk factors to which the Group is exposed. 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 order to promptly and meticulously oversee the risks to which it is exposed, the 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.

The management control of credit risks is also carried using a portfolio model for estimating the VaR, which is a default model applied on a monthly basis to the AIRB loan exposures of Group banks, limited to performing loans, cash loans and endorsement credits, of resident, ordinary and non-ordinary customers. Using this model, operating capital absorption can be estimated, taking into account the book concentration and the assumption of a joint default by counterparties, in a predefined context of significant macroeconomic variables. The level of confidence used is 99.9% and the time horizon of reference is one year. At the end of the model simulation process, the maximum potential loss of the loan portfolio is broken down into the expected loss component and the unexpected loss component. Economic capital on non-performing exposures relating to Corporate and Retail customers is quantified using internal models for the calculation of capital requirements (AIRB approach) subject to approval by the European Central Bank in 2018; for other performing and non-performing exposures not covered by previous treatments, management control of risks is achieved by using regulatory supervisory metrics (Standards).

Regarding the processes and instruments for managing and controlling loan book quality, internal ratings represent a key element and are calculated using differentiated models and estimated specifically for each customer segment. The rating represents the assessment, for a period of 12 months, made on the basis of all reasonably available information, both quantitative and qualitative, and expressed via an ordinal classification, of the ability of the party assigned, or the party to be assigned, to honour the contractual obligations.
The Rating plays a key role in defining credit policies, loan granting, credit product disbursement, monitoring and management processes. In particular, it plays a role 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) and in the classification of stage 2 positions in accordance with the IFRS9 accounting standards.

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 daily using both deterministic (sensitivity to market risk factors and those concerning the issuer) and probabilistic indicators (Value at Risk - VaR). VaR, which indicates the maximum potential loss associated with market movements in unexceptional conditions, represents a synthetic risk measurement. The approach used to calculate the VaR is historical stimulation. The calculated values are given with a confidence level 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.

Daily VaR Banco BPM Group
Regulatory trading portfolio



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. The trend of the Group's overall risks reflects that changes in these securities. More specifically, in the second half of the year, the portfolio indicated a greater level of risk, to be attributed both to exposures and to the volatility of the Italian government bond market.

In terms of operational risk, the 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 the Banco BPM Group. As of the date of the report on 30 June 2018, in line with the decision taken by the ECB on the subject, the Private Banking segments of former BPM S.p.A. and Banca Akros, which merged with Banca Aletti, adopted the advanced methodology. As of the date of the report on 31 December 2018, in line with the decision taken by the ECB on the subject, the Corporate & Investment Banking segments of Banca Aletti, which merged with Banca Akros, are subject to the TSA method.
When granting authorisation for the merger of BPM SpA into Banco BPM, 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 SpA as at 31 December 2017. 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 frequency reduction and the severity of operational loss events and the adoption of solutions in line with industry best practices, Banco BPM Group has 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 Pillar I regulatory measurement of the component authorised to use advanced methods, while at Group level the model in question is used on a continual basis at a management level and for Pillar II purposes.
Risk is measured using AMA methods via an internal method based on quantitative and qualitative analysis according to VaR logic. The quantitative assessment is based on internal loss data, gathered through a loss collection process. This data is 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 the qualitative findings of the continuous assessment of the internal and external operating scenarios are also used.
In line with the Banco BPM Group's mission, the main risk impacts concern the "Commercial Practices" category, followed by the "Processes" category, which together account for a predominant part of the total risk, which mainly occur in the Group's commercial networks.
Regarding "External Fraud" cases, given the trend of more sophisticated techniques used by criminals (e.g. identity theft, computer fraud, etc.), the Group is constantly strengthening its physical and logical security measures, thus limiting these events both in terms of frequency and average impact on losses of this type.
The Group implements the appropriate measures defined in the Mitigation Plan (e.g. training, implementation of processes and/or application procedures, etc.) depending on the main risk factors that emerge.

Regarding liquidity risk, in 2018 the 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 2018, all regulatory liquidity reports were prepared at the level of both the Banco BPM Group and its relevant companies.
For more information on credit, financial and operational risks, please refer to Part E of the Notes to the Financial Statements, under the risk management section. The same chapter also provides detailed information about structured credit products, exposures to SPEs, securitisation transactions and derivative transactions.

The foreseeable evolution of the Group's risks and objectives

The persistence of conditions of uncertainty in relation to the political and economic context within Italy and the financial markets make it difficult to assess the foreseeable evolution of risks. The Group's objectives are generally focused around the prudent and constant monitoring of its activities in order to limit the impact of possible adverse developments, including unforeseeable ones, within the economic scenario.

This being said, with regard to credit risk, evidence from recent trends in the main macroeconomic variables, combined with the objectives pursued in terms of loan composition, suggest that the risk profile should prudently improve in regards to both performing exposures and the portfolio of impaired loans, due to provisioning policies.
In light of the aforementioned macroeconomic scenario and considering the important de-risking objectives achieved by the Group, combined with internal disposal activities (workouts), the plan to reduce non-performing loans will continue over the next few years. The Group's assets and planned funding actions render it possible to outline a secure framework in relation to liquidity risks.

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, would allow for an improvement in the interest margin to be achieved. During the year, the Group's general rate risk profile was adequate and consistent with approved risk limits, and the liquidity profile also showed adequacy in the short and longer term, complying with the risk limits set forth internally and, when present, at regulatory level.

GUIDANCE, CONTROL AND SUPPORT ACTIVITIES

Human Resources

In line with the provisions of the business plan, resource management was significantly characterised by the implementation of projects for the integration and reorganisation of the Group's activities, in order to achieve the objectives set for simplifying the structure and reducing costs, without, however, neglecting initiatives to enhance human capital, while simultaneously safeguarding employment levels.
In regard to the reorganisation of the Group's activities in particular, the new Commercial Network model has been fully operational since January 2018. This is the result of a reduction in the number of Territorial Areas, which fell from 78 to 45, and the extension of the respective territories of reference. This initiative involved more than 10,000 employees, 3,000 of whom have assumed new professional roles, mainly in the commercial network, but also in the NPL Unit and in Wealth Management department.
The aforementioned initiative was a preparatory stage for the streamlining of the commercial network, which occurred in two steps: the first ended on 30 June with the closure of 310 branches, mainly small in size, while the second was completed on 15 December and involved a further 208 branches, which, this time, were larger, with logistical/territorial proximity. This has fostered better utilisation for the more than 1,700 employees involved, ensuring both replacements for positions left vacant by personnel leaving the company by way of adherence to the Solidarity Fund or taking voluntary redundancy, and the optimal coverage of commercial roles outlined in the new organisational model.
Another important turning point in establishing the full identity of the Group, without requiring any further reorganisation with respect to the model adopted, was BPM's incorporation within the Parent Company, an operation which also fostered the definitive integration of colleagues and improved operating efficiency, due to the simplification of the Group's governance and corporate structure, the more timely and effective implementation of commercial strategies and the optimisation of its physical presence across Italy.
Particular efforts were dedicated to repositioning the core activities of Banca Aletti and Banca Akros for their respective business channels. This gave several employees the option of alternative professional development paths and the opportunity to develop new technical and behavioural skills.
The Group's personnel management policies aim to create the conditions of non-discrimination, equal opportunity and the full and effective participation of women in the workplace.
Regarding work-life balance, the experimentation with Flexible Working has been extended and reinforced thanks to the agreement with the Trade Unions.
The Group's workforce consists almost entirely of employees with permanent contracts.

The breakdown of personnel by category and gender as at 31 December 2017 is shown in the table below:

Categories	Men			Women			Total
	Full time	Part time	Total	Full time	Part time	Total	
Executives	285	-	285	29	-	29	314
Management	5,828	39	5,867	2,160	413	2,573	8,440
Professional Areas/Other Personnel	5,994	143	6,137	4,509	2,829	7,338	13,475
Foreign companies	11	-	11	7	-	7	18
Total workforce	**12,118**	**182**	**12,300**	**6,705**	**3,242**	**9,947**	**22,247**
of which:							
Apprentices	59	-	59	59	1	60	119
Permanent contracts	12,057	182	12,239	6,646	3,241	9,887	22,126
Fixed-term 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 2017 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. During the assessment stage, managers can experiment with their own leadership style and the sharing of best practices contributes to the creation of a homogeneous culture for empowering employees. The listening phase that began at the end of the works allowed the refinement areas for the method to be defined, in view of the start of the 2018 evaluation cycle: at the end of the year, the self-evaluation and evaluation phases were begun on a population of approximately 21,600 evaluated employees. Approximately 500 new assessors were also involved in dedicated training meetings, with the goal of sharing the system's principals and the operating mechanisms for formulating the assessments and managing the interviews.
The design of the new development model that guides the professional progression of people within the company and promotes integration and cross-sectoral movement between the business chains was launched. The objective is to develop growth pathways based on the sub-division of multi-year training courses, points of structured evaluation and the measurement of developed skills, as well as to define the relative system of rules that guides choices towards roles of greater complexity.
Lastly, the retraining programme that was initiated in 2017 to support the commercial network via the introduction of new employees was completed, with the aim of assisting people to redesign their professional careers by fostering the approach at the time of change.

Selection and Assessment

During 2018, 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. Specifically, the bank took part in a few career days and recruiting days, meeting students in classrooms, at corporate presentations or at information stands organised within the Universities. Job opportunities were illustrated, profiles sought and CVs collected, consolidating the collaboration with the Placement offices of the Universities and with the territorial 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 2018, the Banco BPM Group initiated 20 internships from various academic institutions representing their regions. The structure has provided support in searching for junior and senior profiles to be hired in Group companies. Specifically for senior profiles, direct searches were made for General Management and a collaboration was entered into with head hunters for Banca Aletti and Banca Akros. Internal assessments were also carried out with the aim of creating professional development pathways.

Training

In 2018, the training unit was tasked with supporting organisational choices at oriented towards consolidating the Banco BPM Group. Significant investments were made to support the adoption of the new Commercial Network model, implementing interventions and training courses designed to develop the skills of all the employees involved in the acquisition of new roles.

Total training hours in 2018 were 1,016,462: the table below provides more detail, divided by type of training activity and by category of participants.

2018	Man days/ Hours provided
Days of training	135,528
Hours of training	1,016,462
of which % by training area:	
Obligatory (*)	54.6%
Technical - professional	33.8%
Relational/skill building/commercial	6.0%
Managerial	5.6%

(*) The obligatory training area includes training days provided on IVASS and MiFID II - ESMA.

Since the early months of 2018, the Training department has drafted a training proposal that focuses on harmonising teaching methods, work tools and training content.

The priorities developed in the 2018 training plan focused on:

- increasing the professional skills of employees in the network with training courses for each role envisaged by the new commercial network model that has been adopted;
- fostering and supporting the management integration process in order to disseminate a shared management culture;
- facilitating the transition to the new financial consultancy model, which is based on a commercial portfolio strategy;
- disseminating a risk management and control culture;
- supporting the creation of a multichannel strategy;
- increasing the capacity to assess company creditworthiness, in order to improve the quality of loans and risk monitoring.

The main training initiatives achieved in 2018 included:

- a training plan to support Banco BPM's new business model;
- a training plan to support the dissemination of distinctive managerial skills and a leadership style;
- a training plan to support the new financial consultancy model;
- a training plan to support the introduction of the MiFID 2 regulation for the provision of investment services;
- a training plan to support the dissemination of the multichannel strategy;
- a training courses aimed at retraining employees of offices that have acquired commercial network roles;
- training initiatives for the employees of the NPL Unit;
- initiatives intended to enhance key competences for the future (soft skills, English language);
- initiatives intended to disseminate a healthy workplace culture;
- courses for mandatory, qualifying training for all office and network roles.

Remuneration Policies

In 2018, the Human Resources function coordinated activities relating to the Group's personnel remuneration policies. 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 submitted to the annual Ordinary Shareholders' Meeting and published on the Group's website www.bancobpm.it (Corporate Governance - Remuneration Policies section).

Industrial Relations - Agreements relating to employees

During 2018, interactions with the Trade Unions continued, first and foremost concerning the application of the agreements signed at the end of 2017, which defined the first significant set of second-level company regulations - which apply to all Group companies - concerning the professional roles of the new network model, mobility and work-life balance (in particular with regard to part time, days of leave and flexible working).
These discussions, which specifically focused on how the new network model would be implemented, allowed for a specific Memorandum of Understanding to be stipulated. This MOU specified the criteria for the technical and regulatory verification of the effects of the Group's integration activities on the working conditions of its employees and the development of continuous training in cases of professional retraining, in strict compliance with the provisions of the National Collective Bargaining Agreement.

In addition to the aforementioned activities, the agreements concerning the reorganisation of the Group, professional development and retraining, second-level bargaining and corporate bonuses were noted.

Concerning the Group's reorganisation measures, the following were implemented in an agreed manner:
- the transfer of the Custodian Bank division, consisting of 30 employees, by Banco BPM to BNP Paribas Securities Services, with the aim of strengthening capital and focusing on core activities;
- the merger by incorporation of BPM S.p.A. and, from 2019, SGS BP into Banco BPM, as well as the territorial reorganisation of the branches, with the aim of streamlining the corporate structure and the commercial network.

Regarding training, access to financing from the Joint Inter-professional Training Fund (*Fondo Paritetico Interprofessionale*) was completed, with the aim of conducting three training projects concerning the skill development of the new professionals introduced by the Banco BPM service model, commercial policies, work organisation, flexible working and equal opportunities.

With regard to second-level bargaining, the second set of company regulations were defined in relation to concessional financial terms for employees, lunch vouchers and other welfare benefits (scholarships for employees who are students and their children who are studying, grants for disabled family members, holiday camps and Christmas provisions for children).
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 category, 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 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 interventions carried out in 2018 covered the following areas:
- Governance Processes,
- Risk Control and Management Processes,
- Finance,

- Commercial,
- Loans,
- Support processes,
- Banking networks

with reference to the organisational processes in use and compliance with internal regulations, as well as the conduct of the personnel involved.

The most significant activities involving the Audit Function in 2018 included audits relating to specific requests from the ECB (related to credit policies, NPL management, the IFRS 9 standard and Leveraged Transactions), as well as obligatory audits (due to compliance with external legislation or Internal Regulations).

The Function has devoted considerable effort to supervising the Project to migrate Banca Akros' IT systems to the "target" system and to organising control activities, in order to ensure consistency with corporate objectives.

In addition to typical internal audit activity, the Audit Function has also provided consultancy 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 BPM merger project (Day F);
- 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 project to define internal Models for assessing the creditworthiness of Structured Finance transactions;
- the revision of the outsourcing process for the Important Operating Functions (I.O.F.).

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

- SREP – the evolution of the Internal Audit according to SREP guidelines;
- Internal and external fraud in the banking sector;
- Skills (R)evolution;
- Outsourcing.

Compliance

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, both during the start-up and functioning phases.
The Group's Compliance Function carries out its activities, reporting directly to the Managing Director, both for the Parent Company and for the Group companies that have outsourced the service.
The current organisational structure of the compliance Function is divided into four specific units, one of which provides staff to the Compliance Manager and is tasked with providing guidelines and coordination for internal methods, preparing Management Reporting and defining the requirements for developing supporting applications, and three which directly oversee the regulatory issues which apply to the Banco BPM Group. Specifically, they are the following Organisational Units:

- Compliance Reporting and Methods;
- Banking Services Compliance and Government and Support Activities;
- Markets and Investments Services Compliance;
- Anti-money laundering.

During 2018, the Compliance Manager was also given the role of Data Protection Officer in accordance with European Regulation 2016/679 (GDPR) concerning personal data protection.

Compliance Reporting and Methods

In 2018, the Reporting and Methods unit prepared the Management Reporting for the period and coordinated the quarterly compliance risk assessment at a consolidated Group level and for the individual Legal Entities within the scope.
In the year of reference, the unit carried out development projects for processes, methods and IT instruments, which aimed to strengthen the non-compliance risk management model and to bring about more effective integration and coordination with other control functions.
Specifically, the main intervention areas included:

- strengthening the non-compliance risk assessment model by incorporating operational loss data;
- reviewing the RAF compliance management indicators;
- identifying a conduct risk evaluation and analysis model;
- defining a method for evaluating the adequacy of Specialist Facilities;
- developing internal software and an analysis model for post-sale data (complaints, disputes, ABF and ACF exposures, etc.) to get a diagnostic and preventative evaluation of non-compliance risk.

In the first half of 2018, the Methods and Reporting unit carried out a regular Risk Mapping Review with the aim of identifying external regulatory developments and any internal changes relating to corporate, organisational and business structures and subsequently updated the map of potential non-compliance risks to which the Group is exposed.
During the year, the Methods and Reporting unit supported the Compliance Manager in all corporate projects and with coordination and integration between the Control Functions.

Markets and Investments Services Compliance

In 2018, the Markets and Investment Services Compliance Unit carried out various interventions on ex ante compliance and ex post compliance.
In the first regard, it supported other functions with consultancy and produced opinions on specific requests, including the individual aspects relating to commercial initiatives and commercial agreements for the distribution of products. The Unit also supported the implementation of significant projects concerning markets and investment services, previously launched by the Banco BPM Group in 2017.
In this respect, the "MiFID II Project" was particularly significant, which aimed to make the Group's operating model for the provision of investment services comply with new regulatory requirements, which came into force at the beginning of January 2018. These regulatory requirements can be broken up into (i) investor information and protection and (ii) markets. In this regard, various other initiatives - in which the Compliance function has actively participated - other than MiFID II have been put in place; specifically, they are linked to the configuration that the Banks of the Group assumed due to the decisions taken in the Group's strategic plan: on the one hand, Banca Aletti now focuses on private banking services and, on the other, Banca Akros has become the investment bank and the Group's trading arm. Support also continued for the standardisation of the various supporting IT procedures, including the prevention of market abuse: the monitoring of transactions ordered at Banco BPM, Banca Aletti and Banca Akros was integrated within a single IT system and is now carried out using a set of diagnostics that comply with the regulations introduced by European Parliament and Council Regulation 596/2014, the Market Abuse Regulation (MAR) and the Market Abuse Directive (MAD II).
From an ex post compliance perspective, the Unit conducted the verifications included in the business plan (in addition to some additional checks which became necessary), which focused on both the processes and behaviours of the distribution networks (through a system of remote indicators), in order to detect any events that warranted attention.

Banking Services Compliance and Government and Support Activities

In 2018, the Banco BPM Group continued its activities aimed at guaranteeing compliance with banking services and corporate governance regulations and also ensured new regulatory requirements were monitored.
In this regard, the advisory support given to the IT integration project, as well as the analysis and assessment regarding the conformity of the new internal regulatory framework and related processes, were of particular significance, in order to ensure compliance with the provisions of the law and regulations in force, even in the second year since the new legal entity was created.
Furthermore, the following interventions should be noted:

- the completion and perfecting of the adaptation to EU regulations concerning mortgages to consumers, ratified within the Italian legal system with Legislative Decree no. 72/2016 and with the related implementing measures of the Bank of Italy pursuant to the Provision dated 30 September 2016;
- the measures taken to adapt to the implementing provisions of the Payment Account Directive (PAD) and the Consolidated Banking Law, adopted by Bank of Italy Provision dated 3 August 2017;
- the study into the impact analyses on European regulations relating to payment services (EU Directive 2015/2366, known as the PSD2) and insurance distribution (EU Directive 2016/97, known as IDD), also in consideration of the new internal organisational structure;
- the participation in the final stages of the corporate project to implement EU Regulation 2016/679 on the protection of individuals regarding the processing of personal data and on the free movement of the same (GDPR – General Data Protection Regulation), in the lead-up to its entry into force and the creation of the Data Protection Officer role within the Group;
- the collaboration to define the incentive system for the entire Group, also by way of analysing and verifying conformity between assessment forms and the relative KPIs;
- the participation of the working group that works to implement the company organisational process that regulates outsourcing, with particular regard for the outsourcing of important operational functions (I.O.F);
- the support given to the company strategic project for the digitisation of key processes (DOT - Digital Omnichannel Transformation);
- the review of processes to adapt to the new company structure (which, following the merger of the two banking groups, became an Other Systematically Important Institution) in terms of the IT System and digital technologies, Operational Continuity and Regulatory Reporting;
- the support given to reviewing credit governance processes, mainly following the requests of the European banking supervisory system for impaired loans and also in order to finalise the integration process for the various companies within the banking Group.

Anti-money laundering

The Anti-money Laundering function of the Parent Company is part of the Compliance function and reports directly to the relevant corporate Bodies. It oversees, with full autonomy in its controls, the risk of money laundering and the funding of terrorism, as well as reports of suspicious transactions. It performs the activities required by law from the head of the Anti-money Laundering function and the Suspicious Transaction Report (STR) Representative.
This function carries out its activities for the Parent Company and for the companies of the Group that have outsourced the service, similar to the Compliance activities (with the exception of ProFamily which, while it has an independent compliance function, has centralised its Anti-money Laundering function within the Parent Company.
This unit prevents and combats money laundering and terrorist funding, taking a risk-based approach and conducting verifications and controls in order to assess the exposure to the risk of money laundering and terrorist financing, as well as the effectiveness of organisational and control oversights – during both the start-up and functioning phases – and any measures to be implemented. The Head of the Group's Anti-money Laundering function reports directly to Company Bodies and liaises with the same, of its own initiative or on request, without any restrictions.
In 2018, the main interventions of the function were directed towards the operational, IT and process integration required to consolidated the pre-existing functions of the former Banco Popolare Group and former BPM within a single structure.
In particular, these consolidation activities included:

- the gradual introduction of a new Anti-money Laundering model (which is still in progress), aimed at increasing the effectiveness and efficiency of oversight in this area;
- the analysis and resolution of the pre-existing problems within the individual entities that make up the Group, including some Centralised Computing Archive anomalies (for which, where the conditions exist, the required notifications have been made to the FIU);
- analysis of projects aimed at implementing Italian Legislative Decree 90/2017;
- interventions aimed at gradually overcoming the technical problems resulting from the migration of the IT systems onto the target IT system and the improvement of the latter.

Research and development

Given the banking nature of the Group, research and development is mainly focused on studying the possible application of new technologies in customer relations, in order to improve and/or increase the range of products/services, as well as in internal company processes, to simplify them and make them more efficient. Furthermore, important regulatory projects related to the issuance of new regulations at a system level have been carried and are also under way.
These activities are managed centrally by the subsidiary SGS BP, the company in which Banco BPM has concentrated its IT functions, security management and the supervision of middle and back office administration.

The main initiatives for each area are outlined below.

Projects and technology investments

Regulatory compliance

Italian Legislative Decree 231/01 - Administrative liability of the companies
In 2018, Banco BPM updated its Organisational Management and Control Model pursuant to Italian Legislative Decree 231/01 in order to implement the introduction of new offences. At the same time, the mapping of "231/01 risks" within the company's corporate functions and the adoption of the Models on numerous subsidiaries pursuant to Italian Legislative Decree 231/01 were completed.

European Regulation 2016/679 - GDPR (General Data Protection Regulation)
Banco BPM has complied with European Regulation 2016/679 on the protection of individuals regarding the processing of their personal data, as well as the free movement of said data. This regulation governs the general principles that must be complied with and the roles and responsibilities of the parties that process personal data, as well as the organisational, technical and IT measures to monitor the same.

Italian Legislative Decree 231/07 and subsequent amendments. – Anti-money laundering and the prevention of terrorist financing activities
Banco BPM has updated its regulatory framework to implement the developments introduced with EU Directive 2015/849 concerning the prevention of using cash in the financial system in order to launder money from criminal activities or for funding terrorism.

Other projects under way

Banca Akros business model.
During 2018, a project was initiated to develop Banca Akros' Systematic Internaliser role, which mainly aims to identify, plan and advance development interventions to be made to the current business and operating model so as to acquire the status of Systematic Internaliser for the entire asset class bond.

Information technology
During 2018, IT activities provided the necessary support to complete the company streamlining process, comply with regulatory and business requirements and evolve system architecture.
Specifically, in regard to the reshuffling of the Group's structure, the IT contribution concerned activities connected with implementing the new commercial network and its related reorganisation, with unifying the IT system, with the migration of Banca Akros to the Group's Target system and the merger of BPM S.p.a. within the Parent Company.
Regarding regulatory and business developments, note in particular the support given to the multi-year .DOT programme to accelerate the Group's digital development in the Private, Business and Payment segments. In regard to IT, the design has been defined, the first implementations have been made and the main work areas initiated.
Lastly, regarding the development of the IT architecture, specifically aimed at cyber security, at a new digital ecosystem, at customer centrality, at reporting to the Board and the Regulator and at the need to guarantee data quality and governance, in 2018 architectural development was initiated in an open banking perspective, orientated towards a digital "front-to-back" multi-channel, with the introduction of a platform for managing Application Programming Interfaces (APIs).

Other projects in the Risk Management area

The 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.
These risk measures are effectively represented in the Risk Appetite Framework (RAF) and in the capital and liquidity self-assessment processes, ICAAP and ILAAP respectively.
Specifically, throughout the year the Banco BPM Group strove to implement a framework to define the risk appetite of the Group and the individual Group companies, to monitor the risk profile and, if necessary, activate the escalation process. Monitoring is carried out by the integrated reporting of risks and the main risk factors which is clear, forward-looking and prompt, accompanied by benchmarking analyses with the main Italian and European competitors.
Regarding the capital and liquidity adequacy processes, 2018 saw the implementation of policies and procedures capable of ensuring the maintenance of adequate and efficient levels with respect to the Group's business model.
Activities were also initiated to prepare an AIRB model change application mainly aimed at resolving the ECB obligations contained in the letter authorising the use of internal rating models on the Banco BPM Group portfolio in the first quarter of 2018. This application, scheduled for 2019, will also contain the request to extend AIRB models to Structured Finance positions and to use EAD estimates on the Group's Corporate portfolio.
On the issue of Data Quality, during the year the relative quarterly report was consolidated for the company Bodies and, as normal, the circular was produced containing the current status of the controls carried out on a continuous basis, the specific focuses carried out on ad hoc issues, the news regarding the extension of the scope of controls, the results from the monitoring of first level controls, the evolution of the Data Quality and Data Governance framework and references to further project activities. Specifically, the Group begun its process of compliance with the BCBS 239 Standard via an assessment aimed at verifying the adequacy of the Group regarding the Data Governance, reporting and aggregation principles contained within the relevant legislation.
It should also be noted that the Group was involved in the EU-Wide stress testing coordinated by the EBA/ECB, in which the Risk Strategy & Capital Adequacy operating unit performed the role of governance and project management for the entire financial year, at Group level, and as the interface with the Supervisory Authorities, guaranteeing the coordination and application of the methodological rules provided to determine the Group's resilience in a baseline scenario and in an adverse scenario.
Lastly, work was undertaken to disseminate the risk culture at all levels with specific reference to company business lines, as well as through ad hoc training courses provided in collaboration with the University. A holistic approach to risk exposure was implemented and an environment able to manage all information related to risk issues was also created, guaranteeing the required data quality controls through the definition of a structured framework.

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

Investment Services Control Framework
An important integrated framework was defined concerning the controls conducted by the Investment Services Risk function attributable to macro-processes of Consulting, Product Governance, Pricing, KID management and Best Execution.

Data Quality Aggregation
Considerable effort was made to expand the scope of controls in various risk areas and potentially material areas for the Group, specifically:

- IFRS9: the definition phase of the second-level control requirements was completed in June, which are now being implemented by the IT Function and are expected to be completed in the first quarter of 2019;
- 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. Specific controls have been introduced on High Risk exposures, on the impacts of the adoption of internal AIRB models for BPM S.p.A. and the first second-level controls on guarantees have been carried out;
- Liquidity Risk: the set of second-level controls for the main regulatory indicators has been defined and the majority of the high priority controls will be completed in March;
- Market risk: promptness checks have been initiated for the proprietary and trading portfolios.

Credit risk

- Development of stress test models for the LGD parameter across the entire Banco BPM perimeter;
- Fine-tuning of credit risk models for provisioning purposes on the Banco BPM Group perimeter with a view to IFRS 9;
- The start of development in order to introduce a specific stress test for exposures to Banks and Large Corporate entities, especially in regard to the Portfolio Model;
- The performance of the EBA EU-Wide Stress Test 2018, which included the introductory activities for the preparation and management of the starting point, of the recovery of historical information and the estimation of RWA projections and IFRS9 provisioning;
- The start of activities connected to redefining the implementation rules for the new default definition. This activity is intended to prepare for the classification of positions and the re-valuation of the PD, LGD and EAD models that was requested by the Supervisory Authority in view of the production of the new DoD (Definition of Default) (1 January 2021) for both regulatory and management purposes;
- Preparation of the first Group Credit Risk report on a quarterly basis.

Market risk

- The extension of internal market risk models recognised for reporting purposes for the former Banco Popolare Group to Banca Akros and the Parent Company, Banco BPM;
- The contribution to Banca Aletti's risk positions transfer to Banca Akros;
- The start of resolution activities of the ECB Obligations, connected with the Target Review Internal Model (TRIM) inspection;
- The disposal of the ALM-Pro Application for calculating market risk for the Parent Company's Treasury portfolio;
- The start of project activities for extending the Internal Model Approach to the specific risk of debt securities and exchange rate risk in the banking book;
- The extension of counterparty risk models to the total perimeter of Banco BPM.

Operational risk

- The official request for the regulatory extension of AMA advanced metrics to the perimeter of the former BPM S.p.A. is nearing completion.

Interest rate risk

- The introduction of models on non-performing loans (bad loans model and past-due and UTP model);
- The complete integration of the perimeter of the former BPM Group within the Group's target ALM system.

Liquidity risk

- The start of monthly supervisory reports on the Maturity Ladder, including the Additional Liquidity Monitoring Metrics (ALMM) reports.

Risk-based incentive system

The 2018 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 2018 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

During 2018, following on from certain findings initiated by the ECB with the TRIM General Topics inspection, a project aimed at preparing an inventory of internal models was initiated, which was required to govern the life cycle of these models, in a disciplined manner, across their various stages, as well as to have an overall "view" of the portfolio of models. This project will continue in 2019, when the inventory will be gradually populated allowing, ultimately, for a risk management model pathway to be initiated that will be applied to the entire portfolio of models via the identification of a few risk indicators.

Communication

Since 1 January 2018, the Brand Identity Communication function has continued the alignment process for the new Banco BPM brand, moving from the multi-brand situation that saw several disjointed communications sent to clients. The project was managed with a view to pursuing the goal of transparency and for the purposes of promoting the new brand across the territory where the Bank has its branches.
In March, the review of all the models and cheque books for both Banco BPM and Group companies was completed. At least one window in each branch was dedicated for a company campaign aimed at guiding the customer to identify with the new brand.
The regional brands were updated in terms of their graphics and given the new brand name, with a view to initiating a process to incorporate the entire network into a single Corporate Identity in the future.
During the Board of Directors' meeting, the "sign" project was approved, which will see all the regional signs of Banco BPM being updated. This will begin in January 2019 and be finished by year end.
In December 2018, in line with the marketing activities, a product advertising campaign which focuses on 3 themes was launched: innovation, support for businesses that want to branch out into global markets and the insurance bank (You invoice, You lounge and Vera).
The 2018 video strategy was achieved with the aim of promoting the new identity and the Group's presence on its web channels, focusing on 3 main objectives: promoting internal communication and communication concerning employer branding, consolidating the new Group identity in the long term and retaining customers.
Regarding Media Relations, the tools and actions to supervise and develop relationships with Italian and local information bodies, which began in 2018, were - mainly - directed towards supporting operations to achieve the objectives of the 2016-2019 Strategic Plan, without neglecting the promotion of the many initiatives achieved in the individual areas.
In view of this, the usual work of collecting, processing and disseminating information concerning corporate events was accompanied by an intense presence in both the national and local media, implemented via dedicated interviews, presentations at public events and participation in conferences, including those that were not specifically economic and financial in nature.
Within the framework of processing and disseminating the information material, during the year over 100 press releases were written and published, including price sensitive and corporate press releases, as well as those dedicated to Banco BPM's social and cultural initiatives. This sector also saw the expansion of collaboration with other company departments in order to prepare the informative material for both internal and external press releases.
Lastly, there were numerous collaborations to arouse media interest for events, projects and initiatives organised and promoted or supported by Banco BPM, either directly or in collaboration with institutions, companies, bodies and associations that operate in various sectors across different areas. The social activity of Banco BPM was conducted via Facebook, Twitter, Linkedin and Instagram. An Instagram TV channel was also opened during the second part of the year to promote videos about cultural activities. During the same period, and following on from the restructuring of the Communication Department, a real dedicated team was created in order to further develop the supervision of activity of the social channels.
Furthermore, in collaboration with the Contact Centre and the other support units, the customer feedback activity continued, in order to provide more tangible support in resolving various kinds of problems and in requesting information or clarification.
At the end of the year, the Banco BPM Road Show came to a close, which involved the most important cities for Banco BPM: Milan, Modena, Lodi, Naples, Lucca, Verona and Rome, engaging 3,500 employees and over 3,000 customers in total.
As part of the identity project that began in 2017 with the aim of distinguishing Banco BPM as the bank to interact with, the activities identified within the 5 pillars continued in 2018: financial awareness, road shows, school project, brand ambassadors and digital, each of which represents a chance to promote a value system and, in doing so, characterise the way we do banking and invest in relations.
The commitment to be present in all areas and within the reference communities increased even more over the last year through the implementation of a "catalogue" of initiatives aimed at Group branches, which had the opportunity to host exclusive events dedicated to their customers or open to residents. The catalogue events were designed to engage different customer segments: young customers, women, the elderly, professionals and entrepreneurs, with the aim of catalysing interest and needs with a view to commercial development and reinforcement and increasing the bank's reputation. A particularly successful event was the "Meet the Author" festival, which saw the bank host 16 book presentations from Italian authors in its offices between September and December.

The Corporate Social Responsibility and Corporate Relations unit focused on "Financial Awareness" through workshops in branch with various means of interaction, both live and social, on issues concerning the economy and finance, putting on 20 meetings in 18 cities and engaging over 900 people. The "School Project" was also initiated: a series of initiatives achieved in collaboration with regional partners and institutions that involved 12 Italian municipalities in need of support to upgrade their teaching equipment in public schools of all kinds and levels. Specifically, currently 14 initiatives have been supported in the provinces of Novara, Milan, Bergamo, Lodi, Modena, Verona, Lucca and Livorno, which allowed play areas to be built or spaces to be renovated, as well as the supply of teaching equipment and furnishings.
In 2018, the unit also organised promotional events and sponsorships which, while in line with the cost reduction objectives in the business plan, intercepted 260 projects and activities that allowed Banco BPM to operate in synergy with its areas.
In regard to events, various cultural and sport initiatives for customers were developed and managed by Group companies.
The last part of the year also saw a few non-financial events organised, which were aimed at the media and customers, which gave the brand and the bank's image great exposure.
A series of exhibitions was also put on, in collaboration and partnership with the Creberg Foundation and using the Bank's works of art, which fostered the promotion of proprietary art pieces, contributing to enriching the cultural offering in the area. It also participated in the "Invito a Palazzo" event again, an open day for the historic buildings of the banks across Italy.
The Non-Financial Disclosure for 2017 was drafted by the Corporate Social Responsibility and Corporate Relations unit.
In regard to Internal Communication, the company Intranet and events represented major engagement mechanisms for spreading and sharing company strategies and objectives, which contributed to consolidating the identity culture of Banco BPM and made all information promptly accessible to employees.
Engagement, involvement and awareness raising concerning the company's themes and objectives were also pursued via meetings that made the employees active participants in the construction process of the new identity: company events (e.g. Road Shows), Management events (e.g. Corporate Conventions) or small face-to-face meetings with the Managing Director (e.g. Lunch with Giuseppe Castagna).
Amongst the activities of the Identity Project headed up by Internal Communication, the Brand Ambassador project was particularly important, which, after planning in 2017, saw its tangible implementation in 2018.
The Brand Ambassadors (300 in total) are a real team of people that have been assembled to represent the company to the internal (employees) and external public.
In 2018, Brand Ambassadors took part in many activities: these included, events in Branch, dedicated to the local area and aimed at both developing commercial relationships and strengthening the connection with the reference community, and financial awareness workshops organised in collaboration with FEDUF (Foundation for Financial Education and Savings Plans, founded on the initiative of the Italian Banking Association) and the Global Thinking Foundation (dedicated to economic citizenship projects and to a value-based approach to the issue of the economics of finance).

Investor Relations

In 2018, the Investor Relations team managed 153 events overall, typically with the involvement of the Group's top management, which allowed 573 investment companies (both on the equity and fixed income markets) financial analyst firms and rating agencies to be met. There were also 4 telephone conferences with webcast audio during the year in order to present the Group's financial performance to the market (results as at 31 December 2017, as at 31 March 2018, as at 30 June 2018 and as at 30 September 2018), plus a telephone conference held on 3 December 2018 to provide a strategic update, illustrating the consumer credit restructuring plan and the "ACE" bad loan disposal project.

	No. events	% of total	no. companies met	% of total
Industry conferences (equity) (*)	7	4.6%	166	29.0%
Industry conferences (fixed income) (*)	1	0.7%	6	1.0%
Road Shows (equity)	3	2.0%	56	9.8%
Road Shows (fixed income)	9	5.9%	65	11.3%
Other individual and/or group meetings, telephone conferences and video conferences (equity)	114	74.4%	255	44.6%
Other individual and/or group meetings, telephone conferences and video conferences (fixed income)	12	7.8%	18	3.1%
Meetings/calls with rating agencies	7	4.6%	7	1.2%
Total	**153**	**100.0%**	**573**	**100.0%**
Presentation to the financial market with conference calls/webcasts	5			

(*) Investors who participated in any floor presentations in the industry conferences are excluded from the count of the companies met.

On the stock market front, participation in the 7 industry conferences and the 3 Road Shows organised in various European cities by leading research and brokerage companies, was significant. Together, these allowed for 222 counterparties to be met, equal to 38.7% of the total reached overall during the year.
Similarly, in the fixed income market, we participated in 1 industry conference and 9 Road Shows, meeting 71 counterparties (12.4% of the total) in various European cities.
The remaining 48.9% of the corporate parties involved had the chance to interact with the Group on 133 other occasions (direct individual and/or group meetings, telephone conferences and/or video conferences), including 7 meetings/calls with rating agencies.

OTHER INFORMATION

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's shares are listed on the Electronic Equity Market (MTA) that is organised and managed by Borsa Italiana S.p.A.

As at 31 December 2018, the shareholders of the Bank were subdivided as follows:

- approximately 240,000 depositors at the Banco BPM Group;
- approximately 125,000 depositors at other intermediaries. 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.ar.l., i.e. the last accounting event on share capital.

Pursuant to art. 120 of the Consolidated Finance Law, anyone who holds listed shares that amount to over 3% of the share capital of a company must notify the investee company and CONSOB.
On 31 December 2018, 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:

- Invesco LTD with 5.132% holding;
- Capital Research and Management Company with 3.998% holding.

Banco BPM stock

In 2018, the global stock markets recorded a negative performance. Despite the as-yet robust figures coming from the American economy, fears deriving from tensions in trade relations between the United States and China played a part, as well as macropolitical uncertainty in Europe, including those attributable to the Italian political situation and the Brexit negotiations. The "MSCI All Country Word Index" recorded a decrease of 11.2% in 2018.
The S&P 500 closed 2018 with a decrease of 6.2%. More marked losses were recorded on European indexes, which were affected by the political and macroeconomic framework. The Stoxx 600 fell by 13.2%. The main European indexes were also down: in Italy, the FTSE MIB lost 16.1%, the German DAX 30 index did worse, losing 18.3%. However, better performance was recorded for the French CAC40 index, which fell by 11.0% and the London stock exchange (FTSE 100) which recorded a decrease of 12.5%. The European banking sector performed worse than the market, within a context of downwards revision for macroeconomic expectations and the probability of future rises in interest rates. The sector index (Euro Stoxx Banks) saw a decrease of 28.0%. The Italian banks index, "FTSE Italia All Share Banks", fell by 30.1%, particularly affected by the increase in spread on Italian government bonds.

The value of Banco BPM shares fluctuated between a minimum closing price of 1.556 euro on 26 October 2018 and a maximum closing price of 3.1455 euro on 27 February 2018. At the start of the year, Banco BPM shares were down by 24.9%, better than the reference index for the Italian banking sector, which saw a fall of 30.1%. During 2018, average daily volumes were approximately 26 million shares.
Lastly, at the end of 2018, the Banco BPM share was "hedged" by 20 equity research companies (of which: 9 with positive recommendations, 9 neutral and 0 negative, to which 2 suspensions 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	31/12/2018	31/12/2017
Moody's Investors Service	Long Term on Deposits	Ba1/Stable Outlook	Ba1/Stable Outlook
	Long Term on Senior Unsecured Debt	Ba2/ Negative Outlook	(P)Ba2
	Issuer Rating	Ba2/ Negative Outlook	Ba2/ Negative Outlook
	Short term	NP	NP
	Baseline Credit Assessment	b1	b1
	Counterparty Risk Assessment	Ba1(cr) / NP(cr)	Ba1(cr) / NP(cr)
DBRS	Long-Term Issuer Rating	BBB (low)/Stable Trend	BBB (low)/Negative Trend
	Long Term on Senior Debt	BBB (low)/Stable Trend	BBB (low)/Negative Trend
	Long Term on Deposits	BBB/Stable Trend	BBB (low)/Negative Trend
	Short-Term Issuer Rating	R-2 (middle)/Stable Trend	R-2 (middle)/Negative Trend
	Short Term on Debt	R-2 (middle)/Stable Trend	R-2 (middle)/Negative Trend
	Short Term on Deposits	R-2 (high)/Stable Trend	R-2 (middle)/Negative Trend
	Intrinsic Assessment	BBB (low)	BBB (low)
	Support Assessment	SA3	SA3

Summary table of Banco Akros ratings

Rating agency	Type of Rating	31/12/2018	31/12/2017
DBRS	Long-Term Issuer Rating	BBB (low)/Stable Trend	BBB (low)/Negative Trend
	Long Term on Senior Debt	BBB (low)/Stable Trend	BBB (low)/Negative Trend
	Long Term on Deposits	BBB/Stable Trend	BBB (low)/Negative Trend
	Short-Term Issuer Rating	R-2 (middle)/Stable Trend	R-2 (middle)/Negative Trend
	Short Term on Debt	R-2 (middle)/Stable Trend	R-2 (middle)/Negative Trend
	Short Term on Deposits	R-2 (high)/Stable Trend	R-2 (middle)/Negative Trend
	Support Assessment	SA1	SA1

Changes in the ratings of the Banco BPM Group for 2018, broken down by rating agency, are described below.

Moody's Investors Service (Moody's)

During the year, there were no changes to the ratings assigned by Moody's to Banco BPM, with the specification that in April 2018, after the first senior emission as Banco BPM, the Ba2 Long-Term Rating on Senior Unsecured Debt moved from "temporary" to "effective", acquiring the Outlook of the Issuer Rating.

DBRS

On 13 December 2018, DBRS improved the trend from Negative to Stable for the ratings assigned to Banco BPM. At the same time, all the Banco BPM ratings, including the Long-Term Issuer Rating of "BBB (low)" and Short-Term Issuer Rating of "R-2 (middle)", were confirmed. Similar action was taken with regard to Banca Akros, with the trend improving from Negative to Stable and with the confirmation of all ratings (which are in line with those of the Parent Company).
Subsequently, on 14 December, in regard to the broader initiative that concerned ratings on deposits at certain Italian banks, and reflecting the introduction within Italy of the "full depositor preference in bank insolvency and resolution proceedings" with effect from 1 January 2019, DBRS raised the ratings on Banco BPM's long-term and short-term deposits by one notch, from "BBB (low)" to "BBB" and from "R-2 (middle)" to "R-2 (high)" respectively, thereby maintaining the "Stable" trend. The rating change was similar for Banca Akros also, which saw the full alignment of its ratings on long-term and short-term deposits confirmed in line with those assigned to the Parent Company.

PERFORMANCE OF THE MAIN GROUP COMPANIES

A summary of the main 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 2018.

Banca Aletti

	31/12/2018	31/12/2017	Change
Income statements (*million euro*)			
Interest margin	63.0	101.3	(37.81%)
Net fee and commission income	91.0	78.9	15.34%
Operating income	262.5	161.9	62.14%
Operating expenses	(111.9)	(110.6)	1.18%
Operating income (loss)	150.6	51.3	193.57%
Income (loss) before tax	128.9	34.5	273.62%
Income (loss) after tax	84.0	22.3	276.68%
Profit for the period	80.2	20.0	301.00%

	31/12/2018	31/12/2017	Change
Balance sheet figures (*million euro*)			
Total assets	3,010.3	14,071.6	(78.61%)
Net loans to customers	120.9	93.5	29.30%
Financial assets and hedging derivatives	9.5	9.6	(1.04%)
Shareholders' equity	453.6	898.5	(49.52%)
Customer's financial assets *(million euro)*			
Direct funding	1,672.5	1,646.0	1.61%
Indirect funding	21,081.8	26,148.9	(19.38%)
- Asset management	10,171.0	21,846.4	(53.44%)
- Mutual funds and SICAVs	4,463.0	4,948.3	(9.81%)
- Securities and fund management	4,046.2	15,305.8	(73.56%)
- Insurance policies	1,661.8	1,592.4	4.36%
- Administered assets	10,910.8	4,302.5	153.59%
Information on the organisation			
Average number of employees	541.7	507.1	
Number of bank branches	55	51	

	31/12/2018	31/12/2017	Change
Profitability ratios (%)			
Financial margin/Operating income	24.0%	62.6%	(61.66%)
Net fee and commission income/Operating income	34.7%	48.7%	(28.75%)
Operating expenses / Operating income	42.6%	68.3%	(37.63%)
ROA	4.3%	0.2%	insignificant
ROE	11.5%	2.3%	400.84%
Operational productivity figures			
Loans to customers gross per employee (1000s of euro)	223	184	21.04%
Operating income per employee (1000s of euro)	485	319	51.77%
Operating expenses per employee (1000s of euro)	207	218	(5.32%)
Capitalisation ratios			
Common equity tier 1 ratio.	80.6%	44.7%	
Tier 1 capital ratio	80.6%	44.7%	
Total capital ratio	80.6%	44.7%	
Leverage ratio	106.9%	16.7%	
Other ratios			
Financial assets/total assets	0.3%	24.6%	
Derivative assets/total assets	-	10.7%	
Net trading derivatives/Total assets	-	(9.6%)	
Gross loans/Direct funding	7.2%	5.7%	

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)	31/12/2018	31/12/2017	Change
Income statement figures			
Interest margin	23.9	11.7	104.4%
Net fee and commission income	29.7	26.1	13.9%
Operating income	55.8	56.1	(0.5%)
Operating expenses	(57.4)	(47.1)	21.9%
Profit (loss) from operations	(1.6)	8.9	(117.8%)
Profit (loss) before tax from continuing operations	5.3	12.1	(55.8%)
Profit for the period	2.6	8.1	(68.3%)

(millions of euro)	31/12/2018	31/12/2017	Change
Balance sheet figures			
Total assets	11,158.4	2,428.2	359.5%
Loans to customers (gross)	1,385.4	185.1	648.5%
Financial assets and hedging derivatives	8,113.0	1,398.8	480.0%
Shareholders' equity	707.1	205.0	244.9%
Customers' financial assets			
Direct funding	826.8	850.5	(2.8%)
Indirect funding	-	1,232.8	
- Asset management	-	703.0	
- Administered assets	-	529.8	
Information on the organisation			
Average number of employees and other staff	151	218	
Number of bank branches	1	3	

	31/12/2018	31/12/2017
Alternative performance measures		
Profitability ratios (%)		
ROE	0.80%	4.09%
ROA	0.06%	0.33%
Interest margin/Operating income	42.84%	20.88%
Net fee and commission income/Operating income	53.23%	46.57%
Operating expenses/Operating income	102.84%	84.08%
Operational productivity figures (1000s of euro)		
Loans to customers (gross) per employee (*)	9,174.8	849.1
Operating income per employee (*)	369.7	257.3
Operating expenses per employee (*)	380.2	216.1
Other ratios		
Financial assets and hedging derivatives/Total assets	72.71%	57.61%
Derivative assets/Total assets	14.73%	32.51%
- trading derivatives/total assets	14.73%	32.51%
- hedging derivatives/total assets	-	-
Net trading derivatives/Total assets	9.68%	3.36%
Gross loans/Direct funding	167.57%	21.77%
Regulatory capitalisation and liquidity ratios		
Common equity tier 1 ratio (CET1 capital ratio)	32.84%	24.19%
Tier 1 capital ratio	32.84%	24.19%
Total capital ratio	32.84%	24.19%
Leverage ratio	16.88%	14.52%

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

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 investee companies

(millions of euro)	Total	Shareholders' equity (*)	Indirect Funding	Indirect Funding	Net Loans	Profit (Loss)
Banks						
Banca Aletti & C. (Suisse)	122.4	28.9	92.8	433.0	9.3	(1.4)
Bipielle Bank (Suisse)	49.7	43.5	4.2	-	-	(1.8)
Financial companies						
Aletti Fiduciaria	9.3	7.9	-	977.2	0.9	-
Release	1,857.7	302.3	5.4	-	876.8	(65.8)
ProFamily	1,537.7	98.1	4.2	-	1,245.7	18.9
Other companies						
Bipielle Real Estate	1,125.6	1,102.0	-	-	7.1	10.0
Holding di Partecipazioni Finanziarie Banco Popolare	839.0	835.8	-	-	-	319.8
Società Gestione Servizi - BP	373.7	122.9	-	-	0.4	0.2
Tecmarket Servizi	48.4	23.7	-	-	-	7.0
Ge.Se.So.	1.5	0.4	-	-	-	-

(*) amount includes the income (loss) for the financial year.

Transactions with subsidiary and associated companies

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 its subsidiaries

Please refer to section 13 – Group Equity in Part B of these Notes to the Consolidated Financial Statements.

Consolidated non-financial statement

The 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

The 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

Uncertainty linked to the trade tensions between the USA and China, first and foremost, as well as that connected with the uncertain outcome of Brexit, threatened the macroeconomic framework.
Furthermore, within Italy the scenario was complicated by the reaction of the financial markets to the budget policies implemented by the Government. However, if further tensions on Government bond yields do not emerge, and in the absence of exogenous shocks that could tangibly affect global economic development, Italy's GDP should remain on a growth path, albeit in a marked slowdown.
Within this framework, the demand for domestic credit from businesses will be affected by the slowdown in investment plans and their greater capacity for self-financing, due to the more solid financial position achieved on average and the liquidity accumulated during the crisis years. Conversely, household demand should remain more buoyant, both in terms of consumer credit and mortgages, which will benefit from the still low interest rates and the more encouraging outlook for the property market. Overall, a modest growth in the stock of loans, calculated net of bad loans, is expected in 2019, after the fractional expansion in the previous year. Bank rates will struggle to recover due to high competitive pressures.
On the funding side, in the absence of any new stimulus from the ECB, national institutions should review their funding policies with a view to repaying TLTRO II funds in order to strengthen long-term funding. Furthermore, from next year, banks will be called upon to move towards funding instruments that can absorb possible losses. Therefore, the total funding volumes are expected to remain substantially stable, while their cost could be subject to upward pressure due to the lower contribution of the funds granted by the ECB.
In fact, the overall bank interest spread should stabilise, yet due to the increase in volumes, this could offset the effects of the dynamics of interest rates payable and receivable. Additionally, the overall market interest rate is expected to return to growth as a result of the support provided by the favourable development of interest flows from the Government bond portfolio.
The outlook for revenues from services is moderately positive, although suffering from the growing degree of competition that characterises the sector. With reference to net fee and commissions income in particular, slow growth is expected. In fact, banks will have to manage the impact of both the new regulatory framework of MiFID II, initiated in 2018, and the weakness of financial markets, which could, however, be offset by the higher revenues expected from consulting.
Finally, the virtuous process of improving credit quality launched in 2017 will continue. Indeed, new plans for the disposal of impaired loans will presumably be implemented and credit recovery activities will be further strengthened.

In this regard, the Group has achieved far greater targets than expected.
Subsequently, also in consideration of the targeted actions that have been completed to reorganise the commercial network, to streamline its presence in the corporate and investment banking segments and to reorganise partnerships in the asset management, bancassurance and consumer credit sectors, which led to an evolution of the business scope, the Group will approve a new strategic plan by the end of the year.
In 2019, the operating focus will concentrate on ordinary operations, which, overall, will be based on recovering profit margins, reaping the benefits of the synergies resulting from the merger and the aforementioned derisking and asset reorganisation.
The performance of revenues, net of the reduction in the positive components on net interest income linked to the PPA and the application of IFRS 9 as a result of the reduction in non-performing credit volumes, should benefit from the likely reduction in competitive pressures on margins, the positive trend in lending volumes, and an average cost of funding through the commercial network that is still low, as well as the positive contribution of the investee companies, while the trend in commissions, specifically those deriving from management, brokerage and advisory services, and in the net financial result could still be partly affected by the uncertainty and volatility of the markets, especially if tensions on domestic securities were to recur.
The limitation of operating expenses by improving efficiency will continue to be one of the factors receiving the greatest attention.
The cost of credit, as a result of the sharp decrease in non-performing exposures and a contraction in inflows into the non-performing loans categories, is expected to decline significantly, while maintaining a high level of coverage.
The decrease in stocks will continue, both through internal workout and, as planned, via the activity of the new platform for the recovery of NPLs in partnership with Credito Fondiario.

SIGNIFICANT EVENTS THAT OCCURRED AFTER THE END OF THE FINANCIAL YEAR

In accordance with the special regulations issued by the Bank of Italy, significant events that occurred after the end of the financial year are illustrated in Part A, Section 4 of the Notes to the Financial Statements.

Verona, 06 February 2019

The Board of Directors

Statement from the Managing Director 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 Managing Director 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. for 2018.

2. The assessment of the adequacy and the verification of the effective application of the administrative and accounting procedures for the preparation of the consolidated financial statements for Banco BPM S.p.A. as at 31 December 2018 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 standard 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 2018:
   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 Commission, 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 performance and operating income (loss), as well a the situation of the issuer Banco BPM S.p.A. and the group of companies included in the consolidation, together with a description of the main risks and uncertainties to which they are exposed.

Verona, 06 February 2019

Signed by
Giuseppe Castagna
Chief Executive Officer

Signed by
Gianpietro Val
Manager responsible for the preparation of corporate accounting documents

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 2018, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the cash flows 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 2018, 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.

Key audit matters	*Auditing procedures performed in response to key audit matters*
First-time adoption of IFRS 9 – "Financial instruments" *Notes to the consolidated financial statements: Part A – Accounting policies* *Appendix "Disclosure on the first adoption of the accounting standards IFRS 9 –Financial instruments and IFRS 15 – Revenue from contracts with customers"* Starting from 1st January 2018 Banco BPM Group has adopted IFRS 9 – Financial instruments which disciplines classification and measurement of financial instruments as well as impairment loss calculation. As allowed by the standard, the Group already applied new rules relating to the accounting for of its own credit risk with reference to financial liabilities designated at fair value through profit or loss in the consolidated financial statements as of 31 December 2017, whereas it decided to postpone the application of new hedge accounting rules. IFRS 9 has introduced new requirements in terms of classification and measurement of financial assets that reflect the business model in which financial assets are managed (Business Model) and on the underlying contractual cash flows characteristics (Solely Payments of Principal and Interest – "SPPI"); at the same time, for financial assets other than those measured at fair value through profit or loss and for off-balance sheet exposures (guarantees and commitments), the new standard has replaced the "incurred loss" model under IAS 39 with an expected credit loss ("ECL") model. As a consequence, by introducing significant changes in classification and measurement requirements, IFRS 9 has determined significant operating impacts, requiring the use of new models, more information, parameters and assumptions, thus determining a higher degree of judgement and uncertainty.	In performing our audit we paid special attention to understanding and evaluating the activities planned and performed by the Group to implement the new standard (including changes to IT systems), as well as the related governance and the control activities carried out by management and by the internal control functions. Considering that IFRS 9 was applied starting from 1st January 2018, we tested the opening balances on that date, in order to verify the transition from IAS 39. Our procedures consisted of, among the others, assessing the compliance of the accounting policies adopted with the new standard, verifying the accounting adjustments made and related disclosures. With specific reference to classification and measurement aspects, our audit procedures, carried out also with the support of experts belonging to our network, included among the others: • understanding and critical assessment of policies, procedures and solutions adopted by the Group with reference to relevant aspects (definition of Business Model, analysis of contractual cash flows and measurement methods) aiming at assessing their compliance with the new standard; • verifying completeness and accuracy of the new accounting categories based on the Business Models identified and on the results of contractual cash flows analysis ("SPPI test"); • independent re-performing of SPPI test for a sample of financial assets.

Key audit matters	*Auditing procedures performed in response to key audit matters*
Considering the above, and also in the light of the significant accounting impacts recognised as of 1st January 2018, we considered the first time adoption of IFRS 9 as a key matter in our audit of the consolidated financial statements of Banco BPM Group as of 31 December 2018.	With reference to the new impairment requirements, our audit procedures, carried out also with the support of experts belonging to our network, included among the others: • understanding and critical assessment of new policies, methodologies and assumptions, as well as models implemented, in order to verify their reasonableness, appropriateness and compliance with the standard. This activity involved both methodologies and models adopted to measure the Significant Increase in Credit Risk ("SICR") and to allocate portfolios to the different risk stages ("Staging"), as well as those adopted for determining the ECL, also on the basis of multiple economic scenarios and forward looking information; • specific procedures aimed at verifying the adequate implementation and determination of the new SICR and ECL models defined and of criteria used to determine key estimation parameters used as inputs of those models, as well as the related degree of predictiveness and forecasting accuracy, through specific backtesting; • specific procedures aimed at verifying the accuracy of inputs used in the aforementioned models, of the calculation formulas, of the correctness of key estimation parameters (Probability of Default, Loss Given Default and Exposure at Default), as well as the accuracy of risk stages determined; • verifying the proper implementation in the IT systems of the estimation parameters, as well as verifying the completeness and accuracy of the data used for the ECL calculation;

Key audit matters	*Auditing procedures performed in response to key audit matters*
	• for non-performing loans (Stage 3), analysing and verifying the reasonableness of the assumptions underlying the recovery scenarios hypothesized (sale and work-out scenarios), the relative weights applied and future cash flows estimated; • critical assessment of the outcome of testing and validation activities carried out by the relevant internal functions, including results of sensitivity analyses carried out in connection with any exceptions detected as well as the remedial actions put in place. We also verified the correct calculation of the related deferred tax and assessed the reasonableness of the assumptions underlying deferred tax assets recoverability. Finally, we verified the completeness and appropriateness of disclosures in the consolidated financial statements.
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 2018 are the main portion of line item 40 b) *"Financial assets designated at amortised cost - Loans to customers"* which shows a balance of Euro 119,462 million corresponding to 74 per cent of total assets. Line item 120 *"Non-current assets and asset disposal groups held for sale"* also includes a portfolio of non-performing loans with a net book value of Euro 1,330 million which is intended to be sold in a securitisation transaction	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. Taking into account the procedures performed in connection with the first-time adoption of IFRS 9 and any additional change introduced during the year, we focused, also with the support of experts belonging to the our network, on understanding and verifying the appropriateness of policies, procedures and

Key audit matters	*Auditing procedures performed in response to key audit matters*
that is expected to be completed in the course of 2019 ("Project ACE"). Net losses/recoveries on credit risk related to loans to customers charged in the current year amounted to Euro 1,675 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 changes introduced during the year in the impairment criteria following the application of IFRS 9 – "Financial instruments". Furthermore, impairment processes and criteria necessarily require a high degree of judgement and complex processes for the estimation of a number of variables. Therefore, for loans assessed on an individual basis, the use of significant assumptions is relevant for determining SICR and Staging as well as assumptions and inputs to ECL models and for determining alternative recovery scenarios (sale or work-out scenarios), relative weights, future cash flows, recovery time and the recoverable amount of any collateral.	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 assessed the reasonableness of the methodology adopted to define alternative recovery scenarios hypothesised (sale and work-out scenarios), relative weights and estimated future cash flows, as well as its correct application to the existing loan portfolio. In order to assess the reasonableness of management's conclusions about the impairment valuation, also considering the classification criteria and categories under the applicable financial and regulatory reporting framework, 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

Key audit matters	*Auditing procedures performed in response to key audit matters*
	and recovery time. Finally, where applicable, we tested on a sample basis the correct calculation of the ECL on the basis of weighted average of future cash flows from the work-out and sale scenarios.
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 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 1,652 million and liabilities of Euro 5,894 million, corresponding approximately to 1 per cent of total assets and 4 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.	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 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

Key audit matters	*Auditing procedures performed in response to key audit matters*
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.	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.
Risks and provisions connected to Diamonds activity carried out in the past with customers *Group's Report on operations* *Notes to the consolidated financial statements:* *Part A- accounting policies* *Part B – Information on the consolidated balance sheet, Liabilities, section 10* *Part C – Information on the consolidated income statement, section 13* Line item 100 *"Provisions for risks and charges"*, in sub-item 4.3 *"Other"*, includes a provision of Euro 285.2 million for the risks connected to current or future claims for activity carried out in the past of signalling customers interested in purchasing diamonds to the selling firm Intermarket Diamond Business SpA, currently insolvent. The provision for the year, included in line item 200 *"Net provisions for risks and charges"*, totalled Euro 275.3 million. Management considered appropriate to record this provision following the proceedings brought by the Italian Competition Authority (Autorità Garante della Concorrenza e del Mercato- AGCM) that during 2017 identified an alleged improper commercial practice of the Group, and in consideration of the significant number of claims received during 2018 from affected customers and still pending at the balance sheet date as well as of possible future claims of the same nature.	In performing our audit we considered internal control relevant to financial reporting in order to define audit procedures appropriate to the circumstances. In detail, as part of our analysis of this key matter we obtained an understanding and performed an evaluation over the design of controls relevant to the identification and monitoring of disputes and other types of legal risks, as well as the activities and checks performed by the Group in order to estimate provisions. With the support of experts belonging to our network, we focused on understanding facts and events relating to the matter in question, to the results of monitoring activity over claims received from customers, to the method of settlement of those claims and any resulting litigation. In order to assess their appropriateness and reasonableness, we focused on estimation criteria, key management's qualitative and quantitative assumptions used for determining the risks and related probabilities of occurrence, and for quantifying the probable outflows. As part of this evaluation we performed a critical assessment of the legal and accounting opinion obtained by the management.

Key audit matters	*Auditing procedures performed in response to key audit matters*
As part of our audit we focused on this matter, in relation to the materiality of the related risks, the complexity and the high level of judgement required for determining the present value of the provision, and also in the light of uncertainties surrounding the future outcome of the case as well as the related economic and financial impacts. In detail, in order to assess risks, probabilities of occurrence and amounts of probable outflows, management used assumptions and estimates for determining a number of variables, some of which are outside the control of the Group.	Since this type of risk is affected by a number of variables, including a large number of current and potential future claims, with a consequential high level of uncertainty, in order to evaluate management's estimate we developed a range of possible outcomes on the basis of a sensitivity analysis on key assumptions. Furthermore, we obtained audit evidence from reviewing events occurring up to the date of completion of our audit, including specifically those outlined in the press release dated 20 February 2019 connected with the precautionary seizure of Euro 84.6 million carried out by the finance police (Guardia di Finanza) together with the notification of the names of managers under investigation on various charges and the Bank itself is under investigation for administrative offence pursuant to Legislative Decree No. 231/2001. Finally, we verified the compliance of disclosures provided in the consolidated financial statements with the requirements of the applicable financial reporting standards.

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 2018, 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 2018 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 2018 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 Bank 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, 15 March 2019

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

Consolidated financial statements

CONSOLIDATED BALANCE SHEET

Asset items ***(thousands of euro)***	**31/12/2018**	**31/12/2017 (*)**
10. Cash and cash equivalents	922,017	976,686
20. Financial assets designated at fair value through profit and loss	5,738,595	
a) financial assets held for trading	4,522,529	
c) other financial assets mandatorily at fair value	1,216,066	
30. Financial assets designated at fair value through other comprehensive income	15,351,561	
40. Financial assets designated at amortised cost	123,840,007	
a) due from banks	4,377,526	
b) loans to customers	119,462,481	
Financial assets held for trading (former IAS 39)		4,911,824
Financial assets designated at fair value through profit and loss (former IAS 39)		28,952
Financial assets available for sale (former IAS 39)		17,128,622
Investments held to maturity (former IAS 39)		11,560,769
Due from banks (former IAS 39)		5,164,715
Loans to customers (former IAS 39)		108,176,382
50. Hedging derivatives	130,511	243,810
60. Fair value change of financial assets in macro fair value hedge portfolios (+/-)	42,173	54,531
70. Equity investments	1,434,163	1,349,191
90. Property, plant and equipment	2,775,885	2,735,182
100. Intangible assets	1,277,941	1,297,160
of which: goodwill	76,389	76,389
110. Tax assets	5,012,477	4,520,189
a) current	330,436	319,462
b) deferred	4,682,041	4,200,727
120. Non-current assets and asset disposal groups held for sale	1,592,782	106,121
130. Other assets	2,346,679	2,952,631
Total assets	**160,464,791**	**161,206,765**

(*) Balances resulting from the financial statements published at 31 December 2017 as illustrated in the paragraph "Method of presenting balances from previous periods for comparison" contained in the appendix "Disclosure on the first adoption of the accounting standards IFRS 9 – Financial instruments and IFRS 15 – Revenue from contracts with customers".

Liability and shareholders' equity items ***(thousands of euro)***	**31/12/2018**	**31/12/2017 (*)**
10. Financial liabilities designated at amortised cost	136,160,342	
a) due to banks	31,633,541	27,199,304
b) due to customers	90,197,859	87,848,146
c) debt securities issued	14,328,942	
Debt securities issued (former IAS 39)		16,248,143
20. Financial liabilities held for trading	6,502,522	7,942,063
30. Financial liabilities designated at fair value	692,890	
Financial liabilities designated at fair value (former IAS 39)		3,413,560
40. Hedging derivatives	726,307	765,903
50. Fair value change of financial liabilities in macro fair value hedge portfolios (+/-)	49,756	8,535
60. Tax liabilities	505,402	669,494
a) current	11,181	14,493
b) deferred	494,221	655,001
70. Liabilities associated with asset disposal groups held for sale	3,043	35
80. Other liabilities	3,814,589	
Other liabilities (former IAS 39)		3,687,053
90. Employee termination indemnities	377,498	408,160
100. Provisions for risks and charges	1,327,368	
a) commitments and guarantees given	123,814	
Provisions for risks and charges: (former IAS 39)		1,052,829
b) retirement benefits and similar commitments	150,676	166,847
c) other provisions for risks and charges	1,052,878	885,982
120. Valuation reserves	(346,438)	251,706
150. Reserves	3,577,955	1,946,308
170. Share capital	7,100,000	7,100,000
180. Treasury shares (-)	(12,610)	(14,146)
190. Non-controlling interests (+/-)	45,599	63,310
200. Income/Loss for the period	(59,432)	2,616,362
Total liabilities and shareholders' equity	**160,464,791**	**161,206,765**

(*) Balances resulting from the financial statements published at 31 December 2017 as illustrated in the paragraph "Method of presenting balances from previous periods for comparison" contained in the appendix "Disclosure on the first adoption of the accounting standards IFRS 9 – Financial instruments and IFRS 15 – Revenue from contracts with customers".

CONSOLIDATED INCOME STATEMENT

Items *(thousands of euro)*	2018	2017 (*)
10. Interest and similar income	2,861,587	
of which: interest income calculated with the effective interest method	2,780,914	
Interest and similar income (former IAS 39)		2,898,382
20. Interest and similar expense	(569,025)	(923,260)
30. Interest margin	**2,292,562**	**1,975,122**
40. Fee and commission income	1,949,561	2,075,063
50. Fee and commission expense	(100,801)	(124,653)
60. Net fee and commission income	**1,848,760**	**1,950,410**
70. Dividends and similar income	51,956	53,909
80. Profits (losses) on trading	(95,610)	
90. Fair value adjustments in hedge accounting	(2,657)	919
100. Profits (losses) on disposal or repurchase of:	(111,630)	
a) financial assets designated at amortised cost	(238,062)	
b) financial assets designated at fair value through other comprehensive income	130,940	
c) financial liabilities	(4,508)	
110. Profits (losses) on financial assets and liabilities designated at fair value through profit and loss	(17,152)	
a) financial assets and liabilities designated at fair value	(29,630)	
b) other financial assets mandatorily at fair value	12,478	
Profits (losses) on trading (former IAS 39)		26,480
Profits (losses) on disposal or repurchase of: (former IAS 39)		(201,619)
a) loans (former IAS 39)		(221,909)
b) financial assets available for sale (former IAS 39)		27,028
c) investments held to maturity (former IAS 39)		2,458
d) financial liabilities (former IAS 39)		(9,196)
Profits (losses) on financial assets and liabilities designated at fair value (former IAS 39)		8,211
120. Net interest and other banking income	**3,966,229**	**3,813,432**
130. Net losses/recoveries on credit risk relating to:	(1,678,529)	
a) financial assets designated at amortised cost	(1,674,775)	
b) financial assets designated at fair value through other comprehensive income	(3,754)	
Net losses/recoveries on impairment of: (former IAS 39)		(1,404,417)
a) loans (former IAS 39)		(1,299,048)
b) financial assets available for sale (former IAS 39)		(94,776)
d) financial liabilities (former IAS 39)		(10,593)
140. Profit/loss from contractual changes without derecognition	(1,843)	
150. Net income from banking activities	**2,285,857**	**2,409,015**
180. Net income from banking and insurance activities	**2,285,857**	**2,409,015**
190. Administrative expenses:	(2,974,742)	(3,058,692)
a) personnel expenses	(1,728,610)	(1,775,051)
b) other administrative expenses	(1,246,132)	(1,283,641)
200. Net provisions for risks and charges	(345,341)	
a) commitments and guarantees given	12,160	
Net provisions for risks and charges (former IAS 39)		(13,757)
b) other net provisions	(357,501)	(13,757)
210. Net adjustments to/recoveries on property and equipment	(155,093)	(124,275)
220. Net adjustments to/recoveries on intangible assets	(117,118)	(169,983)
230. Other operating expenses/income	700,803	3,498,186
240. Operating expenses	**(2,891,491)**	**131,479**
250. Profits (losses) on investments in associates and companies subject to joint control	330,160	178,664
270. Value adjustments on goodwill	-	(1,033,506)
280. Profits (losses) on disposal of investments	2,655	13,070
290. Before tax profits/(losses) from current operations	**(272,819)**	**1,698,722**
300. Taxes on income from continuing operations	202,828	145,720
310. After tax profits/(losses) from current operations	**(69,991)**	**1,844,442**
320. Profit (loss) from discontinued operations, net of taxes	936	762,262
330. Income (loss) for the period	**(69,055)**	**2,606,704**
340. Income (loss) attributable to minority interests	9,623	9,658
350 Parent Company's net income (loss)	**(59,432)**	**2,616,362**
Basic EPS (euro)	(0.039)	1.727
Diluted EPS (euro)	(0.039)	1.727

(*) Balances resulting from the financial statements published at 31 December 2017 as illustrated in the paragraph "Method of presenting balances from previous periods for comparison" contained in the section "Disclosure on the first adoption of the accounting standards IFRS 9 – Financial instruments and IFRS 15 – Revenue from contracts with customers".

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

Items		31/12/2018	31/12/2017 (*)
10.	**Profit (loss) for the period**	**(69,055)**	**2,606,704**
	Other comprehensive income after tax without reclassification to	(219,348)	(14,219)
20.	Equity instruments designated at fair value through other comprehensive income	(230,126)	
30.	Financial liabilities designated at fair value through profit or loss (changes to its own credit risk)	5,204	(12,996)
70.	Defined benefit plans	5,432	(1,077)
90.	Share of valuation reserves related to investments in associates carried at equity	142	(146)
	Other comprehensive income after tax with reclassification to	(299,351)	183,296
100.	Foreign investment hedges	(754)	2,031
110.	Exchange rate differences	2,721	(6,583)
120.	Cash flow hedges	1,148	(7,993)
130.	Hedging instruments (non-designated items)		
140.	Financial assets (other than equity instruments) designated at fair value through other comprehensive income	(296,117)	
	Financial assets available for sale (former IAS 39)		181,481
160.	Share of valuation reserves related to investments in associates carried at equity	(6,349)	14,360
170.	**Total other comprehensive income after tax**	**(518,699)**	**169,077**
180.	**Comprehensive Income (Items 10+170)**	**(587,754)**	**2,775,781**
190.	Consolidated comprehensive income attributable to minority interests	(9,599)	(9,649)
200.	**Consolidated comprehensive income attributable to the Parent Company**	**(578,155)**	**2,785,430**

(*) The data for the previous year was prepared in accordance with IAS 39 classification and measurement criteria and are therefore not fully comparable with the data for the current year.

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

31 December 2018	Balance at 31/12/2017	Changes in opening balance (*)	Balance as at 01/01/2018	Allocation of net income from previous year		Changes in the year										
							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	Shareholders' equity as at 31/12/2018	Group shareholders' equity as at 31/12/2018	Non-controlling interests as at 31/12/2018
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 profit (loss) for the period	**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**		

(*) These are the impacts of the First Time Adoption (FTA) due to the adoption of the IFRS 9 and IFRS 15 accounting standards as described in detail in the section "Disclosure on first time adoption of the accounting standards IFRS 9 Financial instruments and IFRS 15 Revenue from contracts with customers".

31 December 2017	Balance as at 31/12/2016	Changes in opening balances	Balance as at 01/01/2017	Allocation of net income from previous year		Changes in the year									Shareholders' equity as at 31/12/2017	Group shareholders' equity as at 31/12/2017	Minority interests as at 31/12/2017
							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 2017				
Share capital:	**7,200,332**	**-**	**7,200,332**	**-**		**(42,599)**	**23,470**	**-**					**(16,642)**		**7,164,561**	**7,100,000**	**64,561**
a) ordinary shares	7,200,332	-	7,200,332	-		(42,599)	23,470	-					(16,642)		7,164,561	7,100,000	64,561
b) other shares	-	-	-	-		-	-	-					-		-	-	-
Share premium reserve	**-**	**-**	**-**	**-**		**1,112**	**-**	**-**					**104**		**1,216**	**-**	**1,216**
Reserves:	**2,121,665**	**(27,513)**	**2,094,152**	**(1,704,935)**		**1,558,382**	**(1,622)**	**-**	**-**		**-**		**7,379**		**1,953,356**	**1,946,308**	**7,048**
a) retained earnings	2,077,009	(27,513)	2,049,496	(396,237)		(216,130)	(2,048)	14,572	-				7,293		1,456,946	1,449,896	7,050
b) other	44,656	-	44,656	(1,308,698)		1,774,512	426	(14,572)			-		86		496,410	496,412	(2)
Valuation reserves	**28,949**	**27,513**	**56,462**	**-**		**26,310**							**-**	**169,077**	**251,849**	**251,706**	**143**
Equity instruments	**-**	**-**	**-**							**-**					**-**	**-**	**-**
Treasury shares	**(1,590)**	**-**	**(1,590)**			**-**	**2,016**	**(14,572)**							**(14,146)**	**(14,146)**	**-**
Net profit (loss) for the period	**(1,704,508)**	**-**	**(1,704,508)**	**1,704,935**	**(427)**									**2,606,704**	**2,606,704**	**2,616,362**	**(9,658)**
Shareholders' equity	**7,644,848**	**-**	**7,644,848**	**-**	**(427)**	**1,543,205**	**23,864**	**(14,572)**	**-**	**-**	**-**		**(9,159)**	**2,775,781**	**11,963,540**	**11,900,230**	**63,310**
- of the Group	**7,575,280**		**7,575,280**	**-**	**-**	**1,541,949**	**11,054**	**(14,572)**	**-**	**-**	**-**		**1,089**	**2,785,430**	**11,900,230**		
- of minority interests	**69,568**	**-**	**69,568**	**-**	**(427)**	**1,256**	**12,810**	**-**					**(10,248)**	**(9,649)**	**63,310**		

CONSOLIDATED CASHFLOW STATEMENT

Indirect method

		31/12/2018	31/12/2017 (*)
A.	**Operating activities**		
	1. Cash flow from operations (**)	**1,904,011**	**5,281,505**
-	net income (loss) (+/)	(59,432)	2,616,362
-	gains/losses on financial assets held for trading and on other financial assets/liabilities designated at	25,978	215,950
-	capital gain/loss on hedging activities (-/+)	2,657	-
-	Net adjustments to/recoveries on credit risk (-/+)	1,680,372	1,404,417
-	net value adjustments to/recoveries on plant and equipment and intangible assets (+/-)	272,211	1,327,764
-	allocations to provisions for risks and charges and other costs/revenues (+/-)	362,577	26,126
-	net premiums not collected (-)		-
-	other insurance income/expenses not collected (-/+)		-
-	duties, taxes and tax credits not settled (+/-)	(220,895)	(143,078)
-	net adjustments to/recoveries from discontinued operations net of the taxes (-/+)		-
-	other adjustments (+/-)	(159,457)	(166,036)
	2. Cash flow from/used in financial assets	**(1,676,210)**	**5,403,908**
-	financial assets held for trading	339,364	
-	financial assets designated at fair value	-	
-	other financial assets mandatorily at fair value	69,015	
-	financial assets designated at fair value through other comprehensive income	1,394,757	
-	financial assets designated at amortised cost	(2,754,235)	
-	*financial assets (former IAS 39)*		4,674,982
-	other assets	(725,111)	728,926
	3. Cash flow from/used in financial liabilities	**(26,162)**	**(9,675,129)**
-	financial liabilities designated at amortised cost	8,318,166	(2,836,604)
-	financial liabilities held for trading	(1,622,027)	(896,036)
-	financial liabilities designated at fair value	(2,560,266)	(3,278,501)
-	other liabilities	(4,162,035)	(2,663,988)
	Net cash flow from/used in operating activities	**201,639**	**1,010,284**
B.	**Investing activities**		
	1. Cash flow from:	**887,398**	**249,280**
-	sales of investments in associates and companies subject to joint control	809,739	-
-	dividends collected on investments in associates and companies subject to joint control		-
-	sales of property and equipment	77,659	249,280
-	sales of intangible assets	-	-
-	sales of subsidiaries and business branches		-
	2. Cash flow used in:	**(1,143,514)**	**(1,178,819)**
-	purchases of investments in associates and companies subject to joint control	(803,409)	-
-	purchases of property and equipment	(237,543)	(377,910)
-	purchases of intangible assets	(102,562)	(800,909)
-	purchases of subsidiaries and business branches		-
	Net cash flow from/used in investing activities	**(256,116)**	**(929,539)**
C.	**Financing activities**		
-	issues/purchases of treasury shares		(1,336)
-	issues/purchases of equity instruments		-
-	dividend distribution and other allocations	(192)	(427)
-	Third-party sales/purchases		
	Net cash flow from/used in financing activities	**(192)**	**(1,763)**
	Net cash flow from/used in activities during the year	**(54,669)**	**78,982**

(*) The data for the previous year was prepared in accordance with IAS 39 classification and measurement criteria and are therefore not fully comparable with the data for the current year.

(**) The figures for the previous year have been reclassified to the new items in the cash flow statement in accordance with the classification and measurement criteria set out in IAS 39.

(***) The item "Financial assets (former IAS 39)" includes the cash used in all former IAS 39 financial assets, including financial assets held to maturity, which in the previous cash flow statement were classified as investment activities, in order to ensure as consistent a comparison as possible with the current year.
Specifically, cash flow from/used in financial assets was as follows:
- FA held for trading: 1,122,947
- FA designated at fair value: (7,589)
- FA available for sale: 4,228,484
- due from customers: 1,073,050
- due from banks: 1,515,874
- FA held to maturity: 3,257,784

Reconciliation	31/12/2018	31/12/2017
Cash and cash equivalents at the beginning of the year	976,686	897,704
Net cash flow from/used in activities during the year	(54,669)	78,982
Cash and cash equivalents: foreign exchange effect		-
Cash and cash equivalents at the end of the year	**922,017**	**976,686**

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

(thousands of euro)	01/01/2018	Cash flows	Non-monetary changes			31/12/2018
			Company mergers/loss of control over companies	Fair value changes	Other	
Liabilities deriving from loan activities (items 10, 20 and 30 in the liabilities)	142,662,852	4,135,873	-	149,367	(3,592,338)	143,355,754

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 limited company listed on a regulated market (Mercato Telematico Azionario, managed by Borsa Italiana S.p.A.).

Legal Representative
Mr Carlo Fratta Pasini

PART A– ACCOUNTING POLICIES

A.1 GENERAL PART

Section 1- Statement of compliance with international accounting standards

This consolidated financial statement has been prepared according to the international accounting standards IAS/IFRS issued by the International Accounting Standard Board (IASB) and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC) approved by the European Commission, as established by Community 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 approved by the European Commission, have been referenced:

- *Quadro sistematico per la preparazione e presentazione del bilancio* [Systematic Framework for the Preparation and Presentation of Financial Statements] ("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 2018 (including the interpretative documents SIC and IFRIC).

For an overview of the standards approved in 2018 or those approved in previous years, the application of which is scheduled for 2018 (or future years), please refer to "Section 5 - Other Aspects" below, which also illustrates the main impact for the Group.

The communications of the Supervisory Bodies (Bank of Italy, CONSOB and ESMA) issuing recommendations on the information to be included in the Financial 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 have been prepared applying the provisions of Circular no. 262 of 22 December 2005 "Bank Financial Statements: Layouts and Rules for Preparation" and the subsequent

updates (most recently, the fifth update published on 22 December 2017). This is the Circular issued by the Bank of Italy in exercising the powers established by Italian Legislative Decree 38/2005 (hereinafter also referred to as "Circular no. 262").

The financial statements provide, in addition to the accounting data as at 31 December 2018, comparative information relating to the last financial statements approved as at 31 December 2017.
Given the First Time Adoption of IFRS 9 and IFRS 15, please note that the Banco BPM Group has made use of the option provided for in the transitional provisions of the cited standards not to restate the comparative figures; the effects relating to the first adoption are therefore reflected through an adjustment to the opening consolidated shareholders' equity balances at 1 January 2018. With particular reference to the first adoption of IFRS 9, it should be noted that the balance sheet and income statement balances for the previous year, as prepared in compliance with the previous IAS 39, are not fully comparable with the new accounting categories and with the relative valuation criteria introduced by the new standard. In regard to the exposure of the balances of the previous year, to ensure as consistent a comparison as possible for comparable items, Banco BPM Group has opted to:

- reconcile the balances relating to the balance sheet and income statement items not affected by IFRS 9 into a single statement;
- prepare a separate indication of the balance sheet items intended to record the balance sheet and income statement balances of the financial instruments that fall within the scope of IFRS 9, which will continue to be included in the items published in the latest approved financial statements. The balance as at 31 December 2018 is therefore not provided for these items, but will be presented on the basis of the new items in the financial statements.

For this reason, the tables contained in the Notes, in addition to the figure as at 31 December 2018, will only show comparative balances for items that have a restated balance for both the current and the previous financial year in the financial statements.
On the other hand, for items considered not to be comparable, as they are impacted by IFRS 9, the tables in the notes to the financial statements are prepared, unless otherwise specified, in a double version: IFRS 9 tables as at 31 December 2018 and, separately, IAS 39 tables as at 31 December 2017.
For further details on the methods of presenting comparative balances, please refer to Annex "Disclosure on the first adoption of the accounting standards IFRS 9 – Financial instruments and IFRS 15 – Revenue from contracts with customers", which is an integral part of these Notes.

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 interim financial statements are drawn up clearly and provide a true and fair view of the equity and financial situation and economic 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 2018, 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 equity and financial situation and economic result are explained in the Notes to the financial statements.

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

- *business continuity*: the financial statements are prepared with a view to the continuity of the Group's business: the directors, in light of the main economic and financial indicators, have a reasonable expectation that the Group will continue to operate in the foreseeable future;
- *recognition by accrual:* the financial statements have been prepared in accordance with the principle of recognition by accrual with the exception of information on cash flows;

- *consistency of presentation:* 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;
- *significance and aggregation:* the balance sheet and income statement consist of items (marked with Arabic numerals), sub-items (marked with letters) and additional information details (the "of which" of the items and sub-items). The items, sub-items and related information details constitute the balance sheet 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;
- *substance prevails over form:* transactions and other events are recognised and represented according to their substance and financial reality and not just according to 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 or provide otherwise. The latter circumstance occurred at the time of first adoption of IFRS 9 and IFRS 15, which made it possible not to restate the comparative information, as illustrated above. 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-Consolidated balance sheet disclosure, C-Consolidated income statement disclosure, D -Consolidated comprehensive income, E-Information on risks and related hedging policies, F-Consolidated shareholders' equity disclosure, G-Business combinations regarding companies or divisions, H-Transactions with related parties, I-Share-based payment agreements, L-Segment Reporting.
Each part of the Notes is divided into sections, each of which explains a single management 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 potential 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 and the current state of the financial markets. In this regard, note that the current economic and financial situation has made it necessary to make assumptions concerning future performance characterised by significant uncertainties. Precisely in consideration of the uncertain situation, it cannot be excluded that the hypotheses 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.

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 2018.

Determining the impairment on loans disbursed recognised in the 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 deterioration in loans, also with a view to a timely classification within the perimeter of impaired 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 based on statistical parameters of the losses historically recorded on loans with similar characteristics.
With regard to loans for which no objective evidence of impairment has been individually identified, i.e. for performing loans, the new 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. The definition of more stringent criteria could therefore lead to an increase in the number of exposures to be classified as Stage 2, with a consequent increase in expected losses;
- 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 and 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;
- the determination of expected losses requires the use of estimation models:
  - 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 impaired loans for which a disposal plan exists, the expected losses must be quantified also on the basis of the estimate of the recoverable flows through the disposal scenario, to be considered as an alternative scenario to the one based on the internal management of the recovery activity ("work out") according to the multi scenario approach described above;
  - recovery time;
  - 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. This circumstance occurred during the 2018 financial year, when a refinement of the quantitative criteria was introduced to identify the

significant deterioration of credit risk ("Stage 2"). Taking into account the results of the stage assignment model, defined at the time of the first application of IFRS 9 (1 January 2018), a new quantitative model was introduced during the last quarter of 2018, aimed at ensuring greater alignment between the accounting evidence and that resulting from the processes of management and monitoring of performing credit exposures ("Stage 1" and "Stage 2"). This refinement did not have a significant impact on the amount of expected losses relating to all performing exposures.
It should also be noted that, consistent with the impairment model, expected losses could vary significantly as a result of changes in sales scenarios or refinements in the statistical models on which the calculation of the parameters for calculating expected losses on unimpaired exposures is based.

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 financial statements as at 31 December 2018.

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 2018, the Group's intangible assets with an indefinite useful life amounted to 580.7 million euro, and were represented by 76.4 million euro of goodwill attributable to the "Bancassurance Protezione" cash generating unit (CGU) and the "Bancassurance Vita" CGU and 504.3 million euro of brands recognised following the business combination with the former Banca Popolare di Lodi Group (222.2 million euro) and the former Banco 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 exclude 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 a certain amount of subjective 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 the potential recoverability of the same. Said judgement of recoverability is also based on the legislative tax provisions in force on the date of preparation of this report.
In particular, deferred tax assets that meet the requirements established by Law no. 214 of 22 December 2011 can be transformed into 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 such deferred tax assets is therefore certain, since it does not depend on their ability to generate future profits.
For the remaining assets deriving from temporary differences other than those mentioned above, the probability opinion is based on the income forecasts inferable from the approved strategic and forecasting plans, also taking into account that, for IRES purposes, the regulations in force allow them to be carried forward without any time limit. Verifying the recoverability of the recognition values of deferred tax assets is a valuation that therefore requires significant elements of judgement.
The recoverability could also be negatively influenced by circumstances that are not foreseeable at the present time, such as changes to the current tax legislation or changes in the macroeconomic or market scenario, which would then require an update of the income forecasts used as a basis to estimate future taxable income. For this reason, the recoverability of the DTA that cannot be transformed into tax credit is continuously monitored with regard to changes in tax legislation and in the results recorded, which may be negatively influenced by the economic and market scenarios.

Section 11 - "Tax assets and tax 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.

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 the potential 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 potential 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 potential 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.

Estimating the recoverable value of real estate assets held for investment purposes

The Group possesses real estate for investment purposes, mostly originating from properties repossessed to close an original credit position (*datio in solutum* - acceptance in lieu) or from an agreement to settle a dispute. For these assets, in the event of indicators that could potentially show an impairment loss, the recoverable value has to be

established, recognising a write-down if said value should be lower than the book value. The estimation of recoverable value, conducted using external appraisals, was impacted by an inevitable component of subjectivity in certain circumstances, amplified by the specific characteristics of each property. In this regard, note that the difficulties related to this estimation process are particularly evident in the current scenario of the Italian property market, the reference market for almost all of the Group's properties. In the future we can therefore not exclude a potential further reduction of the recoverable value if the real estate crisis should worsen with respect to the situation as at the date of the appraisals.

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) Subsidiary companies

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 the voting 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 2018, 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 2018, 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 2018, 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 are represented by the SPEs for securitisation transactions and by SPVs for covered bond transactions.

Special Purpose Entities for securitisation transactions

With regard to Special Purpose Entities for securitisation transactions, the elements retained as relevant for the purpose of identifying control and therefore the need for any consolidation, are represented by:
- 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 section "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. Non-controlling 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, section "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 shareholder's equity. Said reserve is eliminated through a concurrent debit/crediting of the income statement when the investment is disposed of. Changes in value of the valuation reserve due to exchange differences are included in the Statement of comprehensive income.
In order to prepare the consolidated financial statements as at 31 December 2018, 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 non-current assets and 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 selling costs, turns out to be lower than the book value, a value adjustment is recognised in the income statement.

Elimination of intragroup derivatives associated with liabilities designated at fair value

The adoption of the fair value option for certain bond issues, as described in the paragraph "Financial liabilities designated at fair value" contained in "Part A.2 - Information on the main accounting 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 portfolio 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 portfolio, 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. All these positions are recorded in the trading portfolio;
- at consolidated level, it follows that the risks associated with the banking portfolio 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 2018, 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 portfolio and banking portfolio, which would be altered as a result of the aforementioned elimination, it is necessary to reclassify the derivatives that Banca Akros has ideally stipulated with the market (present in its trading portfolio) to cover the

liabilities issued by the Parent Bank (present in its banking portfolio), from the supervisory trading portfolio to the banking portfolio. 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 with the stipulation of the derivatives in question.

(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 investee business and financial decisions 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 controlling it.
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. 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 the Banco BPM Group please refer to "Part B- Information on the consolidated balance sheet" in section "7. Investments" in these Notes to the financial statements.

	Company names	Operational headquarters	Registered office	Type of relationship (1)	Investment relationship		Available
					Holder	% held	% of votes (2)
	Banco BPM S.p.A.	**Verona**	**Milan**		**Parent Group**		
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.	Arena Broker S.r.l. Share Capital € 500,000.00	Verona	Verona	1	Holding di Partecipazioni	57.300%	57.300%
5.	Banca Akros S.p.A. Share Capital € 39,433,803.00	Milan	Milan	1	Banco BPM	100.000%	100.000%
6.	Banca Aletti & C. (Suisse) S.A. Share Capital CHF 35,000,000	CH - Lugano	CH - Lugano	1	Banca Aletti & C.	100.000%	100.000%
7.	Beta S.r.l. in liquidation Share Capital € 10,000.00	Lodi	Lodi	1	Banco BPM	100.000%	100.000%
8.	Bipielle Bank (Suisse) S.A. in liquidation Share Capital CHF 60,882,000	CH - Lugano	CH - Lugano	1	Banco BPM	100.000%	100.000%
9.	Bipielle Real Estate S.p.A. Share Capital € 298,418,385.78	Lodi	Lodi	1	Banco BPM	100.000%	100.000%
10.	BPM Covered Bond S.r.l. Share Capital € 10,000.00	Rome	Rome	1	Banco BPM	80.000%	80.000%
11.	BPM Covered Bond 2 S.r.l. Share Capital € 10,000.00	Rome	Rome	1	Banco BPM	80.000%	80.000%
12.	BRF Property S.p.A. Share Capital € 2,000,000.00	Parma	Parma	1	Partecipazioni Italiane Banco BPM	51.114% 14.314%	51.114% 14.314%

Company names	Operational headquarters	Registered office	Type of relationship (1)	Investment relationship		Available
				Holder	% held	% of votes (2)
13. BP Covered Bond S.r.l. Share Capital € 10,000.00	Milan	Milan	1	Banco BPM	60.000%	60.000%
14. BP Property Management Soc. Consortile a r.l. Share Capital € 1,300,000.00	Verona	Verona	1	Banco BPM	92.847%	100.000%
				Bipielle Real Estate	4.615%	
				Banca Aletti & C.	1.000%	
				S.G.S. BP	1.000%	
				Holding di Partecipazioni	0.538%	
15. BP Trading Immobiliare S.r.l. Share Capital € 4,070,000.00	Lodi	Lodi	1	Bipielle Real Estate	100.000%	100.000%
16. Consorzio AT01 Share Capital € 100,000.00	Lodi	Lodi	1	Sviluppo Comparto 8	95.000%	95.000%
17. FIN.E.R.T. S.p.A in liquidation Share Capital € 103,280.00	Rome	Rome	1	Banco BPM	80.000%	80.000%
18. First Servicing S.p.A. Share Capital € 50,000.00	Milan	Milan	1	Banco BPM	100.000%	100.000%
19. Ge.Se.So. S.r.l. Share Capital € 10,329.00	Milan	Milan	1	Banco BPM	100.000%	100.000%
20. Holding di Partecipazioni Finanziarie Banco Popolare S.p.A. Share Capital € 119,850,000.00	Verona	Verona	1	Banco BPM	100.000%	100.000%
21. Immobiliare Marinai d'Italia S.r.l. Share Capital € 258,024.00	Lodi	Lodi	1	Banco BPM	100.000%	100.000%
22. Liberty S.r.l. in liquidation (*) Share Capital € 55,000.00	Lodi	Lodi	1	Banco BPM	100.000%	100.000%
23. Lido dei Coralli S.r.l. Share Capital € 10,000.00	Sassari	Sassari	1	Bipielle Real Estate	100.000%	100.000%
24. Manzoni 65 S.r.l. Share Capital € 10,000.00	Milan	Milan	1	Bipielle Real Estate	100.000%	100.000%
25. Meleti S.r.l. Share Capital € 20,000.00	Lodi	Lodi	1	Perca	100.000%	100.000%
26. Milano Leasing S.p.A. in liquidation Share Capital € 1,541,808.00	Milan	Milan	1	Banco BPM	99.999%	99.999%
27. Partecipazioni Italiane S.p.A. in liquidation Share Capital € 350,000.00	Milan	Milan	1	Banco BPM	99.966%	100.000%
28. Perca S.r.l. Share Capital € 50,000.00	Lodi	Lodi	1	Immobiliare Marinai d'Italia	100.000%	100.000%
29. P.M.G. S.r.l. in liquidation Share Capital € 52,000.00	Milan	Milan	1	Banco BPM	84.000%	84.000%
30. ProFamily S.p.A. Share Capital € 50,000,000.00	Milan	Milan	1	Banco BPM	100.000%	100.000%
31. Release S.p.A. Share Capital € 430,488,261.00	Milan	Milan	1	Banco BPM	85.387%	85.387%
32. Sagim S.r.l. Società Agricola Share Capital € 7,746,853.00	Asciano (Siena)	Asciano (Siena)	1	Agriurbe	100.000%	100.000%
33. Sirio Immobiliare S.r.l. Share Capital € 10,000.00	Lodi	Lodi	1	Bipielle Real Estate	100.000%	100.000%
34. Società Gestione Servizi BP Soc. Consortile p. az. Share Capital € 116,529,300.00	Verona	Verona	1	Banco BPM	86.278%	100.000%
				Banca Akros	4.093%	
				Banca Aletti & C.	8.753%	
				Bipielle Real Estate	0.438%	
				Holding di Partecipazioni	0.438%	
35. Sviluppo Comparto 6 S.r.l. Share Capital € 10,000.00	Lodi	Lodi	1	Bipielle Real Estate	100.000%	100.000%

Company names	Operational headquarters	Registered office	Type of relationship (1)	Investment relationship		Available
				Holder	% held	% of votes (2)
36. Sviluppo Comparto 8 S.r.l. Share Capital € 10,000.00	Lodi	Lodi	1	Bipielle Real Estate	100.000%	100.000%
37. Tecmarket Servizi S.p.A. Share Capital € 983,880.00	Verona	Verona	1	Banco BPM	100.000%	100.000%
38. Terme Ioniche S.r.l. Share Capital € 1,157,190.00	Cosenza	Lodi	1	Bipielle Real Estate	100.000%	100.000%
39. Terme Ioniche Società Agricola S.r.l. Share Capital € 100,000.00	Cosenza	Cosenza	1	Bipielle Real Estate	100.000%	100.000%
40. Tiepolo Finance S.r.l. Share Capital € 10,200.00	Lodi	Lodi	1	Banco BPM	100.000%	100.000%
41. BP Mortgages S.r.l. (**) Share Capital € 10,000.00	Milan	Milan	4	-	0.000%	
42. BPL Mortgages S.r.l. (**) Share Capital € 12,000.00	Conegliano V. (Treviso)	Conegliano V. (Treviso)	4	-	0.000%	
43. BPM Securitisation 2 S.r.l. (**) Share Capital € 10,000.00	Rome	Rome	4	Banco BPM	0.000%	
44. BPM Securitisation 3 S.r.l. in liquidation Share Capital € 10,000.00	Conegliano V. (Treviso)	Conegliano V. (Treviso)	1	Banco BPM	100.000%	100.000%
45. Erice Finance S.r.l. (**) Share Capital € 10,000.00	Conegliano V. (Treviso)	Conegliano V. (Treviso)	4	-	0.000%	
46. Italfinance Securitisation VH 1 S.r.l. (**) Share Capital € 10,000.00	Conegliano V. (Treviso)	Conegliano V. (Treviso)	4	Banco BPM	9.900%	9.900%
47. Italfinance Securitisation VH 2 S.r.l. (**) Share Capital € 10,000.00	Conegliano V. (Treviso)	Conegliano V. (Treviso)	4	-	0.000%	
48. Leasimpresa Finance S.r.l. in liquidation Share Capital € 10,000.00	Conegliano V. (Treviso)	Conegliano V. (Treviso)	1	Banco BPM	100.000%	100.000%
49. Leviticus SPV S.r.l. (**) Share Capital € 10,000.00	Rome	Rome	4	-	0.000%	
50. ProFamily Securitisation S.r.l. (**) Share Capital € 10,000.00	Conegliano V. (Treviso)	Conegliano V. (Treviso)	4	-	0.000%	

(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
(*) Company cancelled from the Business Register in January 2019.
(**) 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 2017 are shown in the table below:

Fully consolidated companies	
Outgoing companies due to mergers	
Name of company incorporated	**Name of incorporating company**
Banca Popolare di Milano S.p.A.	Banco BPM S.p.A.
Outgoing company due to corporate liquidation	
Pami Finance S.r.l. (in liquidation)	
Outgoing company due to assignment	%
Mariner S.r.l.	100.00%
Incoming newly-founded company	
Beta S.r.l. in liquidation	100.00%
First Servicing S.p.A.	100.00%

Companies consolidated with the equity method	
Outgoing companies due to assignment	%
Renting Italease S.r.l.	50.00%

With reference to the perimeter of associated companies, please note that as part of the reorganisation of the Bancassurance business unit, in March Banco BPM completed the acquisition of 50% + 1 share of Avipop Assicurazioni and Popolare Vita, bringing its stake in the share capital of the two companies to 100%. On the same date, Banco BPM completed the sale to Cattolica Assicurazioni of 65% of the share capital of Avipop Assicurazioni and Popolare Vita. As a result of these transactions, the Group holds 35% of the share capital of the two companies which, in May, changed their corporate names to Vera Assicurazioni and Vera Vita respectively. Such interests continue to be classified as investments in associates and companies subject to joint control and accounted for using the equity approach.

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.

3. Investments in exclusively-controlled companies with significant non-controlling interests

As at 31 December 2018, there were no non-controlling interests in subsidiaries deemed significant for the Group, either individually or as a whole, as shown in the table in "Section 14- Non-controlling interests" in part B of the liabilities of these Notes to the financial statements. The same is true for the financial statements as at 31 December 2017.

3.1 Non-controlling interests, availability of minority votes and dividends distributed to non-controlling interests

No information is given for the reasons explained above.

3.2 Investments with significant non-controlling interests, accounting information

No information is given for the reasons explained above.

4. Significant restrictions

At 31 December 2018, 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 non-controlling interests, as explained in the previous paragraph.

5. Other information

All the subsidiaries prepare financial statements as at 31 December 2018, 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

The significant events occurring in the period between the reporting date and the date of approval of the draft financial statements by the Board of Directors are illustrated below.

Deed signed for the merger of SGS and BP Property Management into the Parent Company

On 17 January 2019 the merger deed was signed for the incorporation into Banco BPM of SGS and BP Property Management. The operation will take place according to the simplified procedure pursuant to art. 2505 of the Italian Civil Code which governs the merger of companies wholly owned by the incorporator as a result of the purchase by the Parent Company, in January, of the stakes in the two consortia held by other Group companies.
The merger will take legal effect from 11 January 2019 following the registration of the merger deed in the competent Companies Registers; the accounting and tax effects are brought forward to 1 January 2019.
The merger will take place without an exchange ratio or cash adjustment and determines the winding up of the incorporated companies which will be removed from the Banco BPM Banking Group with effect from 11 February 2019.

Closure and liquidation of subsidiaries

In January the subsidiaries in liquidation Liberty S.r.l. and BPM Securitisation 3 S.r.l. were cancelled from the competent Companies Register. The liquidation procedures, completed at the end of 2018, had not entailed significant impacts on the Group's financial and economic situation.

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 the separate financial statements, the consolidated financial statements, the report on operations and the attestation of the Financial Reporting Manager pursuant to article 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 2019 and will be submitted for approval by the Shareholders' Meeting convened for 6 April 2019.

Independent audit

The separate financial statements and the consolidated financial statements at 31 December 2018 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 entire audit report is made available to the public together with the annual financial report, under the terms of 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 2018 from those applicable in subsequent years.

IAS/IFRS accounting standards and related SIC/IFRIC interpretations endorsed that must be applied when preparing the 2018 financial statements

Regulation no. 1905 of 22 September 2016 - IFRS 15 "Revenue from contracts with customers" and subsequent clarifications endorsed with Regulation no. 1987 of 31 October 2017
The IFRS 15 standard, published by the IASB on 28 May 2014, introduces a single model for the recognition of all revenues originating from contracts with customers and replaces the previous standards/interpretations on revenues (IAS 18, IAS 11, IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31).

Regulation no. 2067 of 22 November 2016 - IFRS 9 "Financial Instruments"
The IFRS 9 standard, issued by the IASB in July 2014, governs the steps of classification and measurement of financial instruments, as well as the related impairment process, replacing the previous accounting standard IAS 39.

Regulation no. 1988 of 3 November 2017 – "Joint application of IFRS 9 Financial Instruments and IFRS 4 Insurance Contracts". The objective of the amendments is to resolve, for insurance companies, the problems related to the application of IFRS 9, before implementation of the standard (IFRS 17 which will come into force on 1 January 2021) replacing IFRS 4 on insurance contracts.

Regulation no. 182 of 7 February 2018 – "Annual Improvement Cycle to IFRS 2014 – 2016". The aim is to provide some clarifications in order to resolve certain inconsistencies or methodological clarifications.

Regulation no. 289 of 26 February 2018 – "Amendments to IFRS 2". The amendments aim to clarify the valuation and recognition criteria to be adopted for certain types of share-based payment transactions.

Regulation no. 400 of 14 March 2018 – "Amendments to IAS 40 – Changes in the use of investment property". The amendments clarify the time of transfer of an asset from/to the category of "investment property", identified as "change in use".

Regulation no. 519 of 28 March 2018 – "IFRIC 22 Interpretation – Foreign Currency Transactions and Advance Consideration". The interpretation clarifies the accounting for transactions involving the receipt or payment of advances in foreign currency.

With the exception of the first time adoption of the IFRS 9 and IFRS 15 accounting standards - for which reference should be made to the Annex "Disclosure on first adoption of the accounting standards IFRS 9 – Financial instruments

and IFRS 15 – Revenue from contracts with customers", which is an integral part of these Notes - the other amendments and interpretations did not have an impact on the Group's balance sheet and income statement.

IAS/IFRS accounting standards and SIC/IFRIC interpretations approved, the application of which takes effect after 31 December 2018

The following paragraphs illustrate the main accounting standards/interpretations or amendments of the same issued by the IASB/IFRIC and endorsed by the European Commission, which will be applicable on a mandatory basis subsequent to FY 2018.

Regulation no. 1986 of 31 October 2017 - IFRS 16 "Leases".
On 13 January 2016 the IASB published the accounting standard IFRS 16 "Leases", which 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 leasing contracts, replacing the previous standards/interpretations (IAS 17, IFRIC 4, SIC 15 and SIC 27). Under the terms of Regulation no. 1986 of 31 October 2017, which endorsed the standard in question, the application runs, at the latest, from the financial year with starting date from 1 January 2019.

In detail, 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 ("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.

The main change regards the presentation of leasing 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 statement of financial position 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 leasing contract. After initial registration:

- the right-of-use asset will be measured at cost on the basis of IAS 16 (or on the basis of any alternative criteria permitted by IAS 16 or IAS 40) 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 leasing 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 of Conclusion of IFRS 16, paragraph BC100).

As regards the lessor the rules on accounting for leasing contracts of IAS 17 remain instead substantially unchanged. These are differentiated according to whether they are operating leases or finance leases; in the case of finance leases the lessor will therefore continue to recognise in the balance sheet a receivable for the present value of the future leasing instalments.

For the Banco BPM Group the date of first application of the new accounting standard IFRS 16 runs mandatorily from 1 January 2019. Starting from the second half of 2018, the Group therefore began a specific project aimed at analysing the perimeter of contracts to be made subject to the rules of IFRS 16, at defining the related accounting treatment - on first application and when fully applied - and at identifying the necessary IT and organisational implementations. More specifically, the project is led by the Administration and Financial Statements Unit, with the support of the Special Projects and Monitoring Unit, and has seen the involvement of the corporate structures involved, for various reasons, in managing contracts, defining corporate processes and selecting IT solutions (Operations Properties and Procurement, Organisation and Information Technology Units).
In particular, as regards the project area related to contract management, the activities have been concentrated on defining and recognising the perimeter of contracts containing a leasing component, defining and obtaining the information set necessary for calculating the rights of use and the related liabilities. To this end it is worth specifying 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").
With reference to the business processes, the introduction of IFRS 16 required a review of the spending management process (procurement cycle), in order to permit correct identification of leasing contracts on acquiring the same, correct entering of the necessary information by the IT procedure used to calculate the right of use and the related liability and finally correct management of the accounting for invoices received on the basis of the new accounting rules.
Taking into account the need to complete certain planning activities, with particular regard to the configuration of the relevant IT infrastructure, at the date on which the present financial statements were prepared the effects related to application of the new standard are not available; these will be obtained on the basis of the results produced by the "target" accounting and administrative procedures. However, in order to enable an assessment of the impacts related to application of the new accounting standard, in the report on operations a preliminary estimate is provided of the quantitative impacts on the statement of financial position (assets and liabilities) and on own funds at 1 January 2019; this estimate was carried out making use of the best information available at the date on which the present financial report was prepared, obtained from processing non-accounting data. It is therefore not possible to exclude that these estimates may be subject to changes, also in relation to completion of the process of first application of the standard IFRS 16 and related auditing activities.
In qualitative terms, for the Banco BPM Group the impact related to first application of IFRS 16 is mainly attributable to leasing contracts for property units destined for commercial activities (branches), while impacts related to contracts for the hire of the company car fleet and to contracts containing a right of use of IT infrastructures/hardware identified seem marginal.
On first application of IFRS 16, the Group intends to avail itself of the so-called Modified Retrospective Approach, permitted by the transitory provisions contained in paragraphs C5(b), C8(b)(ii) of the aforementioned standard. On the basis of the aforesaid approach:

- the right of use is set as equal to the liability of the leasing, that is equal to the present value of the future instalments to be paid for the planned duration of the contract and attributable to the leasing component, net of the VAT component, discounted to the present on the basis of the marginal interest rate ("incremental borrowing rate") at the date of first application;
- The comparative information need not be redetermined for the 2018 financial statements.

On the basis of what is illustrated above, at the transition date, no impact is expected on consolidated accounting shareholders' equity. The new accounting standard will determine, however, starting from the income statement for the year/interim statements of 2019, a reclassification from the item "Administrative expenses", in which rental/hire instalments were presented up to financial year 2018, to the items "Net value adjustments on property, plant and equipment" for the depreciation of the right of use and "Interest expense" on the leasing liabilities. Although at the end of the contract the economic effect recorded will overall be equal to the leasing instalments effectively paid to the lessor, the new accounting method entails a different distribution of the said effect along the term, reasonably higher at the start of the contract as a result of the higher interest expense accrued on the leasing liability to be reduced along the term following payment of the instalments.
With reference to the impact on own funds, in line with what was presented by the Basel Committee on 6 April 2017 "FAQs on the treatment of the ROU Asset", the right of use on property, plant and equipment must be included in the calculation of risk-weighted assets with a weighting of 100%, in line with the risk weightings applied to property, plant and equipment owned.
As regards transition to the new standard, we can note, in addition, that the Group intends to avail itself of the practical expedient of not making subject to the IFRS 16 rules contracts which expire before 31 December 2019 or with underlying assets of low value when new (value identified in keeping with the threshold provided for in the accounting standard IFRS 16, illustrated above). In addition, the Group intends to make use of the measurements made for the 2018 financial statements in relation to the existence of onerous contracts which entailed the need to recognise provisions for risks and charges under the terms of IAS 37, as an alternative with respect to the need to subject the right of use to impairment, under the terms of the IAS 36 rules. These, in particular, are provisions existing at 31 December 2018 regarding leasing contracts of closed branches for which the costs necessary to fulfil the contract were more than the expected benefits, as illustrated in Section 10 – "Provisions for risks and charges" contained in Part B – Liabilities of the present Notes to the Statements.

Regulation no. 498 of 22 March 2018 – "Amendments to IFRS 9 Financial Instruments – Prepayment Features with Negative Compensation". These amendments, mandatorily applicable starting from 1 January 2019, aim to clarify the classification of certain financial assets that are prepayable 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 Group no significant impacts are expected.

Regulation no. 1595 of 23 October 2018 – IFRIC 23 "Uncertainty over Income Tax Treatments"
The purpose of the interpretation is to provide clarifications on how to apply the recognition and measurement criteria laid out in IAS 12 in the case of uncertainty with respect to treatments for the determination of income tax.
From application of the interpretation, provided for obligatorily starting from 1 January 2019, no significant impacts are expected for the Group.

Accounting standards IAS/IFRS and SIC/IFRIC interpretations issued by the IASB/IFRIC, awaiting endorsement

For the sake of completeness, a list of further standards or interpretations, issued by the IASB/IFRIC but not yet endorsed, is set out below, which, although of potential interest to the Group, are not retained as having any significant impact on the Group's equity or income situation, or on financial statement disclosures:

- Amendments to IAS 28 – "Long-term Interests in Associates and Joint Ventures" issued by the IASB on 12 October 2017, in order to clarify that an entity applies IFRS 9 to medium/long-term interests in associates or joint ventures to which the equity method is not applied.
- Annual Improvements to IFRS Standards 2015–2017 Cycle(IFRS 3, IFRS 11, IAS 12 and IAS 23) issued by the IASB on 12 December 2017, to provide several clarifications that seek to resolve some inconsistencies or illustrate methods.
- Amendments to the standard IAS 19 "Plan Amendment, Curtailment or Settlement" issued by the IASB on 7 February 2018 with which it clarifies how pension expenses are determined when an amendment is made to a defined benefit plan.
- New version of the Conceptual Framework for Financial Reporting issued by the IASB on 29 March 2018. The revised version contains the following amendments: a new chapter on the subject of measurement; better definitions and guidance in particular on liabilities; clarifications of a number of significant concepts such as stewardship, prudence and uncertainty in measurements.
- Amendments toIFRS 3 "Definition of a Business" issued by the IASB on 22 October 2018 with the aim of helping to determine whether a transaction is an acquisition of a business or of a group of assets which does not meet the definition of a business of IFRS 3. The amendments will apply to acquisitions after 1 January 2020.
- Amendments to IAS 1 and IAS 8 "Definition of Material" issued by the IASB on 31 October 2018 with the aim of clarifying the definition of "material" in order to help companies to assess whether information is to be included in the financial statements. The amendments will apply starting from 1 January 2020.

For complete disclosure we can note that on 18 May 2017 the IASB issued the new IFRS 17 accounting standard 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.

Other significant aspects relating to Group accounting policies

An illustration of the accounting treatment of certain sale transactions completed or resolved during 2018 is provided below, in order to enable an immediate understanding of the changes that occurred in the year in certain balance sheet items.

Non-recourse transfer of "Project Exodus" bad loans

As illustrated in the "Significant events during the financial year" section of the Group's Report on Operations, in June 2018 the sale of a portfolio of loans classified as bad loans was completed through a securitisation transaction aimed at obtaining a state guarantee for senior securities (the Guarantee for Securitisation of Non-performing Loans - GACS pursuant to Decree no. 18 of 14 February 2016 converted into Italian Law no. 49 of 8 April 2016 and the subsequent MEF decree of 3 August 2016).
More specifically, on 1 June 2018 this operation, called "Project Exodus", involved the transfer of a portfolio of bad loans, for a gross amount of approximately 5 billion euro, to an SPE set up for this purpose, not belonging to the Banco BPM Group (Red Sea SPV S.r.l.).
The payment of the purchase price by the SPE was financed on 15 June 2018 through the issue of three classes of notes, which were initially fully subscribed by the originating banks (Banco BPM and BPM S.p.A.), for a nominal value of approximately 1.9 billion euro, distributed as follows:

- Senior (Class A) notes for 1,656.5 million euro. These securities hold an Investment Grade rating (Moody's: Baa2; Scope: BBB (SF) and their yield is equal to the 6-month Euribor plus an annual spread of 0.6%;
- Mezzanine (Class B) notes for 152.9 million euro. These unrated securities provide for a yield equal to 6-month Euribor plus an annual spread of 6 %;
- Junior (Class J) notes amounting to 51 million euro. These unrated securities provide for variable remuneration depending on the performance of the securitisation.

Subsequently, on 29 June 2018, in compliance with the retention rule established by the supervisory regulations, the Group transferred 95% of the junior notes and 95% of the mezzanine notes to third parties, i.e. the notes that bear the first loss and that may benefit from the excess spread of the transaction; the consideration paid at the time of the sale totalled 54.7 million euro.
Following this sale, on 29 June 2018, the conditions were met for the derecognition of the portfolio of bad loans transferred, since the rights and benefits of the financial assets sold had substantially been transferred.
Regarding the receivables transferred, it should also be noted that the Group has no power — either *de facto* or in law — to manage the relevant activities of the SPE, represented by the activities aimed at recovering the receivables. Based on the relevant regulations for the aforementioned GACS, the recovery of the bad loans transferred was entrusted to an external servicer and the Group does not maintain any form of involvement.
The economic effects of the disposal, quantified on the basis of the difference between the book value at the beginning of the year and the net amount received, including the new assets acquired, were negative and equal to 221 million euro. Taking into account the reversal of the discounting of the loans sold, due to the passage of time and recognised in net interest income up to the date of sale, the losses recognised in item "100 a) Gains/losses on the disposal of financial assets" amounted to approximately 276 million euro.
In the light of the above, as at 31 December 2018 the Group held:

- all senior notes classified in the portfolio of "Financial assets designated at amortised cost: b) Loans to customers". Taking into account the repayments received during the second half of 2018, of 227 million euro, and the expected losses recognised on the basis of the IFRS 9 impairment model, the book value, gross of accruals, amounted to 1,428.6 million euro;
- 5% of mezzanine notes and 5% of junior notes classified in the portfolio of "Financial assets designated at fair value through profit and loss" at the book value of 2.9 million euro. The measurement at fair value was based on the price of the recent sale transaction of 29 June 2018 (level 3 in the fair value hierarchy).

For the sake of full disclosure, financial assets designated at amortised cost include a limited recourse loan granted to the SPE amounting to 72.4 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.

"ACE" Project – Acceptance of the binding offer received from Elliott and Credito Fondiario

As indicated in the Significant events during the financial year" section of the Group's Report on Operations, on 10 December 2018 Banco BPM approved the binding offer received from funds managed by Elliott Management (hereinafter "Elliott") and Credito Fondiario, which provides, among other things, for:

- The sale to the vehicle company Leviticus SPV S.r.l. of a portfolio of bad exposures originating from the Group with the aim of carrying out a securitisation transaction;
- Establishment of a platform for the recovery of impaired loans, in partnership with Credito Fondiario, through an SPE, which will be controlled by the latter company, following the transfer by Banco BPM of the business unit devoted to the activity of recovering such receivables. To this end, in December 2018, the company First Servicing S.p.A. was set up by Banco BPM, with the purpose of performing the servicer functions; 70% of this company will be sold to Credito Fondiario, subordinately to the transfer of the aforementioned business unit and obtainment of the necessary authorisations from the competent authorities.

To this end, on 28 December 2018 the sale was completed to the company Leviticus SPV S.r.l., a vehicle specifically set up which does not belong to the Banco BPM Group, of a portfolio of loans classified as bad, under the terms of the law on securitisations (Italian Law no. 130/1999). At the date of sale the gross value of the portfolio transferred amounted to approximately 6 billion euro, net of write-offs of approximately 1.1 billion euro (the nominal value was 7.4 billion euro, before write-offs, referred to the contractually established date of effect of 30 June 2018).
On 6 February 2019 the transaction was completed through the issue, by Leviticus SPV S.r.l., of the following classes of notes, all subscribed by Banco BPM:

- Senior notes of 1,440.0 million euro, in relation to which the procedure is being activated for the issue, by the Italian State, of the guarantee on senior notes under the terms of Italian Law Decree 18/2016 ("GACS");
- Mezzanine notes of 221.5 million euro;
- Junior notes of approximately 248.8 million euro.

In the context of the aforementioned binding offer, Elliott undertook to acquire 95% of the junior and mezzanine notes issued by the vehicle "Leviticus". Completion of the sales of the notes - which will entail the significant transfer of the risks and benefits of the loan portfolio transferred and the consequent accounting derecognition - is expected to occur at the same time as the completion of the whole transaction (by 30 June 2019), subject to the possibility for the parties to bring forward the execution date of the sale of the securities.
Although the transaction will be fully completed in 2019, the approval of the binding offer on 10 December 2018 and the precise identification of the loans which were transferred at the end of December 2018 are such as to generate impacts on the financial statements at 31 December 2018, in terms of the classification and measurement of the items to be transferred, represented by non-performing loans.
In particular, on the basis of what is laid down by the accounting standard IFRS 5, starting from December 2018, the bad loan portfolio transferred is no longer included in the accounting item related to loans to customers (item 40 b) of the balance sheet assets) but among asset disposal groups held for sale (item 120 of the balance sheet assets), as illustrated in "Section 12" of Part B – Assets of the present Notes. As this is not a discontinued operation, under the terms of IFRS 5, the reclassification among assets held for sale regards only the financial and not the economic balances.
For measurement purposes, expected losses related to the said portfolio were quantified on the basis of the best estimate of recoverable flows to be realised following completion of the transaction, with the transfer to Elliott of 95% of the mezzanine and junior tranches. In the context of the "multi-scenario" model used by the Group for the measurement of bad loan exposures, illustrated in "Part A.2" below, the recoverable value of the receivables was measured assigning a probability of zero to the "recovery scenario" through internal workout activity and a probability of 100% to the "sale scenario".
The impacts on measurement, as determined above, were recognised in the income statement item "130. Net value adjustments for credit risk", as illustrated in "Section 8" of Part C – Information on the consolidated income statement of the present notes to the statements.
With reference to the business unit devoted to credit recovery, which will be transferred to the company First Servicing during 2019, we must note that, for the purposes of the 2018 financial statements, the same is not included among assets and liabilities held for sale, because as of 31 December 2018 the activities were still in progress for a precise definition of the perimeter. In any case, the most significant financial item included in the unit consists of the liabilities in relation to the personnel, the amount of which stands at around 2 million euro.
Lastly, it must be noted that, while awaiting the completion of the overall transaction, the vehicle companies Leviticus SPV S.r.l. and First Servicing S.p.A. are considered entities controlled by the Group, as indicated in "Section 3 – Scope of consolidation and methods", above.

Reorganisation of the consumer credit segment – agreements being completed for the sale of ProFamily

In the context of the consumer credit reorganisation operation, illustrated in the section "Significant events during the financial year" section of the Group's Report on Operations, the sale is planned of the subsidiary ProFamily S.p.A. to Agos Ducato S.p.A., a company in partnership with Crédit Agricole Consumer Finance S.A.. This sale will be made after completion of an operation for the demerger of ProFamily's non-captive activities in favour of a newly-incorporated company 100% controlled by Banco BPM; these are in particular activities attributable to the disbursement of loans through channels other than bank branches.
On the basis of the provisions of the accounting standard IFRS 5, starting from 31 December 2018, the assets and liabilities of ProFamily that will be realised through the aforementioned transaction are not stated "line by line", but in the summary balance sheet items "120. Non-current assets and disposal groups held for sale" and "70. Liabilities associated with asset disposal groups held for sale". For further details please see "Section 12 – Non-current assets and disposal groups classified as held for sale and associated liabilities".
Taking into account that the fair value net of costs to sell is more than the carrying amount no economic impacts can be foreseen as a result of classification among assets held for sale. In addition, we can note that the contribution of the investee is presented in the income statement "line by line", as the sale of ProFamily is not attributable to discontinued operations under the terms of IFRS 5).

Indirect exposure in relation to Banca Carige

As members of the Voluntary Scheme of the Interbank Deposit Protection Fund (Fondo Interbancario di Tutela dei Depositi) the banks of the Banco BPM Group approved the proposed intervention to support Banca Carige submitted for the approval of the Meeting of the Member Banks held on 30 November 2018. The intervention in support resolved with a view to pursuing the financial stability of the banking sector entailed the subscription by the Voluntary Scheme of subordinated (Tier 2) bonds issued by Banca Carige for a total amount of 318.2 million euro. The subordinated bonds were subscribed requiring the contribution of new financial resources from the banks that are members of the Scheme, in proportion to the respective stakes, for a total amount of 313.5 million euro and using for the remaining amount resources already available. The total stake in the Scheme of the Group banks is 8.9%. The subordinated bonds indirectly held by the Group through the Voluntary Scheme amount therefore to 27.9 million euro and represent a financial asset classified under the item "Financial assets designated at fair value through profit and loss: other financial assets mandatorily at fair value". Subscription of the aforesaid subordinated bonds is part of a wider rescue plan for Banca Carige which provided for carrying out a capital increase through the issue of new ordinary shares, to be offered as an option to right-holders, for a total maximum amount of 400 million euro. The operation also provided for the possibility of subscribing the capital increase for subscribers of the subordinated bonds for an amount equal to the amount of the latter. With this prospect, at the moment of subscribing the subordinated loan, the Voluntary Scheme had also assumed a commitment conditional on providing the subordinated bonds subscribed on loan to the subject appointed for the capital increase offer (the Placer) so that the latter could use them to subscribe and pay up the capital increase by offsetting if the financial resources acquired by Banca Carige were less than the total maximum amount of the capital increase.
On 22 December 2018 the Shareholders' Meeting of Banca Carige did not approve the delegated power to the Board of Directors in relation to the aforesaid share capital increase and on 2 January 2019, following the dissolution of the Board of Directors of the bank, the European Central Bank placed Banca Carige in receivership. Finally, on 7 January 2019, the Government approved a Law Decree which provides measures of public support to Banca Carige: concession of the State guarantee on the newly-issued liabilities and prior authorisation for the Ministry of the Economy and Finance to subscribe or purchase shares of the bank.
On preparing the financial statements it became necessary to estimate the fair value of the indirect exposure in relation to Banca Carige held by the Group. In consideration of the situation of great uncertainty regarding the evolution of the Banca Carige rescue process determining the fair value of the financial asset in question is particularly difficult. In this specific context the Banco BPM Group, applying its measurement practices, considered it opportune to write off completely the carrying amount of the financial asset in question . The value adjustment was debited to the income statement in item 110 b) "Net gains/(losses) on financial assets and liabilities designated at fair value through profit and loss: other financial assets that must be measured at fair value".

A.2 - KEY FINANCIAL STATEMENT ITEMS

The accounting standards adopted to prepare the consolidated financial statements as at 31 December 2018 are described below by accounting item, with reference to the phases of classification, recognition, measurement and derecognition of the various asset and liability items, together with the methods for recognising revenue and costs.

1 - Financial assets designated at fair value through profit and loss

Classification criteria

This category includes financial assets other than those classified under "Financial assets designated at fair value through other comprehensive income" and "Financial assets designated at amortised cost". This includes:

- debt securities or loans to which an "Other" Business Model is connected, i.e. a method of managing financial assets that is not aimed at collecting contractual cash flows ("Hold to collect" Business Model) or at collecting contractual cash flows and selling financial assets ("Hold to Collect and Sell" Business Model);
- debt securities, loans and UCITS units for which the contractual terms do not exclusively provide for the repayment of principal and payment of interest on the amount of principal to be repaid (i.e. which do not pass the SPPI test);
- equity instruments that do not qualify as investments in subsidiaries, associates and entities under joint control, held for trading or for which, on initial recognition, the option of classifying them as "Financial assets designated at fair value through other comprehensive income" was not taken.

More detailed information is provided below on the three sub-items making up this category, represented by: "a) Financial assets held for trading", "b) Financial assets designated at fair value through profit and loss", "c) Other financial assets that must be measured at fair value".

a) Financial assets held for trading

A financial asset (debt securities, equity instruments, loans, UCITS 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.

It 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 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 information because it eliminates or considerably reduces inconsistency in the valuation or measurement 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 that must be measured at fair value

Other financial assets that must be measured 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 assets designated at amortised cost or at fair value through other comprehensive income. More specifically, these include:

- debt securities or loans for which the contractual terms do not exclusively provide for the repayment of principal and payment of interest on the amount of principal to be repaid (i.e. which do not pass the SPPI test);
- UCITS units;
- equity instruments not held for trading, for which the option of classifying them among the assets designated at fair value through other comprehensive income was not taken.

Recognition criteria

Financial assets are initially recognised on the settlement date in case of debt securities, equity instruments and UCITS units, on the disbursement date for loans and on the signing date for derivative contracts.
On initial recognition, financial assets designated at fair value through profit and loss are recorded at fair value, which generally corresponds to the price paid, excluding transaction costs or revenues directly attributable to the financial instruments, which are recognised in the income statement.

Income item measurement and recognition criteria

Subsequent to initial recognition, financial assets designated at fair value through profit and loss are recorded at fair value, with recognition of changes as a matching balance 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 quoted on an active market, market prices 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 quoted 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 gains and losses and capital gains or losses as a result of the measurement of the trading portfolio, including derivatives connected with financial assets/liabilities designated at fair value, are recognised in income in the item "80. Net gains/(losses) on trading activity"; the same economic effects related to financial assets designated at fair value and to those that must be measured at fair value are recognised in item "110. Gains/(losses) on financial assets and liabilities designated 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 benefits 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 you are therefore referred.

In the event that the substantial transfer of risks and benefits cannot be verified, financial assets are derecognised from the financial statements if control of the assets 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 designated at fair value through profit and loss, other than equity securities, can be reclassified into the accounting categories of "Financial assets designated at fair value through other comprehensive income" and "Financial assets designated 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 designated 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 objective of their possession is represented by both the collection of contractual cash flows and their sale ("Hold to Collect and Sell" business model);
- the related contractual flows are 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 and entities under joint control, for which the option of classifying them among financial assets measured at fair value through other comprehensive income is applied. This option may be exercised at the time of initial recognition of the individual financial instrument and is irrevocable.

Recognition criteria

Financial assets are initially recognised on the settlement date for debt securities and equity instruments and on the disbursement date for loans.
On initial recognition, assets are designated at fair value, which generally corresponds to the price paid, including transaction costs or revenues directly attributable to the instruments.

Income item measurement and recognition criteria

Subsequent to initial recognition, assets classified 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 in 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 designated at amortised cost". These adjustments are recognised in the income statement in item "130. Net value adjustments for 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 refer to paragraph "16 - Other information, Methods for determining impairment losses on financial assets" below.

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 matching entry in a specific equity reserve. ("120. Valuation reserves"). These reserves will never be recycled in 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 in fact the only component recognised in the income statement.

For information about how fair value is determined, please refer to the criteria previously explained for "Financial assets designated at fair value through profit and loss" and the subsequent "Part A.4 – Fair value disclosure".

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 benefits 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 you are therefore referred.
In the event that the substantial transfer of risks and benefits cannot be verified, financial assets are derecognised from the financial statements if control of the assets 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 designated at fair value through other comprehensive income, other than equity securities, can be reclassified into the accounting categories of "Financial assets designated at fair value through profit and loss" and "Financial assets designated 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 designated 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 designated 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 designated at amortised cost

Classification criteria

This category includes financial assets (loans and debt securities) when both of the following conditions are met:

- the objective of their possession is to collect contractual cash flows (Hold to Collect business model);
- the related contractual flows are represented solely by payments of principal and interest on the capital to be repaid (i.e. they are expected to pass the SPPI test).

Specifically, it includes loans granted to customers and banks—in any form—and debt securities that meet the requirements described above.
Loans originated through financial leases are also included in this item, in line with IAS 17, and are recognised according to the "financial method", including values associated with assets waiting to be granted under financial 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 benefit has been acquired from them.
Lastly, this category also 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 for debt securities and on the date of disbursement for loans. On 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 directly attributable to the instrument.

Specifically, loans are initially recognised on the disbursement date based on the fair value of the financial instrument. The latter is usually equal to the amount disbursed or the subscription price, including costs/income directly associated with the individual loan and that can be determined from the start of the transaction, although settled at a later time. Costs which, although having the above characteristics, are repaid by the borrowing counterparty or fall under normal internal administrative costs, are excluded.

If the date on which the credit contract is signed and the date on which the funds 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

After initial recognition, the financial assets in question are measured 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 to the individual loan.
The effective interest rate is determined by calculating the rate that equates the present value of future principal and interest cash flows of the asset to the amount disbursed, including costs/income associated with the asset. The estimate of cash flows must consider all contractual provisions which could influence the amounts and maturities, without considering the expected losses on the asset. This accounting method, based on financial logic, spreads the economic effect, throughout the residual life of the asset, of all transaction costs, commissions, bonuses or discounts considered an integral part of the effective interest rate method. The amortised cost method is not used for short-term assets whose limited life span makes the application of discounting immaterial. Such assets are measured at historical cost, and any costs/income 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 designated at amortised cost is adjusted to account for any provisions on expected losses. At each annual or interim reporting date, the aforementioned assets are subjected to an impairment test to estimate the expected value losses associated with credit risk (ECL - Expected Credit Losses). These losses are recognised in the income statement under item "130. Net value adjustments for 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 value losses in the income statement, for the part not covered by the provisions. For more details on the accounting treatment of the write-offs please see what is illustrated in 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 there has been no significant deterioration in credit risk since 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: this includes performing financial assets that have undergone significant deterioration 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), 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, probable default or past-due accounts/debts in excess of 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 "Matrix of Accounts", as they are considered to be consistent with the IFRS 9 accounting standard for objective evidence of impairment.
In the presence of sales scenarios, the determination of the cash flows is based, as well as on the forecast of flows recoverable through the internal management activity, also on the basis of the the flows obtainable form 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 loans with variable interest rates, the rate used for discounting cash flows is updated in relation to the indexing parameters (Euribor, for example), while on the other hand, the spread originally established is kept 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 and cannot exceed the amortised cost of the asset had no adjustments been carried out in the past.
For more information on the impairment model, please refer to paragraph "16 - Other information, Methods for determining impairment losses on financial assets" below.

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 benefits 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 you are therefore referred.
In the event that the substantial transfer of risks and benefits cannot be verified, financial assets are derecognised from the financial statements if control of the assets 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 impaired financial assets may occur upon recognising that the exposure is irrecoverable and the consequent conclusion of the recovery process (final derecognition) and involves a reduction in the nominal and gross book value 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 principal debtor and the guarantors;
- the conclusion of all possible judicial and extra-judicial 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. The said 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 this instance, 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 of it. 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.

Reclassification criteria

Financial assets designated at amortised cost can be reclassified into the accounting categories of "Financial assets designated at fair value through other comprehensive income" and "Financial assets designated 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 designated at fair value through profit and loss";
- in shareholders' equity to a specific valuation reserve, in the event of reclassification to "Financial assets measured at fair value through other comprehensive income".

4 - Hedging transactions

It should be noted that Gruppo Banco BPM avails itself 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 attributed to a specific risk recognisable on a given financial instrument or a group of financial instruments by offsetting them with the gains recognisable on a different financial instrument or group of financial instruments in the event that the 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, attributable to a specific risk, of an accounting asset or liability. It is also possible to activate macrohedging of fair value, with the goal of reducing fair value fluctuations, attributable to 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 macrohedging;
- cash flow hedges, which seek to hedge the exposure to changes in future cash flows attributable to specific 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 a currency other than the Group's reference currency (euro).

At the level of the consolidated financial statements, only derivatives entered into with a counterparty external 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 the hedge is originated and prospectively throughout its entire life. The hedge's 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 such changes, while considering the aim pursued by the company 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 almost completely neutralise 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 justifying 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

Derivative hedging instruments are recognised at fair value at the date on which the related 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. This offsetting is recognised by charging to the income statement, in item "90. Net gains (losses) on hedging activities", the changes in value, referring both to the hedged element (as regards 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 original measurement approach of the class to which it 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 changes in the fair value of the derivative are recognised directly at equity (item "120. Valuation reserves"), for the effective portion of the hedge, and recognised through profit and loss only when, with reference to the hedged item, changes in cash flows to be offset arise. The portion of gains or losses of the hedging instrument that is considered ineffective is charged to the income statement (item "90. Net gains/(losses) on hedging activities"). This 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. Net gains/(losses) on hedging activities").
- 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 this case, the hedging derivative contract is reclassified under "Financial assets designated at fair value through profit and loss" and, specifically, under "Financial assets held for trading".
Additionally, 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 non-subsidiary companies upon 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 investee business and financial decisions 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 controlling it.
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 investee economic activity are shared jointly by Banco BPM and another party. In addition, 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 make 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 or 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 matching entry to the consolidated income statement item "250 Gains/(losses) on equity investments". Dividends received from an investee are deducted from the investee's book value.
Should it be necessary to carry out adjustments due to changes in the investee's shareholders' equity that have not been recognised in the investee's income statement (for example, as a result of the designation at fair value of "Financial assets designated 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 approach, 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 investee company's last available financial statements and the reference date of the consolidated financial statements. If the investee company adopts accounting standards that are different than the Group's, changes are made to the investee's financial statements.

After applying the equity approach, 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 the investee's default or failure to make payment;
- 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 cost. The Group considers a fall in fair value of over 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 equity investment may have decreased, its recoverable value is estimated, which is the higher of its fair value, net of selling costs, and its value in use. Value in use is determined by discounting future cash flows that the investment will generate, including the final disposal value of the investment. An impairment loss is recognised in the income statement when the book value, including goodwill, is lower than the recoverable amount. If the reasons for an impairment loss cease to apply due to an event that occurs after the impairment was recognised, write-backs are recognised in the income statement up to the amount of the impairment loss 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 IAS 9 financial assets, normally that of "Financial assets designated 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, works of art, real estate investments, technical plants, furniture, fittings and equipment of any type. More specifically:

- assets held for use in the production or supply of goods and services are classified as "property 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 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.

Property, plant and equipment also include assets related to finance lease contracts which returned to the company's ownership following the termination of the contracts and the concurrent closure of the original credit position. This item also includes assets used under finance lease contracts, provided that the legal ownership of the assets rests within the leasing company.
This item also includes leasehold improvements and incremental expenses incurred on third party assets, whenever they are identifiable and distinguishable tangible assets. More specifically, these are costs to renovate rented property, sustained to render them suitable for their intended use. These costs are classified in the specific category to which they refer (e.g. technical plant, equipment).

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.

Property withdrawn following the closure of the original credit position (so-called "*datio in solutum*" - transfer in lieu of payment) will be recognised at the lower of the gross loan value recognised at the time of withdrawal of the asset and:

- the "market value" deriving from a specific appraisal, if the property is not expected to be classified under "non-current assets and assets disposal groups held for sale" within a short time;
- the "immediate sale value" deriving from a specific appraisal, which adjusts the market value for prospective sale in the very short term, when it is known at the termination date that the property will be subsequently allocated under "non-current assets and asset disposal groups held for sale";
- the price during trading, if on initial recognition concrete negotiations for sale are in course, demonstrated by commitments undertaken by the interested parties to the negotiations.

Income item measurement and recognition criteria

Subsequent to initial recognition, property and equipment, with the exception of those covered by the IAS 2 standard, are carried at cost, less any depreciation and impairment.

Property and equipment are systematically depreciated throughout their 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. If its value is embedded in the value of the buildings built on it, in virtue of the application of the component approach, land is considered a separate asset from the building. At the acquisition date, the separation of the value of the land and the value of the building is based on appraisals by independent experts;
- works of art, because the useful life of a masterpiece cannot be estimated and its value normally is destined to increase with time.

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.

Property and equipment recognised in accordance with IAS 2 are designated at the lower of the book value and net realisable value, which is the estimated sale price less estimated completion costs and other costs necessary to make the sale.

Derecognition criteria

Property 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 and equipment are calculated as the difference between the net sale consideration and the book value of the asset and are recognised in the income statement on the day of derecognition.

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 annual or interim reporting date, if there is evidence of impairment, the recoverable amount of the asset is estimated. The amount of the loss, recognised in the income statement, is equal to the difference between the book value and recoverable value of the asset.

Intangible assets include software, intangible assets linked to the valuation of client relationships or the valuation of trademarks recognised during business combinations.

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 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. This 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 future economic benefits are no longer expected.

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 non-current assets and asset disposal groups held for sale"—for which their 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.

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, attributable to discontinued operations, 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.
By discontinued operations is meant an important autonomous unit or geographical area of business, including 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 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 to the extent to which they are likely to be recovered, assessed on the basis of the ability of the company concerned and of the Group, as a result of the so-called "tax consolidation" scheme, to continue to generate positive taxable income in future financial years, also taking account of the tax provisions in force at the time, such as Italian Law no. 214/2011, which permits the transformation of certain deferred tax assets meeting 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: guarantees given and commitments
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 designated at amortised cost" and "Financial assets measured at fair value through other comprehensive income". For more information on the impairment model, please refer to paragraph "16 - Other information, Methods for determining impairment losses on financial assets" below.
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 "company retirement plans and similar obligations" 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 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 for the system of incentives for the personnel 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 provisions set aside and the effect of discounting are recognised in the income statement under item "200. Net provisions for risks and charges", as well as the increase in the provision due to the passage 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 measured at amortised cost

Classification criteria

"Financial liabilities measured 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 financial 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.

Income item measurement and recognition criteria

Subsequent to initial recognition, the financial liabilities that emerged, net of any redemptions and/or repurchase, are measured 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 liabilities valued at amortised cost.

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;
- liabilities that are part of a portfolio of financial instruments that are managed together and for which there is a proven short-term profit strategy;
- derivative contracts with a negative fair value and not designated as hedging instruments, including those linked to assets or liabilities designated at fair value through profit or loss and embedded derivatives separated out from liabilities valued at amortised cost.

Also included are 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 for cash liabilities and on the subscription date for derivative contracts.
Initial recognition is based on the fair value of liabilities, which 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 trading losses 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 under "Financial assets designated 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 portfolio are recognized in income 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 liability is transferred, with the substantial transfer of all risks and benefits arising from its ownership.

13 - Financial liabilities designated 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:

- it eliminates or considerably reduces the inconsistency in valuation which 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;
- there is a hybrid contract containing one or more embedded derivatives, and the embedded derivative significantly changes the cash flows which would otherwise be expected from the contract.

The option to designate a liability at fair value is irrevocable and is made on 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, see paragraph "16 – Other information, Financial liabilities designated at fair value through profit and loss and determination of creditworthiness", 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 reserve"), unless this treatment creates or amplifies an accounting mismatch in the income statement. An accounting mismatch is created or amplified when the recognition of the effects of own credit risk in an equity reserve entails a more significant mismatch in the income statement than what 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 relative tax effect, under other comprehensive income without reclassification to profit or loss.
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 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 establish 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 converted 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 Group's Parent Company (euro), please refer to "Accounting policies - 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".

Leasehold improvements and incremental expenses incurred on third party assets other than those attributable to the item "90. Property, plant and equipment", are also included, insofar as they cannot be separated from the assets to which they refer and therefore cannot be used independently (e.g. building work). These costs are recognised in this item because the lease contract represents a form of control over the assets for the lessee, the use of which is expected to produce economic benefits. These costs are recognised to the income statement in the shortest period between that in which the improvements and the additional expenses may be used and the residual duration of the rental agreement, including the renewal period, if there is evidence in this regard.
These may also include any remainders (of the "borrower'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

According to IAS 19, employee termination indemnities represent a post-employment benefit.
Following the supplementary pension reform pursuant to 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 termination indemnities, Pension funds—are classified into two categories, defined benefits and defined contributions, based on their 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 therefore has 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. Based on this method, all future disbursements have to be estimated on the basis of demographic and financial assumptions and are then discounted to account for the time that will pass before 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 of a net equity reserve. These 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. Specifically, 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 redundant headcount reduction plans (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 securities designated at fair value through other comprehensive income, financial assets (other than equity securities) designated at fair value through other comprehensive income, foreign investment hedging, cash flow hedging and for foreign currency conversion differences, as well as for individual assets and discontinued operations, the portion of valuation reserves of 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.

Share capital and treasury shares

Share capital includes stock 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 from 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.

Non-controlling 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

Revenues from customer contracts (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.
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 positive duty to act by transferring the promised good or service to the customer or
- over time, as the entity settles its positive duty to act by transferring the promised good or service to the customer.

This positive duty to act is considered fulfilled when the customer takes control of the transferred good or service.
The amount promised in the contract with the customer may include fixed amounts, variable amounts or both. Specifically, the contract amount 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 fees, the recording of the revenue in the income statement is carried out 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 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 portfolio, 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 portfolio 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 recognized 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 benefits, 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 objectives 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, being regulated by the 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 designated 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 offsetting arrangements, which meet the requirements illustrated above, Circular 262 establishes that all trading derivatives and all hedging derivatives may be offset. If the imbalance of trading derivatives is the opposite sign of the imbalance of all hedging derivatives, the imbalances are to be reported on a net basis. Usually, the net balance is allocated to the trading portfolio rather than as hedging derivatives, depending on the prevailing absolute value of the imbalance of trading derivatives compared to the hedging derivatives.
Pursuant to the requirements of the accounting standard IFRS 7, more detailed information is provided in the tables in part B - Other information of these Notes to the financial statement.

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 the benefits. In the event that the substantial transfer of risks and benefits 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 carrying 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, the financial statements are not derecognised 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 amount collected from 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 relative capital from 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".

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.
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 designated at amortised cost" and "2- Financial assets measured 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 funds 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) guarantees and commitments issued". 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) guarantees and commitments issued".

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 prepare 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 interest holding acquired as an investment in the subsidiary is recorded, applying accounting standard IAS 27 "Separate financial statements".
A combination may also include the purchase of another entity's net assets, 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 which exists between the parent and subsidiary company, and therefore, in this case, 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) purchase price allocation (PPA).

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 the acquirer 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 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 and 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 set forth by standards IAS 32 and IFRS 9.

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. Therefore, it is necessary to draw up a balance sheet for 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 must therefore 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 shareholdings 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 interest 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 revaluation reserves of financial assets available for sale designated 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.

Reorganisation transactions 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, have been 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 designated at amortised cost" and "Financial assets measured 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 or 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 Originates Credit Impaired). Please refer to the paragraph "Originated or acquired impaired financial assets" below for more information on this.

For the 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 for a party in a state of insolvency (even if not ascertained in court) or in substantially equivalent situations, regardless 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 debtor 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 regardless 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 the 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 measures of tolerance, 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 the customer's ability to fulfil the original contractual obligations. They are not granted to a debtor 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. for those assets not considered impaired, 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) 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, the Banco BPM Group has identified the following criteria (Stage Assignment):

- relative quantitative criteria, based on statistical observations, considered an indication of a significant increase in credit risk over time;
- absolute qualitative criteria, represented by the identification of trigger events or the exceeding of absolute thresholds as part of the credit monitoring process;
- backstop indicators, i.e. factors of credit delinquency, the existence of which gives rise to the presumption that there has been a significant increase in credit risk, unless there is evidence to the contrary. Presumably, except in exceptional cases attributable to specific types of counterparties, such as Public Administrations, the Group believes that the credit risk of the exposure should be considered significantly increased if past due/delinquent for more than 30 days, without prejudice to the application of the thresholds of significance provided for by supervisory regulations.

With reference to absolute qualitative criteria, their identification is based on the so-called "watch-list", i.e. the Group's monitoring system through which performing positions that show an anomalous trend from a credit point of view are intercepted by means of automatic or manual mechanisms. From the above-mentioned "watch-list", those indicators considered expressive of a significant increase in credit risk were then selected (e.g. synthetic judgement of the degree of risk of the individual customer above a certain threshold, prejudicial events). This includes all exposures affected by forbearance measures which have this attribute still active, regardless of whether the current probation period is regular or not.

With particular reference to the quantitative criterion applicable to credit exposures to customers, the Banco BPM Group has chosen to take the change between the probability of default (PD) at the date of origin of the financial instrument and the same probability measured at the reporting date as a reference. The development of the model has 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.

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.
The starting point for the determination of these thresholds is represented by the risk bands adopted by the Group in the various business processes In particular, these bands represent a clustering, differentiated by risk segment, of the rating classes aimed at grouping together groups of counterparties with the same risk. The use of these bands makes it possible to achieve consistency between the processes of assessing credit exposures for balance sheet purposes and the internal processes of credit management (disbursement, pricing, monitoring and classification), thus ensuring that the impact of the accounting model on expected losses can also be understood from a credit risk assessment management perspective.
The staging model is therefore based on the identification of thresholds that determine the "jump" in the risk band and consequently on the identification of changes in PD between the date of origination and reporting considered expressive of a significant increase in credit risk for the counterparty. The identification of these thresholds is based on the Group's historical observations and has been subject to a calibration process aimed at identifying the scope of the positions to be classified in Stage 2 before the transition to impaired exposure, limiting the so-called false negatives of return from Stage 2 to Stage 1.

For the portfolios of loans to banks and debt securities, to which the Low Credit Risk Exemption is not applied as detailed in the following paragraph, the relative quantitative criterion is based on a change in the probability of default at twelve months, rather than over the residual lifetime of the instrument. This simplified approach, taking

account of the type of counterparty/issuer, is justified by the insignificance of the difference in impact compared to the more complex model used on the portfolio of loans to customers.

Regarding debt securities, in order to measure the significant increase in credit risk, 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 Level 1. This exemption applies to securities rated as investment grade at the valuation date, in full compliance with IFRS 9.

In addition, considering the presence of more than one purchase transaction for the same International Securities Identification Number (ISIN), it was necessary to identify a method to pinpoint the tranches sold in order to determine the residual quantities associated with the credit quality at the date of initial recognition to be compared with that at the valuation date; this method of movement is based on the FIFO method (First In - First Out).

With regard to the functioning of the model, the Banco BPM Group has decided to adopt a symmetrical reclassification model from Stage 2 to Stage 1. In cases where the conditions triggering the significant deterioration in credit risk cease to exist at a later valuation date, the financial instrument returns to being measured based on the expected loss over 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 i. 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 forbearance 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 EBA's aforementioned ITS, which has been transposed into supervisory provisions.

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 practices;
- 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 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. Specifically, the estimate of this parameter takes into account the impact of the economic cycle on both the value associated with real estate guarantees through the property price index—thus changing the ratio between the residual debt and the value of the guarantee—and the component represented by the probability of bad

loans via a specific scaling factor obtained by simulating the default cycles with the migration matrices between statuses.
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 five possible future scenarios which are assigned the respective probability of occurrence determined internally by the Group. More specifically, in addition to the most likely baseline scenario, alternative scenarios were developed to be better (positive and very positive) and worse (severe and very severe).

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.

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 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 forfeit/statistical calculation method, to be applied analytically to each individual position. The scope of exposures subject to forfeit/statistical calculation, based on LGD management grids and differentiated according to segment and risk status (vintage), is represented by:

- bad loans and probable defaults with exposures below or equal to an established threshold of 300 thousand euro;
- the total number of past due exposures impaired, 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.

Depending on the deterioration 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 redemption, 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 redemption flows from seizable assets owned by the debtor or any guarantor must be evaluated.

Regarding 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 on this subject: 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).

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 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 (work out 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 cluster 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 convenient 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 convenience 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 the presence of a binding offer to sell and a precise definition of the scope of the exposures to be sold, the probability assigned to the scenario of sale will be 100%. In this case, the determination of the recovery flows will be made on the basis of the best estimate of the financial flows that will be achieved at the date of the actual completion of the sale, also taking into account the provisions of the binding offer.

[1] This is the*IFRS Transition Resource Group for impairment of financial instruments*, namely a working group set up to support the implementation of certain issues relating to the new IFRS 9 impairment model.

Acquired or originated non-performing financial assets

If at the time of initial recognition, a credit exposure classified under the item "Financial assets designated at fair value through other comprehensive income" or "Financial assets designated at amortised cost" is deemed impaired, it qualifies as "Acquired or originated non-performing financial assets" (POCI - Purchased or Originates 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 adjustment for the credit 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 the 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 impaired loans acquired as part of the business combination with the former BPM 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, whether the renegotiation is formalised through the signing of a new contract or by way of amendment to an existing contract. Specifically, renegotiations 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 or the introduction of indexing to equity or commodity parameters) are held to be substantial. This takes into consideration the significant impact expected on original cash flows or which are made to customers without financial difficulties, with the objective of adjusting the cost of the contract to current market conditions. In the latter case, it should be noted that if the bank does not grant 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 benefits 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 assets designated 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", the so called modification accounting). Any renegotiation measures represented by write-offs of the gross exposure are recognised in the income statement item "130. Net adjustments to/recoveries on credit risk".

Financial liabilities designated 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 such issues are hedged by the Group as part of its overall market risk management and also by 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 for the fair value hedge, as illustrated previously in paragraph "4. Hedging transactions".
Conversely, for other contracts, for which the 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 instrument, the fair value option requires the recognition of all fair value changes, regardless 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 deemed 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, excluding the change in credit risk arising during the period.
For further details on how fair value is determined, please refer to the detailed information in the specific paragraph 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 liabilities designated at fair value are classified as "Financial assets designated 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 designated 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 section "13. Financial liabilities designated 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 – DISCLOSURE ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

During the period there were no transfers between portfolios of financial assets.
In this regard, it should be noted that, during the 2018 financial year, there was no change in the 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 input. 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.

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.

A.4.1 Fair value levels 2 and 3: valuation techniques and input used

Financial assets and liabilities designated at fair value on a recurring basis

For the Banco BPM Group, assets and liabilities measured at fair value on a recurring basis are represented by financial assets and liabilities. For these instruments, in the absence of prices directly observable in active markets, the fair value must be determined using the "Comparable Approach" valuation approach or the "Model Valuation", 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

The techniques used for loans are illustrated below, which 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.

More specifically:

- 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 non-performing 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 in transactions involving impaired loans, 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 comparably company market multiples method, and subordinately using financial, income and equity valuation methods.

Investments in UCIT units, other than open-ended harmonised UCIT

These are measured on the basis of the NAV made available by the fund administrator or by the management company. These investments typically include private equity and similar funds, real estate funds and hedge funds.

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	Swap	Discounted Cash Flow and Libor Convexity adjustment	Interest rate curves, interest rate volatility, interest rate correlation
	Cap - Floor	Bachelier - Analytical	
	European Swaption	Bachelier - Analytical	
	Bermuda Swaption	Hull-White one-factor mixture - Trinomial tree	
	CMS Spread Option	Bachelier - Analytical	
	CMS cap/floor/swap	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 option	Binomial tree	
Derivatives on inflation rates	Swap, Cap - Floor	Lognormal Forward Inflation Model - Analytical	Interest rate and inflation rate curves, interest/inflation rate volatility/correlation, calibrated on market prices
Derivatives on shares / equity 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
	American Barrier Options on basket equity	Local Volatility – Monte Carlo	
	Autocallable options on basket equity	Hybrid Black and Scholes, two-factor Hull and White – Monte Carlo	
	Autocallable options on exchange rate	Local Volatility – Monte Carlo	Forex volatility, interest rate, exchange rate,
	American Barrier Options on exchange rate	Trinomial tree	Forex volatility, interest rate, exchange rate,
	Dividend Swap and Total Return Swap	Discounted Cash Flow - Analytical	Interest rates, exchange rates, dividends, repo rates
Credit derivatives	Credit Default Swap	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.

Financial assets and liabilities measured 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 designated at amortised cost" (due from banks and customers) and "Liabilities designated at amortised cost" (due from banks and customers and debt securities issued), fair value is determined for reporting purposes only as required by the applicable 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, in 2018, the Italian market for NPLs (non-performing loans) saw the completion of significant transactions for the sale of impaired 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", 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 disclosure 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.

Non-financial assets - Real property held for investment purposes (ex IAS 40)

These are real estate investments mainly deriving from the recovery of receivables, valued at cost, and for which, in accordance with IAS 40 and IFRS 13, it is necessary to provide, in the notes to the financial statements, information on the fair value and the triple hierarchy, based on the observability or otherwise of the inputs, regardless of the valuation techniques adopted, as described below.
The fair value is mainly determined by external appraisals, whose reference point is represented by the current prices for similar assets (value per square metre, prices of similar transactions). This value is usually adjusted to reflect the specific characteristics of the object of evaluation such as, by way of example, the 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 situations where marketing is difficult, additional prudential

adjustments may also be applied to align with the sales policies that management intends to pursue. By virtue of these adjustments, the fair value thus obtained is normally classified at level 3 in the fair value hierarchy, as it depends significantly on the estimates made by management, which are characterised by elements of judgement and subjectivity.
There may be cases, considered marginal in any case, in which the fair values of real estate investments can be considered as level 2, since they are determined on the basis of parameters considered observable on active markets. In this 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 must be made, due to the high similarity between the unit to be valued and the units involved in the said transactions. This could be the case for sales prices per square metre or rental prices of properties that are entirely similar in their intrinsic characteristics and location (e.g. residential units belonging to a building/area with a sufficient number of comparable units or an office located in a commercial district with some similar buildings characterised by comparable offices).
IFRS 13 assumes that the current use of the asset represents the maximum and best use of the asset, unless the market or other factors are such as to suggest that market participants may use the asset differently, in order to maximise its value (highest and best use). For some real estate investments, the determination of fair value may therefore take into account the potential "reclassification" of the current use of the property, to the extent that there is evidence that market participants consider this potential and future development for the purposes of determining the transaction price.

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.
Level 3 exposures amount to 1,119.4 million euro, and roughly 67.4% are represented by equity instruments and UCIT units for which 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 without making any adjustment or was generated by a model with inputs specific to the entity under assessment (for example, the company's capital values) and for which alternative values cannot be reasonably envisaged.

Level 3 exposures also include, among other things, 294.4 million euro in loans to customers which, due to their contractual characteristics, have not passed the SPPI test and must therefore be designated at fair value.
The determination of the fair value of most of these loans is based on repayment assumptions often confirmed by specific plans prepared and approved for which it would not be appropriate to plan alternative scenarios, while the financial component linked to the discount rates applied is not very significant. Consequently, no sensitivity analysis was carried out for these loans either.

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 2018 which had a different level of fair value than as at 1 January 2018, 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 financial 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.
In this regard, note that for the Banco BPM Group, the only assets and liabilities measured at fair value on a recurring basis are financial assets and liabilities.

Assets/liabilities designated at fair value	31/12/2018		
	L1	L2	L3
1. Financial assets designated at fair value through profit and loss	3,046,528	1,786,460	905,607
a) Financial assets held for trading	2,870,969	1,646,475	5,085
b) Financial assets designated at fair value	-	-	-
c) Other financial assets mandatorily at fair value	175,559	139,985	900,522
2. Financial assets measured at fair value through other comprehensive income	14,820,629	317,177	213,755
3. Hedging derivatives	-	130,511	-
4. Property, plant and equipment	-	-	-
5. Intangible assets	-	-	-
Total	**17,867,157**	**2,234,148**	**1,119,362**
1. Financial liabilities held for trading	608,311	5,893,298	913
2. Financial liabilities designated at fair value	424,375	268,515	-
3. Hedging derivatives	-	726,307	-
Total	**1,032,686**	**6,888,120**	**913**

Key:
L1 = Level 1
L2 = Level 2
L3 = Level 3

The table below, while not fully comparable, shows the distribution by fair value hierarchy of assets and liabilities measured at fair value on a recurring basis at 31 December 2017, prepared in accordance with the provisions of the previous version of Bank of Italy Circular 262 (fourth update).

Assets/liabilities designated at fair value	31/12/2017		
	Level 1	Level 2	Level 3
1. Financial assets held for trading	3,079,405	1,798,733	33,686
2. Financial assets designated at fair value through profit and loss	7,991	19,389	1,572
3. Financial assets available for sale	15,761,099	624,079	743,444
4. Hedging derivatives	-	243,810	-
5. Property, plant and equipment	-	-	-
6. Intangible assets	-	-	-
Total	**18,848,495**	**2,686,011**	**778,702**
1. Financial liabilities held for trading	987,343	6,951,183	3,537
2. Financial liabilities designated at fair value	3,065,348	348,212	-
3. Hedging derivatives	-	765,903	-
Total	**4,052,691**	**8,065,298**	**3,537**

Financial assets designated at fair value on a recurring basis

At 31 December 2018, instruments measured significantly on the basis of non-observable parameters (Level 3) are made up for 80.4% of instruments classified in the portfolio of "Assets mandatorily at fair value through profit and loss" and for 19.1% of instruments classified in the category of "Financial assets designated 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 1,119.4 million euro and are represented by the following types of investment:

- unlisted equity instruments of 388.3 million euro, mostly valued on the basis of internal equity models;
- UCIT units of euro 365.8 million, represented by private equity, private debt and similar funds (273 million euro), real estate funds (82.7 million euro) and hedge funds (10.1 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;
- loans to customers amounting to 294.4 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. Taking into account the lack of comparability with the previous year, this case is able to explain the increase in the year in relation to assets measured at fair value on a recurring level 3 basis;
- debt securities amounting to 66.3 million euro, consisting mainly of structured debt securities amounting to 57.8 million euro;
- OTC derivatives of 4.6 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.

Financial assets comprise Euro 1,868.8 million in derivative instruments held for trading, and almost entirely (1,864.2 million or 99.8%) classified as hedges at levels 1 and 2 of the hierarchy. In particular:

- listed derivatives (futures and options), corresponding to 124.6 million euro, are measured on the basis of the prices provided by the Clearing Houses (level 1);
- Over The Counter (OTC) derivatives, for 1,739.6 million euro, are measured on the basis of models, which use observable market parameters to a significant extent, or on the basis of prices originating from independent sources (level 2).

Financial liabilities designated at fair value on a recurring basis

Financial liabilities held for trading classified as level 1 refer to listed derivatives amounting to 204.4 million euro and to technical overdrafts on securities listed in active markets of 404.0 million euro; the remaining financial liabilities held for trading, corresponding to 5,894.2 million euro, were almost entirely classified as level 2.

The amount of financial liabilities measured at fair value was down sharply (-78.7% compared with the beginning of the year), in line with the policy of reducing the most costly forms of funding, and represented by the bond issues covered by derivative instruments, for which the fair value option was activated. In particular, securities classified as Level 1 amounted to 424.4 million euro and consisted of issues for which an active market was considered to exist (regulated market, electronic trading circuits, organised or similar trading systems), unlike the remaining 268.5 million euro for which, in the absence of listing on active markets, models were relied on using inputs considered observable on the market (Level 2).

Hedging derivatives have a negative fair value of 726.3 million euro and are fully classified as level 2.

Transfers between fair value levels (Level 1 and Level 2) of financial assets/liabilities designated at fair value through profit and loss on a recurring basis

During 2018, the only significant transfers took place from level 2 to level 1 and concerned only financial assets for €30.6 million (at the beginning of the year), of which €25.6 million belonging to the portfolio of "Financial assets held for trading" and the remaining €5 million to "Financial assets at fair value through profit or loss". This refers almost exclusively (99.8%) to a limited number of bonds for which, as at 31 December 2018, it was possible to rely on prices observed in markets considered active.

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 described in the previous paragraph "A.4.1 Fair value levels 2 and 3: valuation techniques and inputs used", at 31 December 2018, the cumulative adjustments made to the fair value of derivative financial instruments to take account of counterparty risk "Credit Value Adjustment and Debt Value Adjustment" (CVA/DVA) were positive by a total of €12.8 million and consisted of:

- adjustments for CVA which resulted in a cumulative loss, in terms of lower assets/liabilities, of 6.9 million euro,
- adjustments for DVA which resulted in a cumulative benefit, in terms of higher assets/liabilities, of 19.7 million euro.

A.4.5.2 Annual changes in assets designated at fair value on a recurring basis (level 3)

	Financial assets designated at fair value through profit and loss				Financial assets measured 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	**802,332**	**16,296**	**-**	**786,036**	**380,398**	**-**	**-**	**-**
2. Increases	**525,539**	**3,946**	**-**	**521,593**	**16,764**	**-**	**-**	**-**
2.1. Purchases	251,314	18	-	251,296	8,568	-	-	-
2.2. Profits charged to:	108,731	24	-	108,707	8,196	-	-	-
2.2.1. Income statement	108,731	24	-	108,707	5,569	-	-	-
- of which capital gains	96,544	11	-	96,533	-	-	-	-
2.2.2. Shareholders' equity	-	X	X	X	2,627	-	-	-
2.3. Transfers from other levels	103,107	3,904	-	99,203	-	-	-	-
2.4. Other increases	62,387	-	-	62,387	-	-	-	-
3. Decreases	(422,264)	(15,157)	-	(407,107)	(183,407)	-	-	-
3.1. Sales	(160,655)	(17)	-	(160,638)	(62,138)	-	-	-
3.2. Redemptions	(129,656)	(42)	-	(129,614)	-	-	-	-
3.3. Losses charged to:	(75,157)	(208)	-	(74,949)	(119,983)	-	-	-
3.3.1. Income statement	(75,157)	(208)	-	(74,949)	(50)	-	-	-
- of which capital losses	(67,728)	(206)	-	(67,522)	-	-	-	-
3.3.2. Shareholders' equity	-	X	X	X	(119,933)	-	-	-
3.4. Transfers to other levels	(18,559)	(13,559)	-	(5,000)	-	-	-	-
3.5. Other decreases	(38,237)	(1,331)	-	(36,906)	(1,286)	-	-	-
4. Closing balance	**905,607**	**5,085**	**-**	**900,522**	**213,755**	**-**	**-**	**-**

"Transfers from other levels" mainly refers to the portfolio of "Other financial assets mandatorily at fair value", mostly attributable to the investment in SIA spa for €80.4 million (value at the beginning of the year), for the valuation of which it was not possible to make reference to sufficiently recent transaction prices to be able to classify it in level 2 of the hierarchy as at December 2017. The remaining €18.8 million refers to the units of the Gestielle Hedge Low Volatility fund in liquidation. The transfers pertaining to the "financial assets held for trading" portfolio relate to certain OTC derivative contracts for the valuation of which it was either not possible to rely on market observable inputs or to rely on third-party sources ("transfers from other levels for €3.9 million"), while "transfers to other levels" includes contracts for the valuation of which it was possible to use inputs considered observable by the market (€13.6 million level 2). "Transfers to other levels" of "Financial assets mandatorily at fair value" refers to units in a harmonised open-ended bond fund whose NAV is listed on the active market (level 1).

A.4.5.3 Annual changes in liabilities designated at fair value on a recurring basis (level 3)

	Financial liabilities held for trading	Financial liabilities designated at fair value	Hedging derivatives
1. Opening balance	**3,537**	**-**	**-**
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	**(2,624)**	**-**	**-**
3.1. Redemptions	-	-	-
3.2. Buy-backs	-	-	-
3.3. Profits charged to:	-	-	-
3.3.1. Income statement	-	-	-
- of which capital gains	-	-	-
3.3.2. Shareholders' equity	X	-	-
3.4. Transfers to other levels	(2,624)	-	-
3.5. Other decreases	-	-	-
4. Closing balance	**913**	**-**	**-**

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	31/12/2018			
	BV	L1	L2	L3
1. Financial assets designated at amortised cost	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	**125,238,400**	**14,940,783**	**467,710**	**114,670,426**
1. Financial liabilities designated at amortised cost	136,160,342	6,163,016	7,449,951	122,000,062
2. Liabilities associated with asset disposal groups held for sale	-	-	-	-
Total	**136,160,342**	**6,163,016**	**7,449,951**	**122,000,062**

The table below, while not fully comparable, shows the fair value hierarchy of financial assets and liabilities not designated at fair value or designated at fair value on a non-recurring basis at 31 December 2017, prepared in accordance with the provisions of the previous version of Bank of Italy Circular 262 (fourth update).

Assets/liabilities not designated at fair value or designated at fair value on a non-recurring basis *(thousands of euro)*	**31/12/2017**			
	Book value	**FV Level 1**	**FV Level 2**	**FV Level 3**
1. Investments held to maturity	11,560,769	11,685,005	-	-
2. Due from banks	5,164,715	-	228,807	4,929,168
3. Loans to customers	108,176,382	24,952	125,372	109,884,747
4. Property, plant and equipment held for investment purposes	1,257,862	-	-	1,486,960
5. Non-current assets and asset disposal groups held for sale	27,288	-	25,000	2,288
Total	**126,187,016**	**11,709,957**	**379,179**	**116,303,163**
1. Due to banks	27,199,304	-	-	27,197,795
2. Due to customers	87,848,146	-	-	87,848,146
3. Debt securities issued	16,248,143	13,047,720	3,643,364	-
4. Liabilities associated with asset disposal groups held for sale	35	-	-	35
Total	**131,295,628**	**13,047,720**	**3,643,364**	**115,045,976**

Assets and liabilities not designated at fair value

The fair value of financial assets measured at amortised cost classified at level 1 and level 2 of the hierarchy refers only to debt securities, most of which refer to government securities classified at level 1.

Assets and liabilities valued at amortised cost, other than debt securities, are considered to be at level 3 because:

- 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
- where no fair value has been determined, the carrying amount has been used as an expression of fair value, as permitted by IFRS 7.

With regard to the cited portfolios, the rules followed for classification in the hierarchy levels, as well as the techniques and parameters used to estimate the fair value to be indicated in the financial statements for disclosure purposes only, require significant elements of judgement; 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 information on the fair value of financial assets and liabilities measured at amortised cost, as well as on investment property, reference should be made to the previous paragraphs "Financial assets and liabilities measured at amortised cost" and "Non-financial assets - Investment property (as per IAS 40)".

Assets and liabilities designated at fair value on a non-recurring basis

At 31 December 2018, items measured at fair value on a non-recurring basis refer only to assets held for sale, in accordance with IFRS 5, attributable to certain real estate investments for €5.4 million considered at level 3.

For the assets held for sale mentioned above, it should be noted that the column "Book value" shows only those assets measured at fair value, net of costs to sell. 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 disposal groups held for sale and associated liabilities" in Part B of these notes.

A.5 Disclosure on "day one profit/loss"

Pursuant to IFRS 7 paragraph 28, please note that within financial instruments of the Group the impact in the year of the recognition of the Day 1 Profit, meaning the difference between the fair value measured upon initial recognition (transaction price) and the amount determined at that same date using a valuation technique, is of an intangible amount (18 thousand euro) and is due to the release of the last suspended revenues at 31 December 2017 associated with the issue of certificates by Banca Akros.
No transactions involving the recognition of day one profit/loss took place during the year; therefore, no suspended costs or revenues linked to the effect were recognised at 31 December 2018.

PART B – INFORMATION ON THE CONSOLIDATED BALANCE SHEET

The following tables are presented in the manner described in the paragraph "General preparation principles" in "A.1 - General part".

ASSETS

Section 1 - Cash and cash equivalents - Item 10

1.1 Cash and cash equivalents: breakdown

	Total 31/12/2018	Total 31/12/2017
a) Cash	922,017	976,686
b) Demand deposits with central banks	-	-
Total	**922,017**	**976,686**

Section 2 - Financial assets designated at fair value through profit and loss – Item 20

2.1 Financial assets held for trading: breakdown by product

Items/Amounts	Total 31/12/2018		
	L1	L2	L3
A. Cash assets			
1. Debt securities	2,138,997	37,387	2
1.1 Structured securities	53,620	34,470	-
1.2 Other debt securities	2,085,377	2,917	2
2. Equity instruments	607,252	-	17
3. UCIT units	137	-	455
4. Loans	-	-	-
4.1 Repurchase agreements	-	-	-
4.2 Other	-	-	-
Total (A)	**2,746,386**	**37,387**	**474**
B. Derivative instruments	-	-	-
1. Financial derivatives	124,583	1,608,231	4,611
1.1 held for trading	124,583	1,596,042	4,611
1.2 connected with the fair value option	-	12,173	-
1.3 other	-	16	-
2. Credit derivatives	-	857	-
2.1 held for trading	-	857	-
2.2 connected with the fair value option	-	-	-
2.3 other	-	-	-
Total (B)	**124,583**	**1,609,088**	**4,611**
Total (A+B)	**2,870,969**	**1,646,475**	**5,085**

Debt securities do not include financial assets associated with securitisation transactions.
Sub-item "1.2 Other debt securities" includes subordinate financial assets issued by banks, insurance companies and financial companies for a value in the balance sheet of 200.4 million classified as level 1 (the previous year they came to 230.9 million).

The table below provides a breakdown of UCITS units at 31 December 2018.

Items/Amounts	31/12/2018
Stockbased Funds	532
Real Estate Funds	60
Total	**592**

2.2 Financial assets held for trading: breakdown by debtor/issuer/counterpart

Items/Amounts	31/12/2018
A. Cash assets	
1. Debt securities	**2,176,386**
a) Central Banks	-
b) Public Administrations	753,572
c) Banks	910,519
d) Other financial companies	438,266
of which: insurance companies	76,270
e) Non-financial companies	74,029
2. Equity instruments	**607,269**
a) Banks	72,062
b) Other financial companies	40,847
of which: insurance companies	5,541
c) Non-financial companies	494,360
d) Other issuers	-
3. UCITS units	**592**
4. Loans	**-**
a) Central Banks	-
b) Public Administrations	-
c) Banks	-
d) Other financial companies	-
of which: insurance companies	-
e) Non-financial companies	-
f) Households	-
Total (A)	**2,784,247**
B. Derivative instruments	
a) Central counterparts	43,936
b) Other	1,694,346
Total (B)	**1,738,282**
Total (A+B)	**4,522,529**

2.3 Financial assets designated at fair value: breakdown by product

At 31 December 2018, 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 2018, 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 31/12/2018		
	L1	L2	L3
1. Debt securities	46,003	110,008	57,892
1.1 Structured securities	-	-	2,940
1.2 Other debt securities	46,003	110,008	54,952
2. Equity instruments	3,068	29,977	182,884
3. UCIT units	126,488	-	365,345
4. Loans	-	-	294,401
4.1 Repurchase agreements	-	-	-
4.2 Other	-	-	294,401
Total	**175,559**	**139,985**	**900,522**

L1 = Level 1
L2 = Level 2
L3 = Level 3

Exposure to debt securities amounts to a total 213.9 million, represented almost entirely by bonds issued by financial companies and banks.

Sub-item "1.2 Other debt securities" includes the Dexia Crediop security for an amount of 110 million, classified as level 2, and also includes subordinate financial assets relative to banks, insurance companies and financial companies for 44.8 million (nominal value 45.6 million), classified as level 1. In addition, in level 3 49.4 million in Asset Backed Securities (ABS) are classified, relative to securitisation transactions. 47.4 million of the latter are represented by senior and mezzanine securities relative to the Pharma Finance S.r.l., Bnt Porfolio S.p.V. and Red Sea S.p.V. securitisations. The entirely written down securitisations Berenice S.p.V. and Schema Volontario Fitd – Intervento Carige 2018 are also present.

Among equity securities, the main investment is represented by shareholdings in the equity of S.I.A., with a book value of 97.7 million (level 3).

The table below provides a breakdown of UCITS units at 31 December 2018.

Items/Amounts	31/12/2018
Stockbased Funds	104,172
Balanced Funds	49,369
Bond Funds	177,368
Flexible Funds	68,066
Hedge Funds	10,179
Real Estate Funds	82,679
Total	**491,833**

Bond funds include units from the Shipping segment of the "IDEA Corporate Credit Recovery II" fund, an alternative mutual investment fund operating under Italian law, closed-end, multi-segment, named and managed by the asset management company Dea Capital Alternative Fund SGR. More specifically, these refer to 2,351.069 units for a book value of 102.7 million, recognised by Banco BMP in December 2018, as the payment for the without recourse sale and consequent accounting derecognition of a portfolio of credit exposures classified as unlikely to pay, relative to eight counterparties in the shipping sector, with a gross exposure of around 160 million dollars. This payment, determined on the basis of specific independent appraisals, led to the recognition of profits from disposal of around 10 million (income statement item "100. Profits (losses) on disposal or repurchase").
This operation, which saw the involvement of other credit institutions also selling loans, is intended to allow the asset management company to take part in the governance of the transferred counterparts, also through the conversion of the loans acquired into shares, with the objective of strengthening the equity structure.

2.6 Financial assets mandatorily at fair value: breakdown by debtor/issuer

	Total 31/12/2018
1. Equity securities	**215,929**
of which: banks	9,032
of which: other financial companies	46,516
of which: non-financial companies	160,381
2. Debt securities	**213,903**
a) Central Banks	-
b) Public Administrations	-
c) Banks	138,882
d) Other financial companies	71,558
of which: insurance companies	17,129
e) Non-financial companies	3,463
3. UCIT units	**491,833**
4. Loans	**294,401**
a) Central Banks	-
b) Public Administrations	6,953
c) Banks	-
d) Other financial companies	12,586
of which: insurance companies	-
e) Non-financial companies	209,443
f) Households	65,419
Total	**1,216,066**

Section 3 - Financial assets designated at fair value through other comprehensive income – Item 30

3.1 Financial assets designated at fair value through other comprehensive income: breakdown by product

Items/Amounts	Total 31/12/2018		
	L1	L2	L3
1. Debt securities	14,642,675	203,652	8,401
1.1 Structured securities	-	-	8,401
1.2 Other debt securities	14,642,675	203,652	-
2. Equity instruments	177,954	113,525	205,354
3. Loans	-	-	-
Total	**14,820,629**	**317,177**	**213,755**

L1 = Level 1
L2 = Level 2
L3 = Level 3

Exposure to debt securities amounts to a total 14,855 million, represented almost entirely by bonds issued by governments and banks.

Sub-item "1.2 Other debt securities" includes subordinate financial assets relative to banks, insurance companies and financial companies for 219.2 million (nominal value 203.8 million), classified as level 1 for 210.5 million and as level 2 for 8.7 million.

The item 1.2 "Other debt securities" also includes an asset backed security (ABS) relative to securitisation transactions, classified as level 3.

Through level 2 equity securities, Banco BPM holds 4,541 shares of the Bank of Italy's share capital, corresponding to 1.5137% of the full share capital. The book value is 113.5 million, obtained by applying the value of 25,000 euro to each unit. More specifically, 3,668 shares, for a value of 91.7 million derive from those previously held by the former Banco Popolare. The remaining 873 shares with a value of 21.8 million were acquired following the merger of the former BPM Group on 1 January 2017.

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 share.

Level 1 equity securities include equity investments held in Anima Holding in the amount of 175.2 million.

3.2 Financial assets designated at fair value through other comprehensive income: breakdown by debtor/issuer

Items/Amounts	Total 31/12/2018
1. Debt securities	**14,854,728**
a) Central Banks	-
b) Public Administrations	11,699,929
c) Banks	2,135,277
d) Other financial companies	991,457
of which: insurance companies	102,508
e) Non-financial companies	28,065
2. Equity instruments	**496,833**
a) Banks	209,013
b) Other issuers:	287,820
- other financial companies	243,758
of which: insurance companies	24
- non-financial companies	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	**15,351,561**

3.3 Financial assets designated at fair value through other comprehensive income: gross value and total value adjustments

	Gross value				Total value adjustments			
	First Stage	of which: Instruments with low credit risk	Second Stage	Third stage	First Stage	Second Stage	Third stage	Total partial write-offs (*)
Debt securities	14,654,559	14,646,114	209,684	-	(7,529)	(1,986)	-	-
Loans	-	-	-	-	-	-	-	-
Total	**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 designated at amortised cost – Item 40

4.1 Financial assets designated at amortised cost: breakdown by product for amounts due from banks

Transaction type/Amounts	Total 31/12/2018					
	Book value			Fair value		
	First and second stage	Third stage	of which: originated or acquired impaired	L1	L2	L3
A. Due from central banks	**575,536**	**-**	**-**	**-**	**11,677**	**563,859**
1. Fixed-term deposits	-	-	-	X	X	X
2. Minimum reserve	563,859	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X
4. Other	11,677	-	-	X	X	X
B. Due from banks	**3,801,926**	**64**	**-**	**-**	**177,389**	**3,630,047**
1. Loans	3,617,519	64	-	-	-	3,630,047
1.1 Current accounts and sight deposits	1,094,426	64	-	X	X	X
1.2. Fixed-term deposits	129,295	-	-	X	X	X
1.3. Other loans:	2,393,798	-	-	X	X	X
- Reverse repurchase agreements	758,169	-	-	X	X	X
- Financial leases	2,058	-	-	X	X	X
- Other	1,633,571	-	-	X	X	X
2. Debt securities	184,407	-	-	-	177,389	-
2.1 Structured securities	-	-	-	-	-	-
2.2 Other debt securities	184,407	-	-	-	177,389	-
Total	**4,377,462**	**64**	**-**	**-**	**189,066**	**4,193,906**

Item B.1.3 "Other loans - other" includes cash collateral deposits made with banks to guarantee financial instrument, derivative and repurchase agreement transactions totalling 830.9 million, as well as receivables for securities trading operations not yet settled and receivables for discounted bills. The item in question also includes operating receivables in the amount of 0.9 million, associated with revenues accruing in 2018 but not yet received as of the end of the year.

For details on impaired assets, please see "Part E - Information on risks and related hedging policies, Section 1, Credit risk".

4.2 Financial assets designated at amortised cost: breakdown by product for loans to customers

Transaction type/Amounts	Total 31/12/2018					
	Book value			Fair value		
	First and second stage	Third stage	of which: originated or acquired impaired	L1	L2	L3
1. Loans	**95,859,097**	**6,726,902**	**764,276**	**-**	**-**	**107,401,370**
1.1. Current accounts	11,198,951	999,684	195,627	X	X	X
1.2. Reverse repurchase agreements	6,233,274	-	-	X	X	X
1.3. Mortgage loans	58,558,496	3,118,910	417,592	X	X	X
1.4. Credit cards, personal loans and salary-backed loans	1,926,258	17,523	1,343	X	X	X
1.5. Financial leases	1,059,608	1,026,049	6,326	X	X	X
1.6. Factoring	87,992	90	-	X	X	X
1.7. Other loans	16,794,518	1,564,646	143,388	X	X	X
2. Debt securities	**16,876,482**	**-**	**-**	**14,940,783**	**278,644**	**1,485,175**
2.1. Structured securities	-	-	-	-	-	-
2.2. Other debt securities	16,876,482	-	-	14,940,783	278,644	1,485,175
Total	**112,735,579**	**6,726,902**	**764,276**	**14,940,783**	**278,644**	**108,886,545**

Net loans to customers amounted to 119,462.5 million. Excluding debt securities, analysing the portfolio by technical form shows mortgage loans accounting for the largest part, representing over 60% of the total (58% in 2017), followed by current accounts totalling 12,198.6 million and accounting for around 11.9%, stable with respect to 2017.

Item 1.7 "other loans" mainly includes loans for advances on bills, documents and similar values, stc, subsidies not settled in the current account and functional receivables associated with the provision of financial services.

The item "Debt securities" includes asset backed securities (ABS) for 1,479.1 relative to securitisation transactions, of which:

- 1,428.6 million relative to the Red Sea S.p.V. securitisation, as described in Section 5 - Other Aspects, in Part A.1 of these consolidated Notes;
- 4.6 million relative to senior issues connected to third party operations;
- 45.9 million in junior securities associated with securitisation transactions originated by the former Banco Popolare Group, against assets that have been fully derecognised from the balance sheet. More specifically, these securities refer to positions associated with the former Banca Italease Group, recognised following the cancellation of the underlying loans. The risks and benefits associated with these loans were, in fact, transferred to Alba Leasing as an effect of the agreement on securitised loans.

For more details, please see that described in Part E, Section 1, "C. Securitisation transactions".

The same item includes 292.2 million in other securities issued by financial companies. In particular, it includes subordinate securities for 26.8 million: 24.3 million issued by UGF Unipol and 2.5 million by Eurovita Assicurazioni.

Item "1.7 Other Loans" mainly includes loans for advances on bills, documents and similar values, stc, subsidies not settled in the current account and functional receivables associated with the provision of financial services. In particular, functional receivables include 184.7 million for fees accruing in 2018, against ordinary contacts with customers, which will be received during 2019 (mainly relative to securities placement for 86.5 million, distribution of insurance products for third parties for 26.5 million, distribution of credit cards for third parties for 37.1 million, and distribution of consumer credit products for third parties for 14.6 million).

Impaired loans (third stage) amount to 6,726.9 million. The decrease seen during the year is attributable to the Group's derisking actions, in particular with reference to the sales of portfolios of bad loans associated with the Exodus and ACE projects illustrated in Section 5 - Other Aspects, in Part A.1 of these consolidated Notes. In particular, in December 2018 the loans relative to the ACE Project were reclassified to item 120. "Non-current assets and groups of assets held for sale". For more details, please see Section 12 in Part B of the Assets.

For more details about credit quality, please see Part E - Information on risks and related hedging policies, Section 1 - Risks of budgetary consolidation, Quantitative information, Credit quality and Section 2 - Risks of prudential consolidation, 1.1 Credit risk, Quantitative information, Credit quality.

4.3 Finance leases

With banks

	31/12/2018						31/12/2017					
		Minimum payments			Gross investment			Minimum payments			Gross investment	
	Non-performing loans	Share capital	of which residual guaranteed value	Interest		of which residual non-guaranteed value	Non-performing loans	Share capital	of which residual guaranteed value	Interest		of which residual non-guaranteed value
demand items	-	11	-	2	13	-	-	15	-	2	17	-
Up to 3 months	-	81	-	7	88	-	-	88	-	9	97	-
Between 3 months and 1 year	-	278	-	24	302	-	-	312	-	31	343	-
Between 1 year and 5 years	-	1,688	901	41	1,729	-	-	1,899	535	75	1,974	-
Over 5 years	-	-	-	-	-	-	-	373	373	1	374	-
Unlimited duration	-	-	-	-	-	-	-	-	-	-	-	-
Net total	**-**	**2,058**	**901**	**74**	**2,132**	**-**	**-**	**2,687**	**908**	**118**	**2,805**	**-**

With customers

	31/12/2018						31/12/2017					
		Minimum payments			Gross investment			Minimum payments			Gross investment	
	Non-performing loans	Share capital	of which residual guaranteed value	Interest		of which residual non-guaranteed value	Non-performing loans	Share capital	of which residual guaranteed value	Interest		of which residual non-guaranteed value
Demand items	39,801	7,962	111	1,975	9,937	-	105,144	8,992	-	2,346	11,338	-
Up to 3 months	8,746	19,098	163	4,929	23,832	-	136,114	23,781	5,025	5,629	29,411	-
Between 3 months and 1 year	130,755	84,228	3,460	19,959	103,602	-	460,998	90,624	5,129	23,013	113,635	-
Between 1 year and 5 years	401,057	551,194	212,806	71,277	614,187	-	514,974	605,950	206,866	87,283	693,235	-
Over 5 years	442,095	403,516	245,393	30,420	433,937	-	199,490	499,418	278,678	40,157	539,574	-
Unlimited duration	3,595	-	-	-	-	-	9	-	-	-	-	-
Net total	**1,026,049**	**1,065,998**	**461,933**	**128,560**	**1,185,495**	**-**	**1,416,729**	**1,228,765**	**495,698**	**158,428**	**1,387,193**	**-**

Financial leasing operations indicated in the above tables refer to the operations of the former Banca Italease and Release.
Minimum payments refer exclusively to rents expiring after the financial reporting date, for performing loans. These receivables include:

- past-due for 2.8 million;
- portfolio value adjustments for 29.7 million;
- capital gains for the year for 0.7 million.

4.4 Financial assets designated at amortised cost: breakdown by debtor/issuer of loans to customers

Transaction type/Amounts	Total 31/12/2018		
	First and second stage	Third stage	Of which: originated or acquired impaired assets
1. Debt securities	**16,876,482**	**-**	**-**
a) Public administrations	15,081,797	-	-
b) Other financial companies	1,651,696	-	-
of which: insurance companies	26,722	-	-
c) Non-financial companies	142,989	-	-
2. Loans to:	**95,859,097**	**6,726,902**	**764,276**
a) Public administrations	1,624,303	2,325	-
b) Other financial companies	13,603,254	159,829	10,871
of which: insurance companies	109,297	-	-
c) Non-financial companies	48,944,330	5,672,768	715,086
d) Households	31,687,210	891,980	38,319
Total	**112,735,579**	**6,726,902**	**764,276**

4.5 Financial assets designated at amortised cost: gross value and total value adjustments

	Gross value				Total value adjustments			
	First Stage	of which: Instruments with low credit risk	Second Stage	Third stage	First Stage	Second Stage	Third stage	Total partial write-offs (*)
Debt securities	16,966,527	16,950,847	103,415	34	(6,445)	(2,608)	(34)	**-**
Loans	92,977,772	-	7,445,383	11,814,203	(119,948)	(251,055)	(5,087,237)	**390,120**
Total	**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	-	1,519,335	X	-	(755,059)	**47,758**

(*) = Value to be shown for disclosure purposes

Instruments with low credit risk, totalling 16,950.8 million, mainly refer to Italian and foreign government securities.

Tables showing breakdown of financial asset portfolios at 31 December 2017

The tables below, while not fully comparable, show the breakdown by product and by debtor/issuer of the portfolios of IAS 39 financial assets at 31 December 2017, prepared in accordance with the provisions of the previous version of Bank of Italy Circular 262 (fourth update).

Financial assets held for trading: breakdown by product

Items/Amounts	31/12/2017		
	L1	L2	L3
A. Cash assets			
1. Debt securities	2,223,393	42,230	18,288
1.1 Structured securities	80,398	20,293	18,175
1.2 Other debt securities	2,142,995	21,937	113
2. Equity instruments	692,974	-	30
3 UCIT units	29,009	-	652
4. Loans	-	-	-
4.1 Reverse repurchase agreements	-	-	-
4.2 Other	-	-	-
Total A	**2,945,376**	**42,230**	**18,970**
B. Derivative instruments			
1. Financial derivatives:	134,029	1,756,503	14,716
1.1 held for trading	134,029	1,710,374	14,716
1.2 connected with the fair value option	-	46,121	-
1.3 other	-	8	-
2. Credit derivatives:	-	-	-
2.1 held for trading	-	-	-
2.2 connected with the fair value option	-	-	-
2.3 other	-	-	-
Total B	**134,029**	**1,756,503**	**14,716**
Total (A+B)	**3,079,405**	**1,798,733**	**33,686**

Financial assets held for trading: breakdown by debtor/issuer

Items/Amounts	31/12/2017
A. Cash assets	
1. Debt securities	**2,283,911**
a) Governments and Central Banks	830,711
b) Other public entities	322
c) Banks	803,510
d) Other issuers	649,368
2. Equity instruments	**693,004**
a) Banks	140,734
b) Other issuers:	552,270
- insurance companies	30,533
- financial companies	35,343
- non-financial companies	486,394
- other	-
3. UCIT units	**29,661**
4. Loans	**-**
a) Governments and Central Banks	-
b) Other public entities	-
c) Banks	-
d) Other entities	-
Total A	**3,006,576**
B. Derivative instruments	
a) Banks	
- Fair value	1,226,544
b) Customers	
- Fair value	678,704
Total B	**1,905,248**
Total (A+B)	**4,911,824**

Financial assets designated at fair value: breakdown by product

Items/Amounts	Total 31/12/2017		
	L1	L2	L3
1. Debt securities	7,991	-	1,421
1.1 Structured securities	-	-	1,421
1.2 Other debt securities	7,991	-	-
2. Equity instruments	-	579	-
3. UCIT units	-	18,810	151
4. Loans	-	-	-
4.1 Structured	-	-	-
4.2 Other	-	-	-
Total	**7,991**	**19,389**	**1,572**
Cost	**7,651**	**25,182**	**20,748**

Financial assets designated at fair value: breakdown by debtor/issuer

Items/Amounts	31/12/2017
1. Debt securities	**9,412**
a) Governments and Central Banks	-
b) Other public entities	-
c) Banks	-
d) Other issuers	9,412
2. Equity instruments	**579**
a) Banks	6
b) Other issuers:	573
- insurance companies	573
- financial companies	-
- non-financial companies	-
- other	-
3. UCIT units	**18,961**
4. Loans	**-**
a) Governments and Central Banks	-
b) Other public entities	-
c) Banks	-
d) Other entities	-
Total	**28,952**

Financial assets available for sale: breakdown by product

Items/Amounts	31/12/2017		
	L1	L2	L3
1. Debt securities	15,312,293	400,657	3,712
1.1 Structured securities	-	-	1,420
1.2 Other debt securities	15,312,293	400,657	2,292
2. Equity instruments	275,632	223,422	494,419
2.1 Designated at fair value	275,632	223,422	491,713
2.2 Designated at cost	-	-	2,706
3. UCIT units	173,174	-	245,313
4. Loans	-	-	-
Total	**15,761,099**	**624,079**	**743,444**

Financial assets held for sale: breakdown by debtor/issuer

Items/Amounts	31/12/2017
1. Debt securities	**15,716,662**
a) Governments and Central Banks	11,539,277
b) Other public entities	1,320,932
c) Banks	1,825,851
d) Other issuers	1,030,602
2. Equity instruments	**993,473**
a) Banks	386,134
b) Other issuers:	607,339
- insurance companies	31
- financial companies	403,478
- non-financial companies	203,830
- other	-
3. UCIT units	**418,487**
4. Loans	**-**
a) Governments and Central Banks	-
b) Other public entities	-
c) Banks	-
d) Other entities	-
Total	**17,128,622**

Investments held to maturity: breakdown by product

	Total 31/12/2017			
	Book value	Fair Value		
		Level 1	Level 2	Level 3
1. Debt securities	11,560,769	11,685,005	-	-
- structured	-	-	-	-
- other	11,560,769	11,685,005	-	-
2. Loans	-	-	-	-
Total	**11,560,769**	**11,685,005**	**-**	**-**

Financial assets held to maturity: breakdown by debtor/issuer

Transaction type/Amounts	31/12/2017
1. Debt securities	**11,560,769**
a) Governments and Central Banks	11,548,450
b) Other public entities	1,008
c) Banks	-
d) Other issuers	11,311
2 Loans	**-**
a) Governments and Central Banks	-
b) Other public entities	-
c) Banks	-
d) Other entities	-
Total	**11,560,769**
Total FV	**11,685,005**

Due from banks: breakdown by product

Transaction type/Amounts	Total 31/12/2017			
	Book value	Fair Value		
		Level 1	Level 2	Level 3
A. Due from Central Banks	**2,001,231**	**-**	**-**	**2,001,231**
1. Time deposits	-	X	X	X
2. Minimum reserve	1,992,298	X	X	X
3. Reverse repurchase agreements	-	X	X	X
4. Other	8,933	X	X	X
B. Due from banks	**3,163,484**	**-**	**228,807**	**2,927,937**
1. Loans	2,937,992	-	-	2,927,937
1.1 Current accounts and demand deposits	979,528	X	X	X
1.2 Time deposits	208,181	X	X	X
1.3 Other loans:	1,750,283	X	X	X
- Reverse repurchase agreements	94,612	X	X	X
- Financial leases	2,426	X	X	X
- Other	1,653,245	X	X	X
2. Debt securities	225,492	-	228,807	-
2.1 Structured securities	-	X	X	X
2.2 Other debt securities	225,492	X	X	X
Total	**5,164,715**	**-**	**228,807**	**4,929,168**

Loans to customers: breakdown by product

Transaction type/Amounts	Total 31/12/2017				
	Book value		Fair Value		
	Performing	Non-performing	L1	L2	L3
Loans	**94,715,812**	**13,026,867**	**-**	**-**	**109,600,355**
1. Current accounts	11,679,207	1,651,988	X	X	X
2. Reverse repurchase agreements	6,364,149	-	X	X	X
3. Mortgage loans	55,589,969	7,073,545	X	X	X
4. Credit cards, personal loans and salary-backed loans	2,077,127	22,816	X	X	X
5. Financial leases	1,203,993	1,416,729	X	X	X
6. Factoring	87,923	79	X	X	X
7. Other loans	17,713,444	2,861,710	X	X	X
Debt securities	**428,203**	**5,500**	**24,952**	**125,372**	**284,392**
8. Structured securities	-	5,000	X	X	X
9. Other debt securities	428,203	500	X	X	X
Total	**95,144,015**	**13,032,367**	**24,952**	**125,372**	**109,884,747**

Loans to customers: breakdown by debtor/issuer

Transaction type/Amounts	31/12/2017	
	Performing	Non-performing
1. Debt Securities	**428,203**	**5,500**
a) Governments	-	-
b) Other public entities	-	-
c) Other issuers	428,203	5,500
- non-financial companies	128,470	5,500
- financial companies	273,068	-
- insurance companies	26,665	-
- other	-	-
2. Loans to:	**94,715,812**	**13,026,867**
a) Governments	848,665	208
b) Other public entities	735,037	3,381
c) Other entities	93,132,110	13,023,278
- non-financial companies	51,695,364	11,037,609
- financial companies	13,320,036	283,269
- insurance companies	105,756	-
- other	28,010,954	1,702,400
Total	**95,144,015**	**13,032,367**

Section 5 - Hedging derivatives – Item 50

5.1 Hedging derivatives: breakdown by hedge type and by level

	FV 31/12/2018			NV 31/12/2018	FV 31/12/2017			NV 31/12/2017
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives								
1. Fair Value	-	130,511	-	9,652,272	-	243,565	-	11,782,456
2. Cashflows	-	-	-	-	-	-	-	-
3. Foreign investments	-	-	-	-	-	245	-	-
B. Credit derivatives								
1. Fair Value	-	-	-	-	-	-	-	-
2. Cashflows	-	-	-	-	-	-	-	-
Total	**-**	**130,511**	**-**	**9,652,272**	**-**	**243,810**	**-**	**11,782,456**

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						Cashflows			Foreign investments
	Specific						Generic	Specific	Generic	
	debt securities and interest rates	equity securities and stock indexes	currencies and gold	credit	commodities	other				
1. Financial assets designated at fair value through other comprehensive income	14	-	-	-	X	X	X	-	X	X
2. Financial assets designated at amortised cost	-	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	88,760	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**14**	**-**	**-**	**-**	**-**	**-**	**88,760**	**-**	**-**	**-**
1. Financial liabilities	41,737	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	**41,737**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
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 assets covered: breakdown by portfolios hedged

Fair value change for assets covered/Values	Total 31/12/2018	Total 31/12/2017
1. Increase	**42,425**	**56,330**
1.1 of specific portfolios:	42,425	56,330
a) financial assets designated at amortised cost	42,425	56,330
b) financial assets designated at fair value through other comprehensive income	-	-
1.2 total	-	-
2. Decrease	**(252)**	**(1,799)**
2.1 of specific portfolios:	(252)	(1,799)
a) financial assets designated at amortised cost	(252)	(1,799)
b) financial assets designated at fair value through other comprehensive income	-	-
2.2 total	-	-
Total	**42,173**	**54,531**

The fair value change in financial assets designated at amortised cost at 31 December 2018, as well as for the previous year, refers to fair value changes in certain specific portfolios of loans to customers, due to interest rate oscillations.
Fair value gains and losses relative to hedging derivatives and the portfolio covered are indicated in item 90 "Fair value adjustments in hedge accounting".

Section 7 - Equity investments - Item 70

At 31 December 2018, the book value of "Equity investments" totalled 1,434.1 million, relative to:

- significant equity investments of 1,101.4 million (1,090.5 million at 31 December 2017), as represented in table 7.2 below, by individual investment;
- non-significant equity investments of 332.7 million (258.7 million at 31 December 2017), as shown in table 7.4 below, as a whole.

The scope of "significant equity investments" was determined by considering the materiality of the carrying 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
				Holder	% held	% of votes
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. Etica SGR S.p.A. (*) Share Capital € 4,500,000.00	Milan	Milan	1	Banco BPM	19.444%	19.444%
10. Factorit S.p.A. Share Capital € 85,000,002.00	Milan	Milan	1	Banco BPM	39.500%	39.500%
11. 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%
12. HI-MTF SIM S.p.A. Share Capital € 5,000,000.00	Milan	Milan	1	Banca Akros	25.000%	25.000%
13. Immobiliare Centro Milano S.p.A. Share Capital € 120,000.00	Siena	Siena	1	Release	33.333%	33.333%
14. Motia Compagnia di Navigazione S.p.A. in liquidation Share Capital € 5,460,004.00	Venice	Venice	1	Banco BPM	25.000%	25.000%
15. SelmaBipiemme Leasing S.p.A. Share Capital € 41,305,000.00	Milan	Milan	1	Banco BPM	40.000%	40.000%
16. 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%
17. Vera Assicurazioni S.p.A. Share Capital € 63,500,000.00	Verona	Verona	1	Banco BPM	35.000%	35.000%
18. 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.	724,878	-	86,580
Alba Leasing S.p.A.	156,831	-	-
Vera Vita S.p.A.	219,716	-	110,172
Total	**1,101,425**	-	**196,752**

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 at 31 December 2017, as an effect 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 2018 approved by the Boards of Directors and provided by associated companies or, when not available, the most recent equity situations (relative to 100% of the investment and not the percentage held by the Group, as established under accounting standard 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	Writedowns /writebacks on property, plant and equipment and intangible assets	Before tax profits/(losses) from current operations	After tax profits/(losses) from current operations	After tax profit/(loss) on asset disposal groups held for sale	Profit (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	14,235,442	1,882,675	13,881,631	331,575	1,480,927	X	X	458,121	321,903	-	321,903	325	322,228
Alba Leasing S.p.A.	X	4,829,787	195,436	4,406,390	217,583	164,100	X	X	9,398	9,851	-	9,851	30	9,881
Vera Vita S.p.A.	X	7,827,136	63,927	7,562,631	25,030	989,222	X	X	30,601	21,073	-	21,073	(8,886)	12,187

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.	1,904,911	39.000%	742,915	(18,037)	724,878
Alba Leasing S.p.A.	401,250	39.189%	157,246	(415)	156,831
Vera Vita S.p.A.	303,402	35.000%	106,191	113,525	219,716

(*) 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 leasing sector, and originated from the restructuring of the former Banca Italease Group. The company offers financing in the form of leasing contracts, placing its products through the banking channel, including the Banco BPM network.
Vera Vita S.p.A. is an insurance company offering life insurance, controlled by the Società Cattolica Assicurazioni Group. Outside of the 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 accounting standard IFRS 12.

		Book value of equity investments	Total assets	Total liabilities	Total revenues	After tax profits/ (losses) from current operations net of taxes	After tax profit/(loss) on asset disposal groups held for sale	Profit (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	332,738	3,481,085	3,201,471	315,775	3,497	-	3,630	(2,397)	1,233

7.5 Equity investments: annual changes

		31/12/2018	31/12/2017
A.	**Opening balance**	**1,349,191**	**1,195,214**
B.	**Increases**	**1,212,496**	**456,620**
	B.1 Acquisitions	803,409	236,579
	B.2 Writebacks		
	B.3 Revaluations		
	B.4 Other changes	409,087	220,041
C.	**Decreases**	**(1,127,524)**	**(302,643)**
	C.1 Sales	(809,739)	
	C.2 Writedowns		
	C.3 Impairment		
	C.4 Other changes	(317,785)	(302,643)
D.	**Closing balance**	**1,434,163**	**1,349,191**
E.	**Total revaluations**	-	-
F.	**Total adjustments**	**(625,921)**	**(625,921)**

It should be noted that the restructuring of the Bancassurance segment was completed during 2018, as illustrated more in detail in the Report on Operations in the section "Significant Events". This restructuring began in 2017, following the termination of the distribution agreements with the Unipol Group for the life segment and with the

Aviva Group for the damages segment, and meaning that in the financial statements at 31 December 2017 the equity investments held in Popolare Vita (now Vera Vita) and in Avipop Assicurazioni (now Vera Assicurazioni) were classified under the balance sheet items:

- "Non-current assets and groups of assets held for sale" for a stake equal to 15%;
- "Equity investments" for the residual 35% stake.

Taking the above into account, with the objective of providing a full representation of all the changes that occurred relative to the cited equity investments, here we conventionally show the book value of the equity investments classified as assets held for sale at 31 December 2017 (equal to 78.8 million) among other increases (B.4). That being established:

- the item "B.1. Acquisitions" refers to the acquisition of 50% of Avipop Assicurazioni from Aviva and of 50% of Popolare Vita from UnipolSAI, completed on 29 March 2018, for a total value of 803.4 million (item "B.1. Acquisitions");
- item "C.1 Sales" refers to the sale to Cattolica Assicurazioni of 65% of the equity of the same investees for a payment, net of sales costs, of 809 million. The correlated economic effect is overall positive at 170.7 million (included under item "B.4 Other changes").

In addition to that illustrated above, 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 159.5 million (for details, please see "section 17 - Profit (losses) from equity investments" in Part C of these Notes).

The other decreases include the effects of the reduction in the equity of Agos Ducato (-86.6 million), of Vera Vita (-110.2 million), of Vera Assicurazioni (-10.6 million), of Bipiemme Vita (-3.5 million), of Factorit (-2.3 million) and of Etica SGR (-0.6 million), following distribution of dividends. They also include the effects pertaining to the Group relative to changes in the reserves of associated companies, equal to -103.9 million, mainly associated with first time application of accounting standard IFRS 9 (-92.3 million).

Impairment tests performed with reference to the carrying value of the equity investments at 31 December 2018 did not indicate any need to carry out writedowns.

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. At 31 December 2018, 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 10.1 above.
With regards to Bipiemme Vita S.p.A., although a less than 20% stake 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.

At 31 December 2018 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

The former Banco Popolare (now Banco BPM) signed a 10 year shareholders' agreement with Crédit Agricole Consumer Finance (Crédit Agricole Group), which expires on 22 December 2018, renewable prior express agreement by the parties for an additional 5 years, which among other things establishes that in the case the Bank, as part of a business combination/reorganisation project with other institutions that hold a company operating in the

consumer loan sector, comes to hold a company operating in said sector, must make its best efforts to allow Agos Ducato the possibility to acquire this indirectly acquired new entity at the market price.

On 20 December 2018, Banco BPM as one party and Crédit Agricole Consumer Finance SA, Crédit Agricole SA and Agos Ducato as the other formally signed the following agreements:

(i) a Framework Agreement between Banco BPM, Crédit Agricole Consumer Finance SA and Crédit Agricole which includes, among other things, (a) the new Shareholders' Agreement, (b) the new Distribution Agreement, (c) the new Funding Agreement, and

(ii) the ProFamily sales agreement between Banco BPM and Agos Ducato for the payment of €310 million upon the completion of the demerger of ProFamily's non-captive assets in favour of a newly established company over which Banco BPM will hold 100% control.

As part of these agreements, the parties also confirmed that, in the case in which Banco BPM, in the context of a business combination with other institutes which hold a company operating in the consumer credit sector, or if it acquires a new entity which holds control over an entity operating in the consumer credit sector, comes to hold a new company operating in said sector, it must offer Agos Ducato, at the market price, the new entity indirectly acquired operating in the consumer credit sector.

The signing and efficacy of the new shareholders' agreement will take place when ProFamily is acquired by Agos Ducato. Therefore, it was agreed by the parties that the shareholders' agreement signed on 22 December 2008 shall remain in effect until the new agreement is signed.

Commitments deriving from bancassurance agreements

At the same time as the natural conclusion of the partnership with UnipolSAI and Aviva Italia Holding in relation to the network of the former Banco Popolare, Banco BPM began an overall rationalisation of the bancassurance sector product services, beginning a competitive process aimed at identifying a new insurance partner, concluded through the establishment of a new partnership with Società Cattolica di Assicurazione - Cooperative Company.
During the year, the reorganisation process of the Bancassurance segment was completed, which had begun in 2017 and was formalised with agreements involving the sale of a 65% share in Popolare Vita and Avipop Assicurazioni and the start of a strategic partnership between Banco BPM and Cattolica Assicurazioni lasting 15 years. On 29 March 2018, following the issue of the required authorisations by the competent authorities, Banco BPM completed the purchase of 50% + 1 share of Avipop Assicurazioni and Popolare Vita, for a total value of 803.4 million euro, taking its stake in the share capital of the two companies to 100%. On the same date, 65% of the total share capital held by the Group in Avipop Assicurazioni and Popolare Vita was sold to Cattolica Assicurazioni for 819.6 million euro.
In order to complete the reorganisation of the segment, the extraordinary shareholders' meetings of Avipop Assicurazioni and Popolare Vita approved the adoption of new by-laws and the change of the company names to Vera Assicurazioni S.p.A. and Vera Vita S.p.A. respectively.
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 control 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 damages 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 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 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 price used to exercise the option will be determined on the basis of a pre-established mechanism associated with the valuation of the life and damages business.
Banco BPM may exercise the Call Option if analogous triggering events occur, with the exception of the cases of Extraordinary Underperformance.

For more details about the reorganisation of the bancassurance sector, please refer to the section that explains the significant events that occurred during the period in the Report on Operations.

Commitments with 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, among other things, 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 dissolve 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 their equity investment to the other party. The price used to exercise the reciprocal options will be determined on the basis of a pre-established mechanism associated with the valuation of the life and damages business.
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 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 Damages*" (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.

Commitments deriving from leasing agreements with SelmaBipiemme Leasing S.p.A.

The former Banca Popolare di Milano (now Banco BPM) and Mediobanca signed a shareholders' agreement in 2006, with an original expiry of 30 June 2009, which was repeatedly extended through 31 December 2018. This agreement governed the respective governance rights and obligations and those for any divestment (including reciprocal sale and acquisition options).
In particular, it established call options (for Mediobanca) and put options (for Banco BPM) relative to the equity investment held by Banco BPM in Selma, to be exercised, on one hand, through the termination or non-renewal of

the sales agreement by Banco BPM, a "change of control" by Banco BPM, the disposal of over 50% of the Banco BOMP branches and when the exclusive partnership with Selma ceased and, on the other, through termination of the sales agreement at maturity by Selma.
These options could be exercised within 180 days of the occurrence of the event which would give rise to the exercising of the same.
Additionally a purchase option for Banco BPM was established relative to the equity investment held in Selma by Mediobanca, in the case Mediobanca lost control over Selma, or if control over Mediobanca was acquired by a banking or insurance group.
On 27 June 2018, Banco BPM informed Mediobanca and SelmaBipiemme Leasing that it was terminating the sales agreement regarding the distribution of leasing products for SelmaBipiemme Leasing and, consequently, the shareholders' agreement signed with the shareholders of SelmaBipiemme Leasing. This termination, in compliance with the agreements between the parties, took effect on 1 January 2019.
Due to notification of the termination of the agreements by Banco BPM, Mediobanca gained the right to exercise the call option to acquire the equity investment in SelmaBipiemme Leasing held by Banco BPM. However, this option was not exercised by the deadline established in the agreements.

Consequently, effective as of 1 January 2019, the sales agreement and the shareholders' agreement, as well as all of the put and call options established therein, are no longer in effect.

7.9. Significant restrictions

For equity investments subject to significant influence, no significant restrictions on the transfer of funds relative to companies in the 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 civil code with regards to profits and distributable reserves.

7.10 Other information

Criteria used to determine the recoverable value of equity investments for preparation of the financial statements at 31 December 2018

On the basis of that established in IAS 36, the recognised book value of equity investments was compared with their recoverable value, represented by the greater of their fair value net of sales costs and their value in use. On the basis of the comparison made, the need to recognise writedowns due to impairment did not arise.

The associated company SelmaBipiemme Leasing ended its financial year on 30 June 2018. For the purposes of measuring it using the equity method, the economic situation was reconstructed from the second half of the financial year, 1/7/2017 - 30/6/2018, and the situation approved by the company relative to the half 1/7/2018 - 31/12/2018.

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 and equipment totalled 2,775.9 million at 31 December 2018, compared with the amount of 2,735.2 million the previous year.

9.1 Property and equipment used in operations: breakdown of assets designated at cost

Asset/Amounts	Total 31/12/2018	Total 31/12/2017
1. Owned assets	**1,382,646**	**1,477,052**
a) land	451,847	469,996
b) buildings	789,029	843,225
c) furniture	43,919	51,237
d) electronic systems	51,801	53,460
e) other	46,050	59,134
2. Assets acquired under financial lease	**254**	**268**
a) land	-	-
b) buildings	254	268
c) furniture	-	-
d) electronic systems	-	-
e) other	-	-
Total	**1,382,900**	**1,477,320**
of which: obtained through enforcement of guarantees received	-	-

9.2 Property and equipment held for investment purposes: breakdown of assets designated at cost

Asset/Amounts	31/12/2018				31/12/2017			
	Book value	Fair value			Book value	Fair value		
		L1	L2	L3		L1	L2	L3
1. Owned assets	**1,392,985**	**-**	**-**	**1,584,567**	**1,257,862**	**-**	**-**	**1,486,960**
a) land	614,287	-	-	626,626	565,261	-	-	613,107
b) buildings	778,698	-	-	957,941	692,601	-	-	873,853
2. Assets acquired under financial lease	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-	-	-
Total	**1,392,985**	**-**	**-**	**1,584,567**	**1,257,862**	**-**	**-**	**1,486,960**
of which: obtained through enforcement of guarantees received	887,869	-	-	937,661	-	-	-	-

L1 = Level 1
L2 = Level 2
L3 = Level 3

9.3 Property, plant and equipment used in operations: breakdown of revalued assets

The Group does not hold any property and equipment designated at fair value using the revaluation model.

9.4 Property, plant and equipment held for investment purposes: breakdown of assets designated at fair value

The Group does not hold any property, plant and equipment measured at fair value.

9.5 Inventories of property, plant and equipment governed by IAS 2: breakdown

The Group does not hold property, plant and equipment classified as inventories pursuant to IAS 2.

9.6 Property, plant and equipment used in operations: annual changes

	Land	Buildings	Furniture	Electronic systems	Other	Total
A. Gross opening balances	**470,514**	**1,200,961**	**444,015**	**646,393**	**284,239**	**3,046,122**
A.1 Net total reductions in value	(518)	(357,468)	(392,778)	(592,933)	(225,105)	(1,568,802)
A.2 Net initial balances	**469,996**	**843,493**	**51,237**	**53,460**	**59,134**	**1,477,320**
B. Increases:	**-**	**16,578**	**4,513**	**21,441**	**3,702**	**46,234**
B.1 Acquisitions	-	12,939	4,067	19,678	3,686	40,370
B.2 Capitalised expenses for improvements	-	3,537	-	-	-	3,537
B.3 Writebacks	-	-	-	-	-	-
B.4 Positive changes in fair value recognised to	-	-	-	-	-	-
a) Shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Exchange gains	-	-	-	-	*7*	*7*
B.6 Transfers from properties held for investment	-	102	X	X	X	102
B.7 Other changes	-	-	446	1,763	9	2,218
C. Decreases:	**(18,149)**	**(70,788)**	**(11,831)**	**(23,100)**	**(16,786)**	**(140,654)**
C.1 Sales	(9,228)	(23,151)	-	(1)	(29)	(32,409)
C.2 Depreciation/Amortisation	-	(36,341)	(11,803)	(22,884)	(14,994)	(86,022)
C.3 Write-downs for impairment recognised to	(1,646)	(1,842)	-	-	-	(3,488)
a) Shareholders' equity	-	-	-	-	-	-
b) income statement	(1,646)	(1,842)	-	-	-	(3,488)
C.4 Negative changes in fair value recognised to	-	-	-	-	-	-
a) Shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	-	-
C.6 Transfers to:	(931)	(3,109)	(28)	-	-	(4,068)
a) property, plant and equipment held for investment purposes	-	-	X	X	X	-
b) non-current assets and disposal groups held for sale	(931)	(3,109)	(28)	-	-	(4,068)
C.7 Other changes	(6,344)	(6,345)	-	(215)	(1,763)	(14,667)
D. Net closing balances	**451,847**	**789,283**	**43,919**	**51,801**	**46,050**	**1,382,900**
D.1 Net total reductions in value	(2,164)	(384,490)	(403,694)	(778,908)	(240,995)	(1,810,251)
D.2 Gross closing balances	**454,011**	**1,173,773**	**447,613**	**830,709**	**287,045**	**3,193,151**
E. Measurement at cost	-	-	-	-	-	-

9.7 Property, plant and equipment held for investment purposes: annual changes

	Land	Buildings	Total
A. Opening balance	**565,261**	**692,601**	**1,257,862**
A. Increases	**91,450**	**159,873**	**251,323**
B.1 Acquisitions	84,906	112,267	197,173
B.2 Capitalised expenses for improvements	871	1,355	2,226
B.3 Positive changes in fair value	-	-	-
B.4 Writebacks	-	-	-
B.5 Exchange gains	-	-	-
B.6 Transfers from properties for operational use	-	-	-
B.7 Other changes	5,673	46,251	51,924
C. Decreases	**(42,424)**	**(73,776)**	**(116,200)**
C.1 Sales	(19,392)	(25,858)	(45,250)
C.2 Depreciation/Amortisation	-	(24,936)	(24,936)
C.3 Negative changes in fair value	-	-	-
C.4 Writedowns for impairment	(20,599)	(20,048)	(40,647)
C.5 Exchange losses	-	-	-
C.6 Transfers to:	(2,310)	(2,811)	(5,121)
a) properties for use in operations	-	(102)	(102)
b) non-current assets and disposal groups held for sale	(2,310)	(2,709)	(5,019)
C.7 Other changes	(123)	(123)	(246)
D. Closing balance	**614,287**	**778,698**	**1,392,985**
E. Designated at fair value	626,626	957,941	1,584,567

Writedowns due to impairment derive from adjusting the book value of certain real estate assets to the lower recoverable value identified in the most recently acquired appraisals.

9.8 Inventories of property, plant and equipment governed by IAS 2: annual changes

The Group does not hold property, plant and equipment classified as inventories pursuant to IAS 2.

9.9 Commitments to purchase property, plant and equipment

There are no commitments to purchase property, plant or equipment.

Section 10 - Intangible assets – Item 100

10.1 Intangible assets: breakdown by asset type

Asset/Amounts	Total 31/12/2018		Total 31/12/2017	
	Duration defined	Indefinite duration	Duration defined	Indefinite duration
A.1 Goodwill		**76,389**		**76,389**
A.1.1 attributable to the group		76,389		76,389
A.1.2 attributable to minority interests		-		-
A.2 Other intangible assets	**697,280**	**504,272**	**716,499**	**504,272**
A.2.1 Assets designated at cost	697,280	504,272	716,499	504,272
a) Internally generated intangible assets	-	-	-	-
b) Other assets	697,280	504,272	716,499	504,272
A.2.2 Assets designated at fair value	-	-	-	-
a) Internally generated intangible assets	-	-	-	-
b) Other assets	-	-	-	-
Total	**697,280**	**580,661**	**716,499**	**580,661**

Intangible assets with undefined life are represented by goodwill and brands, for which an impairment test was performed, as indicated in paragraph 10.1.1 below.
Intangible assets with a defined 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 410.6 million. The remaining portion mainly refers to software.

10.1.1 Intangible assets with an indefinite useful life: impairment testing to determine whether there has been a permanent loss in value

Pursuant to IAS 36, all intangible assets with an indefinite useful 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 cashflow 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 cashflow generating unit of the purchaser, or groups of cashflow 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 (CGU) to which the assets undergoing impairment tests are allocated to, the potentially identified units must generate incoming cashflow in amounts that are clearly independent from those deriving from other identified units.

Recalling that the impairment tests performed at the time of the 2017 Financial Report led to the almost full writedown of the goodwill recognised, intangible assets with undefined life subjected to the impairment test for the 2018 financial statements consisted mainly of brands (for a total value of 504 million) and the residual amount of goodwill relative to Bancassurance (totalling 76 million).

On the basis of the above considerations, at 31 December 2018, the CGUs identified which hold intangible assets with undefined life subjected to an impairment test are the following:

- Territorial Departments CGU - consisting of the Retail Territorial Departments (hereafter, for brevity, simply "Territorial Departments), to verify the brands 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;
- Akros CGU - consisting of Banca Akros S.p.A., to verify the corresponding brand 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 illustrated 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), titled "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 undefined life were approved by the Board of Directors, independently and in advance with respect to approval of the draft 2018 financial statements.

A. Method for calculating the book value of individual CGUs

Following that done in the Banco Popolare Group's financial statements from 2011 to 2016 and in the Banco BPM Group's 2017 financial statements, a method based on operating metrics was used for the Territorial Departments CGU. 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 cashflows;
- goodwill and other intangible assets with both defined and undefined life 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 brand, 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 brand. 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 undefined useful life, 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: brands
Territorial Departments	2,631		486
Akros (*)	19		19
Bancassurance Life	245	25	-
Bancassurance Protection	145	51	-
Total	**3,040**	**76**	**504**

(*) The values shown in this table with reference to the Akros CGU should be understood to refer solely to the brand "Banca Akros".

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 writedowns is determined as the difference between the carrying 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 current value of future cashflows expected to originate from continued use of a specific asset or CGU;
- Fair Value, after sales costs, 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 **Territorial Departments CGU** with 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 it 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 current value of future cashflows (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 current 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:

$$TV = \frac{Dn+1}{Ke-g}(1+Ke)^{-n}$$

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 **Akros CGU**, the methodological approach used to measure the brand involved valorising the intangible asset on the basis of the royalties which the owner of the brand would receive following its sale for use to third parties. The current value of the brand is therefore expressed as the current value of future royalties, estimated in reference to specific parameters (royalty rate, percentage of revenues) after the relative tax effects. Specifically, reference was made to the royalty rates implicit in the valuation of the brands used at the time of the Banco BPM

Purchase Price Allocation (4.47% for Banca Akros), applied to the expected net interest and other banking income taken from projections relative to the reference CGUs.
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:

$$W = \left[\frac{\sum_{t=1}^{n} S_t \cdot r \cdot (1-T)}{(1+ke)^t} + TV \right] + \text{TAB}$$

where:
W = Brand value
St = 2019-2021 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 cashflows during the period following the last forecast, considering a long-term growth rate
TAB = Tax Amortisation Benefit

For the **Bancassurance Vita and Protection CGUs**, in order to determine the recoverable value, use was made of the price paid by Cattolica Assicurazioni to acquire the stake equal to 65% of the capital of the investees Vera Vita S.p.A. (formerly Popolare Vita S.p.A.) and Vera Assicurazioni S.p.A. (formerly Avipop Assicurazioni S.p.A.). These prices were judged to be the best representation of the fair value of the CGUs in question.

B.1 - Estimates of cashflows

For the **Regional Departments CGU**, cashflows distributable during the explicit period were determined starting from the 2019-2021 economic/equity figures for the CGUs, taking into account the minimum equity level estimated on the basis of a 9.50% target Common Equity Tier 1 (CET1), in line with the minimum equity level which the ECB has requested be continuously respected by the 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, projections refer to a perimeter consisting of the Banco BPM Retail Territorial Departments, including the private segment and the business segment for companies with turnover of less than 75 million euro associated with the former Banca Popolare Group and the former BPM Group, reflecting the Group's new sales model which became operational in 2018. The three-year projections were developed on the basis of non-final 2018 volumes and margins data and the 2019 budget, which constitute the best possible estimate at the reporting date.

For the **Banca Akros CGU**, projections refer to the perimeter of the "new" Banca Akros, following integration of the Banca Aletti Corporate Investment Banking business unit and the transfer of Private Banking assets to Banca Aletti. The projections were developed on the basis of the 2019-2020 develop guidelines identified analytically for the individual segments of the company, defining for each one the underlying reasons for the growth objectives. Inertial development for 2021 was added to these projections.

To estimate the terminal value of the measurements made with regards to the Territorial Departments and Akros CGUs, the average sustainable dividend after the explicit period was calculated as a function of long-term expected profitability. This latter was estimated using a reference long-term business growth rate equal to the nominal growth rate of the company, specifically 2%, in line with the inflation objective in the context of the ECB's long-term monetary stability policy.

B.2 - Cashflow 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 (Ke) was determined on the basis of the Capital Asset Pricing Model (CAPM), based on which the return of a risky asset must be equal to the sum of the risk free rate (R_f) and the risk premium (MRP), as a function 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 in the same way as in 2017, by using the 1-year average return on 10-year Italian government BTP securities.
The beta (ß) ratio measures the riskiness of the specific company or operating segment in terms of correlation between the effective return of a share and the overall return in the reference market.
Specifically, as was done in 2017, the following were used:
a) for the Territorial Departments CGU, an indicator relative to a sample of comparable companies (listed Italian banks) obtained from Bloomberg;
b) for the Akros CGU, an average indicator relative to a sample of companies in the Private and Investment Banking sector, obtained from Bloomberg.
The ratio was identified weekly over a time horizon of 5 years.
The risk premium requested from the market (MRP) was determined to be 5.4%, based on the use of sources in line with measurement practices.

C. Summary of methodologies used and the main measurement parameters

The table below summarises the methodologies used to determine the recoverable value and the main parameters:

C.G.U.	Criteria used to determine recoverable value	Discounting rates "Ke"	Growth rates with terminal value "g"
Territorial Departments	Value in use – Dividend Discount Model	9.77%	2.00%
Akros	Fair Value – Royalty Rate	8.73%	2.00%

The long-term growth rate used to perform the impairment test on intangible assets with undefined life was equal to 2%.

As illustrated in point B above, for the **Bancassurance Life** and **Bancassurance Protection CGUs**, in order to determine the recoverable value, the prices paid by Cattolica Assicurazioni in the sales transaction on 29 March 2018 were used, deemed to be the best expression of the fair value of the CGUs in question.

D. Summary of results

On the basis of the guidelines outlined above, the impairment test at 31 December 2018 did not give rise to the need for any writedowns on intangible assets with undefined useful life associated with the CGUs analysed. As also specified in part A of these Notes, given the special and uncertain situation relative to the overall macroeconomic and regulatory 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 standard IAS 36, in relation to intangible assets associated with the Territorial Departments and Akros CGUs, sensitivity analysis was done with respect to the parameters used for measurement, aimed at verifying the change in recoverable value.
In particular, verification was done on how much the differential between the recoverable value and the reference book value would have changed 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.

Territorial Departments CGU Growth rates with terminal value "g"/Discounting rates "ke" (difference between recoverable value and reference value in €/millions) (percentage impact on value in use)					
			(Ke)		
		9.77%		10.74%	
(g)	1.50%	302	10.3%	-35	-1.3%
	2.00%	359	12.0%	0	0.0%
	2.50%	425	13.9%	39	1.5%

AKROS CGU Growth rates with terminal value "g"/Discounting rates "ke" (difference between recoverable value and reference value in €/millions) (percentage impact on fair value)					
			(Ke)		
		8.73%		9.48%	
(g)	1.50%	70	78.9%	61	76.5%
	2.00%	75	80.2%	65	77.8%
	2.50%	82	81.5%	70	79.1%

Relative to the same Territorial Departments CGU, sensitivity analysis was also performed, adjusting the income flows considered in the projections and the CET1 target ratio, the results of which are partially summarised in the table below:

Territorial Departments CGU % change in net profit/target CET1 (difference between recoverable value and reference value in €/millions) (percentage impact on value in use)					
			TIER I		
		9.50%		11.10%	
PROFIT	5.00%	508	16.2%	149	5.4%
	0.00%	359	12.0%	0	0.0%
	-5.00%	210	7.4%	-150	-6.0%

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 2018, Group consolidated shareholders' equity amounted to 10.3 billion, against stock capitalisation of 2.6 billion. 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. In addition to this consideration, we also note in the contingent situation, the significant negative influence associated with the weight of impaired loans, to which the market attributes a recoverable value that is much lower than the values at which these loans are recognised in the financial statements.

Finally, we also note that, for the purpose of an additional guarantee, an independent expert (KPMG Corporate Finance) has issued a "fairness opinion" both on the adequacy of the valuation methods adopted by the Group, judged to be reasonable and not arbitrary, and on the proper application of the same.

10.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: generated internally		Other intangible assets: other		Total
		DEF	UNDEF	DEF	UNDEF	
A. Opening balance	**4,604,003**	**-**	**-**	**2,452,991**	**504,272**	**7,561,266**
A.1 Net total reductions in value	(4,527,614)	-	-	(1,736,492)	-	(6,264,106)
A.2 Net initial balances	**76,389**	**-**	**-**	**716,499**	**504,272**	**1,297,160**
A. Increases	**-**	**-**	**-**	**109,327**	**-**	**109,327**
B.1 Acquisitions	-	-	-	102,562	-	102,562
B.2 Increases in internal intangible assets	X	-	-	-	-	-
B.3 Writebacks	X	-	-	-	-	-
B.4 Positive changes in fair value	-	-	-	-	-	-
- shareholders' equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
B.5 Exchange gains	-	-	-	6	-	6
B.6 Other changes	-	-	-	6,759	-	6,759
C. Decreases	**-**	**-**	**-**	**(128,546)**	**-**	**(128,546)**
C.1 Sales	-	-	-	-	-	-
C.2 Writedowns	-	-	-	(117,118)	-	(117,118)
- Amortisation/Depreciation	X	-	-	(108,969)	-	(108,969)
- Writedowns	-	-	-	(8,149)	-	(8,149)
+ shareholders' equity	X	-	-	-	-	-
+ income statement	-	-	-	(8,149)	-	(8,149)
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	-	-	-	(11,428)	-	(11,428)
D. Net closing balances	**76,389**	**-**	**-**	**697,280**	**504,272**	**1,277,941**
D.1 Net total value adjustments	(4,527,614)	-	-	(1,846,820)	-	(6,374,434)
E. Gross closing balances	**4,604,003**	**-**	**-**	**2,544,100**	**504,272**	**7,652,375**
F. Measurement at cost	-	-	-	-	-	-

DEF: defined life
UNDEF: undefined life

Acquisitions of other intangible assets mainly include new applications to support organisational efficiency, sales initiatives and regulatory changes.
Item C.2 Value adjustments - Amortisation/Depreciation includes the portion of amortisation relative to Client Relationships acquired through business combinations for 42.1 million, while the residual amount refers to the amortisation of application software.
Item C.2 Value adjustments - Writedowns includes value adjustments on Client Relationships for 4.4 million following the results of the impairment test described above, and writedowns on software in the amount of 3.7 million.

10.3 Other information

At 31 December 2018 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 DTA and checks on recoverability

The Banco BPM Group recognised Deferred Tax Assets (DTA), after verifying that the values recognised were supported by judgements that it was probable they could be recovered, in compliance with the rules established under accounting standard IAS 12. 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 in to account.

Below is an illustration of the main categories of DTAs recognised in the financial statements at 31 December 2018 and the checks performed to support their recoverability.

Deferred tax assets - breakdown

At 31 December 2018, total DTAs amounted to 4,682 million (4,200.7 million at 31 December 2017), of which 4,568 million with an effect on the income statement, and 114 million recorded as a balancing entry in shareholders' equity, in line with the items to which they refer. For a review of the breakdown of these DTAs, please see the table "14.1 Deferred tax assets: breakdown".
As of 31 December 2018, deferred tax assets which met the requirements established in Law 214 of 22 December 2011 (Law 214/2011) for transformation into tax credits totalled 2,628.4 million, compared to 2,695 million at 31 December 2017. 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 production value" for IRAP purposes. For the purposes of these regulations, writedowns on loans not yet deducted based on temporal limits in effect at the time pursuant to article 106, paragraph 3 of the Unified 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 2018, the Group's qualified DTAs derive from:

- temporary deductible differences relative to writedowns on loans exceeding immediate deductibility limits envisaged in the tax regulations solely with reference to credit and financial entities for 1,942.4 million (1,992.7 million at 31 December 2017);
- temporary deductible differences relative to goodwill and other intangible assets recognised in previous years for 686 million (702.3 million at 31 December 2017).

For more details about the composition and changes in qualified DTAs, please see the tables found under the subsequent section 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 to law with Law 15 of 17 February 2017. 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, the Banco BPM Group adhered to this option, by paying the cited fee.

At 31 December 2018, residual deferred tax assets (non-transformable DTAs) amounted to 2,053.6 million (1,505.7 million at 31 December 2017), of which 1,043.7 million deriving from IRES tax losses which can be carried forward (811.1 million at 31 December 2017) and 1,009.9 million deriving from deductible costs and value adjustments from previous years, with respect to those recognised in the financial statements (694.6 million at 31 December 2017).

Deferred tax assets - recoverability checks

With regards to qualified DTAs which can be transformed to tax credits (2,628 million, corresponding to 56.14% of total DTAs recognised in the financial statements at 31 December 2018), the tax regulations introduced by Law 214/2011, together with the selection of the annual fee regime option, illustrated above, give an element of certainty to the recoverability of the same, essentially rendering the recoverability test required under accounting standard IAS 12 implicitly passed for all the mentioned DTAs. 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), in line with that required under accounting standard IAS 12, 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, based on a model that predicts future taxable income, separately for both IRES DTAs and IRAP DTAs.
The recoverability test was performed taking the following assumptions into account:

- estimates of future taxable income are formulated using income flow projections developed for the Banco BPM Group's "2017-2019 Strategic Plan" and relative updates as a reference (in particular, 2019 Budget);
- deferred tax liabilities (DTLs) are used to offset DTAs in the case their chargeback occurs during the same year;
- tax regulations do not establish time limits on the recovery of the IRES tax loss (article 84, paragraph 1 of Presidential Decree 917 of 22 December 1986).

The tests performed in this manner indicated that the non-transformable DTAs can be recovered over a reasonably defined period of time, although it is longer than the explicit forecast period in the strategic plan.

11.1 Deferred tax assets: breakdown

	IRES	IRAP	Other taxes	31/12/2018	31/12/2017
A) Balancing entry in the Income Statement					
Writedown on loans deductible in subsequent years	1,773,125	171,714	-	1,944,839	1,995,460
ECL adjustments of FTAs pursuant to IFRS 9 on loans to customers deductible in the subsequent 9 years	327,628	63,982	-	391,610	-
Provisions and value adjustments deductible in subsequent years	199,329	983	-	200,312	122,563
Book values lower than the fiscally recognised values deriving from fair value measurement of financial assets	14,928	144	-	15,072	13,704
Deferred tax assets on infragroup capital gains eliminated during consolidation	-	-	-	-	-
Personnel expenses and provisions for severance indemnities deductible in subsequent years	178,724	15	-	178,739	219,397
Writedown on equity investments deductible in subsequent years	-	-	-	-	-
Value adjustments on real estate deductible in subsequent years	50,584	286	-	50,870	46,347
Costs deductible in subsequent years following release of goodwill and other intangible assets	565,137	120,904	-	686,041	702,251
Tax losses carried forward	1,043,737	-	-	1,043,737	811,160
Other cases of misalignment between book and fiscal values	50,961	5,561	-	56,522	232,080
Total A	**4,204,153**	**363,589**	**-**	**4,567,742**	**4,142,962**
B) As balancing entry to Shareholders' Equity					
Book values lower than the fiscally recognised values deriving from fair value measurement of financial assets measured as a balancing entry to shareholders' equity	72,711	26,113	-	98,824	30,223
Other cases of misalignment between book and fiscal values	13,650	1,825	-	15,475	27,542
Total B	**86,361**	**27,938**	**-**	**114,299**	**57,765**
Total (A+B)	**4,290,514**	**391,527**	**-**	**4,682,041**	**4,200,727**

11.2 Deferred tax liabilities: breakdown

	IRES	IRAP	Other taxes	31/12/2018	31/12/2017
A) Balancing entry in the income statement:					
Book values exceeding fiscally recognised values deriving from fair value measurement of financial instruments	7,569	11,070	-	18,639	3,221
Book values exceeding fiscally recognised values following tax amortisation of goodwill and other intangible assets	625	126	-	751	622
Book values exceeding fiscally recognised values following value adjustments calculated solely for fiscal purposes	6,610	636	-	7,246	3,764
Book values exceeding fiscally recognised values following the Purchase Price Allocation at the time of business combinations	19,223	3,178	-	22,401	23,990
Value adjustments on other intangible assets taxable in subsequent years	242,222	48,973	-	291,195	303,045
Other cases of misalignment between book and fiscal values	34,947	5,423	-	40,370	109,780
Total A	**311,196**	**69,406**	**-**	**380,602**	**444,422**
B) As balancing entry to Shareholders' Equity					
Book values lower than the fiscally recognised values deriving from fair value measurement of financial assets measured as a balancing entry to shareholders' equity	13,426	4,750	-	18,176	107,963
Other cases of misalignment between book and fiscal values	80,200	15,243	-	95,443	102,616
Total B	**93,626**	**19,993**	**-**	**113,619**	**210,579**
Total (A+B)	**404,822**	**89,399**	**-**	**494,221**	**655,001**

11.3 Changes in deferred tax assets (balancing entry in income statement)

	31/12/2018	31/12/2017
1. Initial amount	**4,142,962**	**3,395,239**
2. Increases	**1,195,818**	**1,526,790**
2.1 Deferred tax assets recognised during the year	826,971	287,711
a) relative to previous years	12,695	32,248
b) due to changes in accounting criteria	-	-
c) writebacks	-	-
d) other	814,276	255,463
2.2 New taxes or increases in tax rates	-	451
2.3 Other increases	368,847	1,238,628
3. Decreases	**(771,038)**	**(779,067)**
3.1 Deferred tax assets cancelled during the year	(669,719)	(304,547)
a) reclassifications	(652,042)	(248,193)
b) writedowns due to irrecoverability arising	(17,299)	(31,685)
c) due to changes in accounting criteria	-	-
d) other	(378)	(24,669)
3.2 Decreases in tax rates	(66)	(137)
3.3 Other decreases:	(101,253)	(474,383)
a) transformation to tax credits pursuant to Law 214/2011	(65,698)	(456,516)
b) other	(35,555)	(17,867)
4. Final amount	**4,567,742**	**4,142,962**

11.4 Changes in deferred tax assets pursuant to Law 214/2011

	Total 31/12/2018	Total 31/12/2017
Initial amount	**2,695,009**	**2,447,962**
2. Increases	**-**	**705,870**
3. Decreases	**(66,610)**	**(458,823)**
3.1 Reclassifications	-	(843)
3.2 Transformation into tax credits	(65,699)	(456,516)
a) deriving from losses for the year	(2,771)	(431,422)
b) deriving from tax losses	(62,928)	(25,094)
3.3 Other decreases	(911)	(1,464)
4. Final amount	**2,628,399**	**2,695,009**

The table below summarises "transformable DTAs" recognised in the financial statements in relation to the various tax cases that generated them:

Type of activity underlying transformable DTAs	31/12/2018		31/12/2017	
	Total transformable DTAs	of which relative to the parent company	Total transformable DTAs	of which relative to the parent company
Writedowns on loans pursuant to article 106, paragraph 3 of TUIR	1,942,358	1,918,376	1,992,758	1,959,805
Goodwill amortisation pursuant to article 103, paragraph 3 and 3-bis, TUIR	604,845	604,575	621,055	620,745
Amortisation of other intangible assets pursuant to article 103, paragraph 1 and 3-bis, TUIR	81,196	81,196	81,196	81,196
Total	**2,628,399**	**2,604,147**	**2,695,009**	**2,661,746**

11.5 Changes in deferred taxes (balancing entry in income statement)

	Total 31/12/2018	Total 31/12/2017
1. Initial amount	**444,422**	**216,721**
2. Increases	**20,720**	**374,680**
2.1 Deferred taxes recognised during the year	10,726	8,354
a) relative to previous years	6,292	137
b) due to changes in accounting criteria	-	-
c) other	4,434	8,217
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	9,994	366,326
3. Decreases	**(84,540)**	**(146,979)**
3.1 Deferred taxes cancelled during the year	(81,008)	(124,711)
a) reclassifications	(61,027)	(117,906)
b) due to changes in accounting criteria	-	-
c) other	(19,981)	(6,805)
3.2 Decreases in tax rates	-	-
3.3 Other decreases	(3,532)	(22,268)
4. Final amount	**380,602**	**444,422**

11.6 Changes in deferred tax assets (balancing entry in shareholders' equity)

	Total 31/12/2018	Total 31/12/2017
1. Initial amount	**64,562**	**70,713**
2. Increases	**490,467**	**64,281**
2.1 Deferred tax assets recognised during the year	367,997	260
a) relative to previous years	-	-
b) due to changes in accounting criteria	31	-
c) other	367,966	260
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	122,470	64,021
3. Decreases	**(440,730)**	**(77,229)**
3.1 Deferred tax assets cancelled during the year	(8,091)	(34,939)
a) reclassifications	(8,091)	(13,784)
b) writedowns due to irrecoverability arising	-	-
c) due to changes in accounting criteria	-	-
d) other	-	(21,155)
3.2 Decreases in tax rates	-	-
3.3 Other decreases	(432,639)	(42,290)
4. Final amount	**114,299**	**57,765**

11.7 Changes in deferred taxes (balancing entry in shareholders' equity)

	31/12/2018	31/12/2017
1. Initial amount	**210,579**	**48,871**
2. Increases	**207,524**	**209,563**
2.1 Deferred tax liabilities recognised during the year	19,252	39,222
a) relative to previous years	-	-
b) due to changes in accounting criteria	65	-
c) other	19,187	39,222
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	188,272	170,341
3. Decreases	**(304,484)**	**(47,855)**
3.1 Deferred tax liabilities derecognised during the year	(84,986)	(17,388)
a) reclassifications	(84,986)	(17,388)
b) due to changes in accounting criteria	-	-
c) other	-	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases	(219,498)	(30,467)
4. Final amount	**113,619**	**210,579**

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 2018 (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 articles 117 and subsequent of Presidential Decree 917/1986 - TUIR). 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 Property Management S.c.r.l.
6. BP Trading Immobiliare S.r.l.
7. BRF Property S.r.l.
8. Holding di Partecipazioni Finanziarie BP S.p.A.
9. Ge.Se.So. S.r.l.
10. Lido dei Coralli S.r.l.
11. P.M.G. S.r.l.
12. ProFamily S.p.A.
13. Release S.p.A.
14. Sirio Immobiliare S.r.l.
15. Società Gestione Servizi BP S.c.p.A.r.l.
16. Sviluppo Comparto 6 S.r.l.
17. Sviluppo Comparto 8 S.r.l.
18. Tecmarket Servizi S.p.A.
19. Terme Ioniche S.r.l.
20. Manzoni 65 S.r.l.
21. Terme Ioniche Società Agricola S.r.l.

There are no associated companies which opted for the fiscal transparency regime pursuant to articles 115 and subsequent of Presidential Decree 917-1986.

Banco BPM Group VAT

With a decision by the Banco BPM Board of Directors on 25 September 2018, it was decided to establish the Banco BMP Group VAT, pursuant to articles 70-bis to 70-duodecies of Presidential Decree 633 of 26 October 1972 ("VAT Law") and the correlated Ministerial Decree of implementation 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. Release S.p.A.
21. Sirio Immobiliare S.r.L.
22. Società Gestione Servizi BP S.c.p.A.r.l. (*)
23. Sviluppo Comparto 6 S.r.l.
24. Sviluppo Comparto 8 S.r.l.
25. Tecmarket Servizi S.p.A.
26. Tiepolo Finance S.r.L.

(*) The companies indicated were incorporated into Banco BPM with a deed dated 17 January 2019.

Section 12 - Non-current assets and groups of assets 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

	31/12/2018	31/12/2017
A. Assets held for sale		
A.1 Financial assets	1,576,148	-
A.2 Equity investments	-	78,833
A.3 Property, plant and equipment	9,396	27,223
of which: obtained through enforcement of guarantees received	3,960	-
A.4 Intangible assets	-	-
A.5 Other non-current assets	7,238	-
Total A	**1,592,782**	**106,056**
of which measured at cost	1,587,374	78,833
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	25,000
of which measured at fair value level 3	5,408	2,223
B. Discontinued operations		
B.1 Financial assets designated 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 designated at fair value through other comprehensive income	-	-
B.3 Financial assets designated 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	-	65
Total B	**-**	**65**
of which measured at cost	-	-
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	-
of which measured at fair value level 3	-	65
C. Liabilities associated with assets held for sale		
C.1 Payables	(444)	-
C.2 Securities	-	-
C.3 Other liabilities	(2,599)	-
Total C	**(3,043)**	**-**
of which measured at cost	(3,043)	-
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	-
of which measured at fair value level 3	-	-
D. Liabilities associated with discontinued operations		
D.1 Financial liabilities designated at amortised cost	-	-
D.2 Financial liabilities held for trading	-	-
D.3 Financial liabilities designated at fair value	-	-
D.4 Funds	-	-
D.5 Other liabilities	-	(35)
Total D	**-**	**(35)**
of which measured at cost	-	-
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	-
of which measured at fair value level 3	-	(35)

At 31 December 2018, assets held for sale included the following types:

- impaired credit exposures relative to customers, associated with the "ACE Project", previously indicated under the portfolio of financial assets designated at amortised cost (included in item A.1 "Financial Assets"

of the table above in the amount of 1,330 million). For the cited credit exposures, completion of the sale is expected to occur during the first half of 2019;
- real estate assets owned for which sales negotiations in course at 31 December 2018 render probable the completion of the sale during 2019 (indicated under item A.3 "property, plant and equipment" for 9.4 million, relative to 5 real estate assets). In particular, during the year Release completed the sale of a property for 25.0 million and two real estate assets entered the segment in question which had previously been classified among assets held for investment purposes, for which sales agreements were signed;
- net assets associated with the investee ProFamily, relative to which sale negotiations are under way with Agos Ducato S.p.A., represented by assets of 253.4 million (of which loans for 246.1 million included under sub-item A.1 "financial assets") and liabilities for 3.0 million.

For more details on the accounting treatment of the sales operations for ProFamily and the portfolio of non-performing loans, please see the section "Other significant aspects relating to Group accounting policies", found in Section 5 - Other aspects, in Part A.1 of these consolidated Notes.

In the past year, assets held for sale relative to equity investments referred to the 15% stake held in Popolare Vita and the 14.999% stake in Avipop (for a balance sheet value of 78.8 million) which were sold to Cattolica Assicurazioni in March 2018, as illustrated in "Significant Events" in the Report on Operations and in Section 7 - Equity investments in Part B of the assets in these Notes.

For assets and liabilities indicated in correspondence with the sub-items "of which measured at fair value level 1/level 2/level 3", please see that found 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

	31/12/2018	31/12/2017
Receivables due from financial administrations (not classifiable among tax assets)	1,028,508	1,083,542
Receivables for sales of goods and provision of services	36,077	105,113
Other income to be received	14,602	43,493
Cash and other values on hand	9,917	73,541
Items being processed	809,187	914,190
Items in transit between branches	96,676	205,374
Securities and coupons to be settled	119,118	42,160
Other transactions to be settled	19,194	436
Leasehold improvements	72,708	83,165
Accrued income and prepayments not included under their own item	24,942	14,671
Other items	115,750	386,946
Total	**2,346,679**	**2,952,631**

The item "receivables due from financial administrations" mainly includes:
- receivables for requests for reimbursement of direct and indirect taxes and VAT, presented by Banca Popolare and incorporated companies for a total of 427.4 million, of which 307.2 million as capital and 120.2 million as interest. VAT credits for various years for which reimbursement was requested by the former Banca Italease S.p.A. represent one of the largest receivables (230.2 million). They also include the IRPEG/ILOR receivables relative to 1995 for the former Banca Popolare Novara, repayment of which was denied by the Tax Authorities - Novara Provincial Office (90.3 million). 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 Agency to also pay legal expenses. The appeal to the Supreme Court filed by the Tax Authority is pending;

- receivables deriving from excess advance stamp duty payments, substitute taxes applied to customers during the year and which will be received through settlement during 2019 totalling 275.8 million;
- receivables due from the financial administration following provisional payments made while awaiting final judgement, for a total of 210.3 million. Of these we note the payment associated with a dispute relative to the claimed non-deductibility of costs relating to the attempted takeover of Banca Antonveneta by the former Banca Popolare Italiana in 2005 for 201.9 million;
- tax credits on foreign dividends for 34.2 million, for which reimbursement from the Swiss financial administration was requested by the subsidiary Banca Aletti for years 2008, 2009, 2015, 2017 and 2018 on the basis of the provisions established in the Convention Against Double Taxation. The reimbursement requests relative to 2015, 2017 and 2018 are being reviewed by the Swiss financial administration, following the normal process. The reimbursement requests presented by the Bank in relation to credits accruing in 2008 and 2009 were rejected by the Swiss financial administration, claiming that the bank was not the effective beneficiary of the dividends relative to which the withholdings to be reimbursed were requested. The rejection of the reimbursement was only formalised on 9 March 2018, after which the bank, with a specific appeal for denial of justice, received an order that the Swiss judge must order the administration to make a formal judgement on whether the credit was due. The bank has now appealed this rejection with the relevant Swiss court and the relative process is pending.

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" includes capitalised costs and those relative to work performed on branches which are located in third party property, net of depreciation amounts calculated on the basis of the duration of the rental contract.

LIABILITIES

Section 1 – Financial liabilities designated at amortised cost – Item 10

1.1 Financial liabilities designated at amortised cost: breakdown by product for amounts due to banks

Transaction type/Amounts	Total 31/12/2018				Total 31/12/2017			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Due to central banks	**21,289,947**	X	X	X	**21,383,001**	X	X	X
2. Due to banks	**10,343,594**	X	X	X	**5,816,303**	X	X	X
2.1 Current accounts and sight deposits	877,462	X	X	X	594,482	X	X	X
2.2 Fixed-term deposits	158,955	X	X	X	187,645	X	X	X
2.3 Loans	9,077,330	X	X	X	4,746,234	X	X	X
2.3.1 Repurchase agreements payable	8,194,818	X	X	X	3,534,794	X	X	X
2.3.2 Other	882,512	X	X	X	1,211,440	X	X	X
2.4 Payables for commitment to repurchase own capital instruments	-	X	X	X	-	X	X	X
2.5 Other payables	229,847	X	X	X	287,942	X	X	X
Total	**31,633,541**	**-**	**-**	**31,633,541**	**27,199,304**	**-**	**-**	**27,197,795**

BV = Book value
L1 = Level 1
L2 = Level 2
L3 = Level 3

As of the reporting date, the item "Due to central banks" refers for 21,237.5 million to long-term refinancing operations (TLTRO II) with the European Central Bank.

1.2 Financial liabilities designated at amortised cost: breakdown by product for amounts due to customers

Transaction type/Amounts	Total 31/12/2018				Total 31/12/2017			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	78,713,896	X	X	X	77,390,766	X	X	X
2. Fixed-term deposits	2,410,243	X	X	X	3,598,192	X	X	X
3. Loans	8,138,991	X	X	X	5,296,507	X	X	X
3.1 repurchase agreements payable	7,110,267	X	X	X	4,180,122	X	X	X
3.2 Other	1,028,724	X	X	X	1,116,385	X	X	X
4. Payables for commitment to repurchase own capital instruments	-	X	X	X	-	X	X	X
5. Other payables	934,729	X	X	X	1,562,681	X	X	X
Total	**90,197,859**	**-**	**-**	**90,197,859**	**87,848,146**	**-**	**-**	**87,848,146**

BV = Book value
L1 = Level 1
L2 = Level 2
L3 = Level 3

Item 1. Current accounts and demand deposits included, at 31 December 2017, funding relative to Custodian Bank business disposed of in September 2018 for an amount of around 3.7 billion. Despite the decrease consequent to the disposal, the figure at 31 December 2018 was still higher than that at 31 December 2017, following the increase in the form of demand deposits which compensated for the decrease in securities issued included in the items "10. Financial liabilities designated at amortised cost - c) securities in issue" and "30. Financial liabilities designated at fair value."

Subitem 3.1 "Repurchase agreements payable" includes operations with Cassa Compensazione e Garanzia for 6,306.5 million (amounting to 3,733.1 million the previous year).

1.3 Financial liabilities designated at amortised cost: breakdown by product for debt securities issued

Security type/Amounts	Total 31/12/2018			
	BV	Fair Value		
		L1	L2	L3
A. Securities				
1. Bonds	14,160,280	6,163,016	7,449,951	-
1.1 structured	-	-	-	-
1.2 other	14,160,280	6,163,016	7,449,951	-
2. Other securities	168,662	-	-	168,662
2.1 structured	-	-	-	-
2.2 other	168,662	-	-	168,662
Total	**14,328,942**	**6,163,016**	**7,449,951**	**168,662**

BV = Book value
L1 = Level 1
L2 = Level 2
L3 = Level 3

Securities in issue include the guarantee bank bonds issued by Banco Popolare, with a book value totalling 5,533.4 million (compared to 4,027.8 at 31 December 2017).

The table below, while not fully comparable, shows the breakdown by product of the IAS 39 debt securities issued at 31 December 2017, prepared in accordance with the provisions of the previous version of Bank of Italy Circular 262 (fourth update).

Debt securities issued: breakdown by product

Security type/Amounts	Total 31/12/2017			
	Book Value	Fair Value		
		Level 1	Level 2	Level 3
A. Securities				
1. Bonds	15,481,103	13,047,720	2,876,324	-
1.1 structured	-	-	-	-
1.2 other	15,481,103	13,047,720	2,876,324	-
2. Other securities	767,040	-	767,040	-
2.1 structured	-	-	-	-
2.2 other	767,040	-	767,040	-
Total	**16,248,143**	**13,047,720**	**3,643,364**	**-**

1.4 Breakdown of subordinated debt/securities

As of the reporting date, as at the end of the previous year, there were no subordinated liabilities relative to banks or customers.

Following first time application of IFRS 9, all subordinated securities issued by the Group were classified in item 10 "Financial liabilities designated at amortised cost c) securities in issue".
Subordinated securities in issue at 31 December 2018 are represented by issues with a book value of 2,967.6 million (the previous year there were 12 issues, with a book value of 3,995.6 million), of which two issues represented by "preference shares" for an amount of 131.6 million (the previous year there were two issues identified among securities in issue designated at amortised cost for a book value of 234.3 million and an issue recognised among financial liabilities designated at fair value with a book value of 89.7 million). These latter "preference share" instruments are grandfathered in additional Tier 1 capital.

During the year, three subordinated loans issued by the parent company were fully redeemed, for a nominal total of 772.6 million, as contractual maturity was reached.

Additionally, an early redemption option was fully exercised for a hybrid capitalisation instrument (preference share) with a nominal residual value of 195 million, already grandfathered in additional Tier 1 capital.

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 new authorisation granted by the ECB to the newly established Banco BPM Group.

During the year, no issues of instruments which can be included under regulatory capital nor liability management operations involving the repurchase of own subordinate instruments occurred.

The features of subordinate 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

At 31 December 2018, as in the previous year, there were no payables which required the separation of incorporated derivatives ("structured debt").

1.6 Financial leasing payables

With banks

As of the reporting date, there were no amounts due to banks for financial leases.

With customers

As of the reporting date, there were no amounts due to customers for financial leases.

Section 2 - Financial liabilities held for trading – Item 20

2.1 Financial liabilities held for trading: breakdown by product

Transaction type/Amounts	Total 31/12/2018					Total 31/12/2017				
	NV	Fair Value			Fair value *	NV	Fair Value			Fair value *
		L1	L2	L3			L1	L2	L3	
A. Cash liabilities										
1. Due to banks	3,686	4,149	-	-	4,149	2,126	6,176	-	-	6,176
2. Due to customers	396,231	399,786	-	-	399,786	775,890	816,729	-	-	816,729
3. Debt securities	3,482,866	-	3,372,238	-	3,372,238	4,002,847	-	3,951,586	1,646	3,953,232
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	3,482,866	-	3,372,238	-	3,372,238	4,002,847	-	3,951,586	1,646	3,953,232
3.2.1 Structured	3,482,866	-	3,372,238	-	X	4,002,847	-	3,951,586	1,646	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total A	**3,882,783**	**403,935**	**3,372,238**	**-**	**3,776,173**	**4,780,863**	**822,905**	**3,951,586**	**1,646**	**4,776,137**
B. Derivative instruments										
1. Financial derivatives	-	204,376	2,521,060	913	-	-	164,438	2,996,770	1,891	-
1.1 held for trading	X	204,376	2,465,165	913	X	X	164,438	2,942,754	1,891	X
1.2 connected with the fair value option	X	-	55,704	-	X	X	-	53,728	-	X
1.3 Other	X	-	191	-	X	X	-	288	-	X
2. Credit derivatives	-	-	-	-	-	-	-	2,827	-	-
2.1 held for trading	X	-	-	-	X	X	-	2,827	-	X
2.2 connected with the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	**X**	**204,376**	**2,521,060**	**913**	**X**	**X**	**164,438**	**2,999,597**	**1,891**	**X**
Total (A+B)	**X**	**608,311**	**5,893,298**	**913**	**X**	**X**	**987,343**	**6,951,183**	**3,537**	**X**

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 "Cash liabilities – 1. Due to banks and 2. Due to customers" include solely technical overdrafts on securities listed on active markets.

The item "Other structured securities", which at 31 December 2017 totalled 3,953.2 million, is represented by certificates issued by Banca Akros for 3,372.2 million, 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. At 31 December 2017, the balance of these issues, relative solely to Banca Aletti, was 3,951.6 million.

Derivatives connected with the fair value option are represented by derivatives operationally associated with bond loan issues for which the Group made use of the fair value option.

2.2 Breakdown of "Financial liabilities held for trading": subordinate liabilities

At 31 December 2018, there was a total of 1.1 million subordinate financial liabilities held for trading (0.4 million at the end of the previous year), relative to technical overdrafts on subordinate bonds of the subsidiary Banca Akros.

2.3 Breakdown of "Financial liabilities held for trading": structured debt

At 31 December 2018, as in the previous year, there were no payables which required the separation of incorporated derivatives.

Section 3 - Financial liabilities designated at fair value – Item 30

3.1 Financial liabilities designated at fair value: breakdown by product

Transaction type/Amounts	Total 31/12/2018				
	NV	Fair value			Fair value *
		L1	L2	L3	
1. Due to banks	**-**	**-**	**-**	**-**	**-**
1.1 Structured	-	-	-	-	X
1.2 Other	-	-	-	-	X
of which:					
- commitments to disburse funds	-	X	X	X	X
- financial guarantees given	-	X	X	X	X
2. Due to customers	**-**	**-**	**-**	**-**	**-**
2.1 Structured	-	-	-	-	X
2.2 Other	-	-	-	-	X
of which:					
- commitments to disburse funds	-	X	X	X	X
- financial guarantees given	-	X	X	X	X
3. Debt securities	**695,886**	**424,375**	**268,515**	**-**	**707,056**
3.1 Structured	-	-	-	-	X
3.2 Other	695,886	424,375	268,515	-	X
Total	**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 designated 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 designated at fair value and determination of creditworthiness".

The table below, while not fully comparable, shows the breakdown by product of the IAS 39 financial liabilities designated at fair value at 31 December 2017, prepared in accordance with the provisions of the previous version of Bank of Italy Circular 262 (fourth update).

Financial liabilities designated at fair value: breakdown by product

Transaction type/Amounts	31/12/2017				
	NV	FV			FV*
		L1	L2	L3	
1. Due to banks	**-**	**-**	**-**	**-**	**-**
1.1 Structured	-	-	-	-	x
1.2 Other	-	-	-	-	x
2. Due to customers	**-**	**-**	**-**	**-**	**-**
2.1 Structured	-	-	-	-	x
2.2 Other	-	-	-	-	x
3. Debt securities	**3,454,501**	**3,065,348**	**348,212**	**-**	**3,435,418**
3.1 Structured	-	-	-	-	x
3.2 Other	3,454,501	3,065,348	348,212	-	x
Total	**3,454,501**	**3,065,348**	**348,212**	**-**	**3,435,418**

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

3.2 Breakdown of item 30 "Financial liabilities designated at fair value": subordinate liabilities

At 31 December 2018, there were no subordinate liabilities. The previous year includes an issue with a book value of 89.7 million which, following first time application of IFRS 9, was reclassified to item 10 c), described above.

Section 4 - Hedging derivatives – Item 40

4.1 Hedging derivatives: breakdown by hedge type and by level

	NV	Fair value 31/12/2018			NV	Fair value 31/12/2017		
	31/12/2018	L1	L2	L3	31/12/2017	L1	L2	L3
A) Financial derivatives	**12,165,537**	**-**	**726,307**	**-**	**9,049,878**	**-**	**765,903**	**-**
1) Fair value	11,790,537	-	637,823	-	8,574,878	-	664,069	-
2) Cashflows	375,000	-	87,701	-	475,000	-	101,834	-
3) Foreign investments	-	-	783	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cashflows	-	-	-	-	-	-	-	-
Total	**12,165,537**	**-**	**726,307**	**-**	**9,049,878**	**-**	**765,903**	**-**

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						Cashflows			Foreign investments
	Specific						Generic	Specific	Generic	
	Debt securities and interest rates	Equity securities and equity indices	Currencies and gold	Credit	Commodities	Other				
1. Financial assets designated at fair value through other comprehensive income	506,828	-	-	-	X	X	X	-	X	X
2. Financial assets designated at amortised cost	-	X	-	2,020	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	1	X	87,701	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**506,828**	**-**	**-**	**2,020**	**-**	**-**	**1**	**-**	**87,701**	**-**
1. Financial liabilities	-	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	128,974	X	-	X
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**128,974**	**-**	**-**	**-**
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	-	783

Section 5 Fair value change of financial liabilities in macro fair value hedge portfolios - Item 50

5.1 Value adjustment of hedged financial liabilities

Value adjustment of hedged liabilities/Group components	31/12/2018	31/12/2017
1. Positive adjustment of financial liabilities	49,756	13,101
2. Negative adjustment of financial liabilities	-	(4,566)
Total	**49,756**	**8,535**

Section 6 - Tax liabilities – Item 60

This section is commented on in section 11 of the balance sheet assets, in Part B - Balance Sheet Disclosure, in these Notes.

Section 7 - Liabilities associated with assets held for sale - Item 70

The information in this section is commented on in section 12 of the balance sheet assets, in Part B - Balance Sheet Disclosure, in these Notes.

Section 8 - Other liabilities – Item 80

8.1 Other liabilities: breakdown

	31/12/2018	31/12/2017
Due to tax authorities (not classifiable among tax liabilities)	115,298	134,633
Due to personnel	10,472	12,764
Due to social security institutions	61,351	63,565
Due to suppliers	215,941	205,751
Items in transit between branches not attributable to specific accounts	205,908	20,753
Sums on hand to be paid to third parties	345,278	437,844
Bank transfers for clearing-house settlement	601,601	946,254
Items relative to securities operations	102,638	308,151
Other items being processed	572,316	721,216
Adjustments for illiquid items in portfolio	931,170	47,891
Accrued expenses and deferred income not included under their own item	29,809	34,921
Other items (*)	622,807	753,310
Total	**3,814,589**	**3,567,581**

(*) The amount relative to the previous year excludes liabilities against guarantees and commitments given for 119.5 million, which as of the year in course are included under provisions for risks and charges, based on the new provisions introduced in the 5th update to Circular 262.

The item "Due to tax authorities (not classifiable under tax liabilities" includes net tax liabilities such as VAT payables, withholdings on interest payable and employee income and similar, withholdings and other tax items not recognised under item 60 "Tax liabilities".
The item "due to personnel" mainly consists of charges relative to holidays accrued but not used, hours banks not used and the relative obligatory social security contributions.
The item "other items" mainly consists of the liability relative to the parent company for payments associated with the SEPA Direct Debit circuit for 273.1 million and for receipts of F24 tax orders for around 127.1 million.
The figure for 2017 was restated, because "liabilities against guarantees and commitments" equal to 119.5 million, included in the item "Other items", were reclassified to item 100 "Provisions for risks and charges: a) commitments and guarantees given", as required under the new circular 262 of 22 December 2017.

Section 9 - Employee termination indemnities - Item 90

9.1 Employee termination indemnities: annual changes

	31/12/2018	31/12/2017
A. Opening balance	**408,160**	**325,339**
A. Increases	**11,048**	**142,340**
B.1 Allocation for the year	5,042	1,985
B.2 Other changes	6,006	140,355
C. Decreases	**(41,710)**	**(59,519)**
C.1 Liquidations carried out	(31,938)	(52,571)
C.2 Other changes	(9,772)	(6,948)
D. Closing balance	**377,498**	**408,160**

Subitem B.1. "Allocation for the year" refers to charges recognised in item 190 a) "administrative expenses - personnel expense, subitem 1.e) provisions for employee termination indemnities" in the income statement.

Subitem B.2 "other changes" includes actuarial losses of 6.1 million, recognised after tax effects as a balancing entry in the relative shareholders' equity valuation reserve "Actuarial gains (losses) relative to defined benefit plans" and accounted for in the statement of comprehensive income.

Subitem C.2 "other changes" includes actuarial gains of 9.0 million, recognised after tax effects as a balancing entry in the relative shareholders' equity valuation reserve "Actuarial gains (losses) relative to defined benefit plans" and accounted for in the statement of comprehensive income.

9.2 Other information

As described in "Part A - Accounting policies", following the reform of complementary social security, the employee termination indemnities recognised in the present item refers only to the portion accruing since 31 December 2016, 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 a supplementary social security fund or the INPS Treasury Fund. The employee severance indemnity accruing from 1 January 2007 is considered a "defined benefit plan" and is recognised in personnel costs, under the sub-item "employee severance indemnity", 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.

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 hypotheses used as the basis for the measurement at 31 December 2018, compared to that at 31 December 2017.

Main actuarial assumptions for measuring the employee severance indemnity fund	
Demographic assumptions (2018-2017):	
Employee mortality rate	IPS55 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	Upon reaching the first pension qualifying condition, based on the provisions of Compulsory General Insurance
Financial assumptions (2018-2017):	
Yearly discounting rate(*)	Iboxx Corporate AA index, with time reference corresponding to the average duration of the plans
Annual inflation rate	1.50%

(*) At 31 December 2018 the Iboxx Euro AA 7-10 year Corporate Index was 1.33% (0.88% at 31 December 2017), and the Iboxx Euro Corporate AA10+ Index was 1.57% (1.30% at 31 December 2017).

Actuarial gains/losses recognised in the statement of comprehensive income

As illustrated in paragraph 9.1 above, changes in some of the actuarial assumptions used in measuring employee termination indemnities at 31 December 2018, compared to the previous year, led to an overall decrease in the fund of 2.9 million, due to:

- actuarial gains of 8.7 million, attributable to changes in financial assumptions, essentially due to the change in the discount rate;
- actuarial losses of 5.8 million, based on past experience, or the difference between the previous actuarial demographic assumptions and that which effective occurred.

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 1.13%, and the Iboxx Euro Corporate AA10+ Index, at 1.57%. The respective decrease in the rates of 25 basis points (0.13% at 31 December 2018 compared to 0.88% at 31 December 2017) and 27 basis point (1.57% at 31 December 2018 compared to 1.30% at 31 December 2017) is attributable solely to changes in the market, since the reference parameter at 31 December 2018, 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 the severance indemnities, with the hypothesis of a 50 basis point increase or decrease in the discount rate, the actuarial assumptions deemed to be the most significant. The purpose of the analysis is to identify how much the liability would vary in relation to reasonably possible oscillations in this actuarial assumption.

	Severance indemnity change in absolute terms (*)	Severance indemnity change in percentage terms
Change in actuarial assumption:		
- Discount rate:		
+0.5%	(17,072)	(4.52%)
-0.5%	17,244	4.57

(*) 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 31/12/2018
1. Provisions for credit risk relating to commitments and financial guarantees given	62,357
2. Provisions for other commitments and guarantees given	61,457
3. Company pension funds	150,676
4. Other provisions for risks and charges	1,052,878
4.1 legal and tax disputes	157,456
4.2 personnel expenses	481,252
4.3 other	414,170
Total	**1,327,368**

As at 31 December 2017, provisions for risks and charges were broken down as follows:

Items/Components	31/12/2017
1. Company pension funds	166,847
2. Other provisions for risks and charges	885,982
2.1 legal disputes	166,207
2.2 personnel expenses	611,208
2.3 other	108,567
Total	**1,052,829**

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	**62,858**	**166,847**	**906,352**	**1,136,057**
A. Increases	**2**	**4,846**	**474,063**	**478,911**
B.1 Allocation for the year	2	2,151	467,725	469,878
B.2 Changes due to the passage of time	-	1,905	214	2,119
B.3 Changes due to discount rate variations	-	-	-	-
B.4 Other changes	-	790	6,124	6,914
C. Decreases	**(1,403)**	**(21,017)**	**(327,537)**	**(349,957)**
C.1 Use during the year	-	(14,691)	(265,411)	(280,102)
C.2 Changes due to discount rate variations	-	(2,645)	(506)	(3,151)
C.3 Other changes	(1,403)	(3,681)	(61,620)	(66,704)
D. Closing balance	**61,457**	**150,676**	**1,052,878**	**1,265,011**

Item C.1 "Use during the year" includes uses executed as a balancing item to payments for personnel expenses and sums deriving from the settlement of clawback and other disputes for which specific provisions were allocated.

Item C.3 "Decreases - Other changes" manly 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	22,880	5,816	-	28,696
Financial guarantees given	4,756	3,297	25,608	33,661
Total	**27,636**	**9,113**	**25,608**	**62,357**

10.4 Provisions for other commitments and guarantees given

Provisions for other commitments and guarantees given amount to 61.5 million and mainly refer to commercial sureties issued for customers.

10.5 Defined benefit company pension funds

Company pension funds

Pension funds identified in the balance sheet represent the liabilities relative to defined benefit plans for a value of 150.7 million, of which 1.0 million relative to external funds.

In compliance with the provisions of Circular 262, the statement of "internal funds" is provided in the annexes to the financial statements.

1. Illustration of fund characteristics and associated risks

For complementary defined benefit social security 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 - Severance indemnity and other employee benefits".

As of the reporting date, the funds in question amounted to 150.7 million (166.8 million at 31 December 2017). Charges for the year were allocated for 4.1 million to item 190 a) - "Personnel expenses" in the income statement and for 4.8 million as an increase to shareholders' equity valuation reserve "Actuarial gains (losses) relative to defined benefit social security plans".

Below are retirement funds, distinguished between internal and external funds, identifying those of the former Banco Popolare Group and former Banca Popolare di Milano Group.

Internal funds, totalling 149.0 million, 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, nor the Banco Popolare Group's defined benefit pension fund: this represents the value of commitments relative to 87 pensioners, and 18 deferred and active relative to the former Banca Popolare di Lodi, consisting of additional social security 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 union on 11 December 1986, and ensures its participants and their heirs a payment in addition to pensions provided by INPS; as of the reporting date this fund has 4 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 2018, the fund has 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 2018, the fund has 5 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 of the reporting date, the beneficiaries respectively total 7 and 16;
   - 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 of the reporting date, there are 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 of the reporting date, there are 57 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 of the reporting date, there are 24 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 of the reporting date, the beneficiaries include 58 pensioners and 2 deferred;
   - commitments relative to former employees of the former Banca Eurosistemi: the bank guarantees additional INPS payments for general obligatory invalidity, old age and heir insurance pursuant to the Agreement of 19 April 1994, for 42 of the former employees;
   - commitments to 27 pensioners and 4 deferred and active relative to the additional fund for INPS payments for obligatory invalidity, old age and heir insurance for the former Banca Italease;
   - commitments to 20 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 19 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 120 beneficiaries of the former Credito Bergamasco for the provision of pension payments defined under company agreements previous stipulated with the company union representatives (additional company payment - TIA).

b) Other funds for the former Banco Popolare Group
- commitments to 5 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 305 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 4 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) Funds, former Banca Popolare di Milan Group
- Pension funds, former Banca Popolare di Bologna e Ferrara
  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 the grade of service. As of the reporting date, there are 98 beneficiaries;
- Pension funds, former Banca Agricola Milanese
  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 of the reporting date, there are 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 in: 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 of the reporting date, there are 3,156 beneficiaries;
- Pension funds, former Cassa di Risparmio di Alessandria
  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 of the reporting date, there are 235 beneficiaries.

Internal funds also include liabilities for the additional social security system in favour of the chairman in the amount of 0.3 million and the liability relative to S.I.PRE. for 0.3 million.

The external fund, totalling 1.0 million, refers to commitments to former employees of the former London branch. Actuarial measurements of fund performances, for which management is assigned to a trustee, are carried out every three years by an appointed actuary. The amount allocated at 31 December 2018 represents Banco BPM's commitment to eliminate the residual deficit through monthly payments to the trustee.

Statements for Banco BPM's internal founds are annexed to the parent company's individual financial statements.

2. Changes during the year in net defined benefit liabilities (assets) and in repayment rights

	31/12/2018
A. Opening balance	**166,078**
A. Increases	**4,850**
B.1 Social security costs relative to past work provided (CSC)	2,151
B.2 Financial charges due to the passage of time	1,905
B.3 Other actuarial losses	789
B.4 Losses due to discount rate variations	-
B.5 Other increases	5
C. Decreases	**(20,252)**
C.1 Use during the year	(14,691)
C.2 Uses due to discount rate variations	(2,645)
C.3 Other actuarial gains	(2,904)
C.4 Other decreases	(12)
D. Closing balance	**150,676**

Net actuarial gains amounted to a total of 4.8 million, attributable to the following effects:

- the change in the discount rate which brought actuarial gains of 2.6 million corresponding with subitem C.2 "Gains due to discount rate variations";
- other actuarial assumptions that led to net gains of 2.1 million recognised for 0.8 million under subitem B.3 "Other actuarial losses" and for 2.9 million under subitem C.3 "Other actuarial gains".

3. Fair value disclosure on assets serving the plan

Based on IAS 19, the assets serving the plan are those held by an entity (a fund) legally distinct from the entity which prepares the financial statements (external fund) and which can be used solely to pay or set aside benefits for employees and which are therefore not available to the creditors of the entity which prepares the financial statements. On the basis of this definition, at 31 December 2018, as at 31 December 2017, there were no assets serving the plans.
For the sake of completeness, we note that certain insurance policies exist, classified under item 20 c) "Financial assets designated at fair value through profit and loss - Other financial assets obligatorily designated at fair value", with the objective of providing the funding needed to pay the indemnities of the plans stipulated with certain directors (known s "S.I.PRE. Plan") and with the chairman, for which the fair value at 31 December 2018 was 0.5 million. It came to around 0.6 million 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 foundation: the IPS55 demographic tables were used to estimate mortality, in addition to the tables used by INPS for projections at 2010.

Technical financial foundation: 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, severance indemnity and seniority bonuses), 1.13% at 31 December 2018 (0.88% at 31 December 2017).

Technical economic foundation: inflation was set at 1.5%, as in the previous year. The annual increase in salaries was set at 2.0%, unchanged with respect to the previous year.

b) Former Banca Popolare di Bologna e Ferrara Fund

Technical demographic foundation: the IPS55 tables were used to estimate mortality.

Technical financial foundation: measurements were made considering the Iboxx Corporate AA 10+ Index, 1.57% at 31 December 2018 (1.30% at 31 December 2017).

Technical economic foundation: a future growth rate of pensions of zero was used, in line with the previous year.

c) Additional social security payment, Banca Popolare di Milano

Technical demographic foundation: the IPS55 demographic tables were used to estimate mortality, in addition to the invalidity tables prepared by INPS in 2000.

Technical financial foundation: measurements were made considering the Iboxx Corporate AA 10+ Index, in line with the average duration of the Fund, 1.57% at 31 December 2018 (1.30% at 31 December 2017).

Technical economic foundation: 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) Pension funds, former Cassa di Risparmio di Alessandria

Technical demographic foundation: the ISTAT 2016 tables were used to estimate mortality.

Technical financial foundation: measurements were made considering the Iboxx Corporate AA 10+ Index, 1.57% at 31 December 2018 (1.30% at 31 December 2017).

Technical economic foundation: inflation was set at 1.3% for 2019, at 1.5% for 2020 and at 1.6% for 2021. Starting in 2022, the target reference value set by the ECB was used, equal to 2.00% annually. At 31 December 2017, inflation was set as follows: 0.9% for 2018, 1.5% for 2019 and 1.6% for 2020. Starting in 2021, the target reference value set by the ECB was used, equal to 2.00% annually.

5. Information on amounts, timing and uncertainties regarding cashflows

As required under IAS 19, sensitivity analysis was performed for the obligation relative to the severance indemnities, with the hypothesis of a 50 basis point increase or decrease in the discount rate, the actuarial assumptions deemed to be the most significant. The purpose of the analysis is to identify how much the liability would vary in relation to reasonably possible oscillations in this actuarial assumption.

	Changes in defined benefit funds in absolute terms (*)	Changes in defined benefit funds in percentage terms
discount rate +0.5%	(5,845)	(3.92%)
discount rate -0.5%	6,298	4.23%

(*) the amounts in parentheses indicate a decrease in the fund

6. Plans relative to several employers

There are no plans of this type.

7. Defined benefit plans sharing risks between entities under joint 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 subsidiary companies and the subsidiary companies underwent various inspections by the Tax Authority in 2018 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, the 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 "potential liabilities". The term "potential 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 current obligation that requires the use of resources intended to produce economic benefits;
ii) effective obligations that, nonetheless, do not meet the conditions for recognition established under IAS 37 (because it is not probable that it will be necessary to use resources intended to produce economic resources to fulfil the obligation or because 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 the 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 157.5 million.

Legal disputes

The high number of cases makes it difficult to provide a detailed list, while their varying natures makes it extremely difficult if not impossible to group them into similar types. Below we provide a brief description of the main legal disputes exiting at 31 December 2018, for which conclusion could involve a probable or possible use of financial resources.

- *Lucchini S.p.A.*
  On 23 March 2018 the receivership of Lucchini S.p.A. summoned a number of banks jointly and severally to obtain compensation for damages totalling approximately 351 million, of which 56.0 million relative to Banco BPM.
  The legal proceedings originate from the events that led to the economic and financial collapse of the company, which culminated in it being placed under extraordinary receivership in December 2012. Specifically, the banks are retained responsible for the alleged damages caused to Lucchini following the

signing and execution of the restructuring agreement pursuant to Art. 182-*bis* of the bankruptcy law, which was formalised in December 2011 and approved by the Court of Milan in February 2012;

- 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 regards the failure to report a transaction retained as suspicious, following inspections conducted by the Finance Police; the matter in question dates back to 2009 and regards the paying in of 41 non-transferable banker's drafts for a total amount of 10.1 million euro. The relative sanction could reach a maximum of 16.1 million.

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 329.9 million.
Claims classified as possible amount to a total of 315.2 million, against which 92.4 million is allocated under the item Provisions for risks and charges.

Enforcements, cases begun against non-performing loans and other disputes

The high number of cases makes it difficult to provide a detailed list, while their varying natures makes it extremely difficult if not impossible to group them into similar types. Below we provide a brief description of the main legal disputes exiting at 31 December 2018, for which conclusion could involve a probable or possible use of financial resources.

- Impresa S.p.A.
  The company, under receivership, summoned the pool of lending banks, including the former Banca Popolare di Milano, as well as the directors of the company, for compensation of damages totalling 166.9 million. The portion of the pool pertaining to the former Banca Popolare di Milano was 8%;
- Send S.r.l.
  The bankruptcy receiver for the company summoned the pool of lending banks, including the former Banco Popolare, requesting compensation for damages equal to the amount of the total loan provided (49.5 million). The portion of the pool pertaining to the former Banco Popolare was 28.8%;
- Ittierre S.p.A
  The company was placed under extraordinary receivership. The 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, a positive development for the outcome of the case.

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 48.8 million.

Tax disputes

The total amount of claims made by the tax authorities in the context of tax disputes under way that involve Banco BPM and its subsidiaries amounted to 318.5 million as at 31 December 2018 (332.7 million as at 31 December 2017), of which 306.8 million relate to notices of assessment, tax demands and payment notices and 11.7 million relate to formal reports on findings served. In this regard, note that the claims contained in the notices of assessment does not consider any interest (with the exception of the assessments relating to 2005 of the former Banca Popolare Italiana and for liabilities classified as likely), while the claims contained in the formal reports on findings served or to be served does not include interest or fines, insofar as they are not indicated in the document (with the exception of liabilities classified as likely).
The decrease in the amount of claims recorded during 2018 is due to out of court settlement agreements completed in October with reference to claims relative to notices of assessment relative to the non-application of withholdings on interest paid in 2013 and 2014 in favour of subsidiaries located in Delaware. The settlement was completed by using the specific provision allocated in previous years. As regards this settlement, the Tax Authority acknowledged the existence of an objective legislative uncertainty and did not apply any fine.
During the year, no new disputes arose.

Details of disputes unresolved as at 31 December 2018

The main tax disputes in existence at 31 December 2018 (with claims equal to or exceeding 1 million) 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 requested 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.) - notice of settlement regarding 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 amount to 14.5 million euro. In a ruling dated 18 October 2011, the Regional Tax Commission of Florence fully upheld the appeal submitted by the former Banco Popolare. During the hearing with the Supreme Court on 6 November, a request to suspend judgement was made in order to assess the new possibility of facilitated settlement of the dispute in question, introduced by Decree Law 119 of 23 October 2018;
- 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 (it regards offence 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 collection commission). With separate decisions filed on 15 October 2014, no. 8562 (IRES) and no. 8561 (IRAP), the Milan Provincial Tax Commission, Section 22, fully rejected the appeal presented by the Bank. We have appealed against the above ruling to 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. Due to the above decisions, the Financial Administration received a total amount of 201.9 million against the tax demands. This amount is recognised as a receivable under the item "other assets". The appeal submitted to the Supreme Court by the bank is still pending;
- 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 on loans already disputed with reference to tax year 2005. 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 three, 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 on 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 judgment 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 - notices of assessment and formal written notices of the fines relating to the finding regarding the failure to apply the withholding tax set forth in Art. 26, paragraph 5 of Italian Presidential Decree 600/1973, to interest due on deposits made by foreign subsidiaries resident in the US State of Delaware in relation to 2015. The claims amount to 10.1 million euro. These disputes are included in the out-of-court settlement made with the Tax Authority, which in 2016, 2017 and 2018 resulted in the closure of similar disputes relating to other administrative periods and other incorporated companies without the application of any fine. Facilitated settlement of the dispute is being considered, pursuant to that established in Decree Law 119 of 23 October 2018;
- Banco BPM - 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 amounts to 58.4 million euro. The Provincial Tax Commission has upheld all of the appeals submitted, cancelling the notices

of assessment. The Tax Authority has appealed. On 5 October 2017, the appeals were heard before the Milan Regional Tax Commission. The Commission confirmed the first instance decisions. The appeal to the Supreme Court filed by the Tax Authority is pending;

- Banco BPM - the audit report delivered on 7 August 2017 regarding the 2012, 2013, 2014 and 2015 financial years containing remarks on 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;
- Banco BPM (Former Banca Italease) – Settlement notices to recover the mortgage and cadastral taxes on a loan stipulated in 2006. The claim amounts to a total of 3.2 million euro. The appeal submitted by Banca Italease was upheld in the first and second instance. An appeal submitted to the Supreme Court is still pending.
- Aletti Fiduciaria - notice 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 amounts to 7.9 million euro. The company's appeal was fully upheld in the first and second instance. The appeal to the Supreme Court filed by the Tax Authority is pending.

Classification and valuation of the claims of the Financial Administration in accordance with accounting standard IAS 37

Claims associated with the proceedings regarding the claimed non-deductibility of costs relating to the attempted takeover of Banca Antonveneta by the former Banca Popolare Italiana

These claims have been 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 judgment, 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, on 18 December 2015 the appeal to the Supreme Court was made, it being believed 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.
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. The same analysis 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 claims of the financial administration in the financial statements at 31 December 2018.

Claims associated with other disputes

Residual claims associated with tax disputes amount to 102.9 million.

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 86.9 million euro.
The claims classified as probable amount in total to 16.2 million euro and were fully debited from the income statement when the tax demands received were paid or are entirely covered by provisions allocated to the item Provisions for risks and charges.

Inspections completed and under way at 31 December 2018

The inspection of Banco BPM (former Banco Popolare Soc.Coop.) relative to direct taxes for 2013, begun on 29 November 2017 by the Verona Tax Police Branch of the Finance Police and extended on 27 December 2017 to the years 2014, 2015 and 2016, was completed with the delivery of the formal report on findings on 30 October 2018. This report on findings did not contain any official findings and was limited to informing the Tax Authorities that in the case any guarantee agreements were signed in 2005 by the Banca Popolare di Lodi Soc.Coop. a r.l. or Banca Italease S.p.A. in 2006 with their respective subsidiaries residing in Delaware, US (Banca Popolare di Lodi Capital Company III LLC and the associated trust and Italease Funding LLC and the associated trust) must involve the payment of fees by the foreign subsidiaries to the Italian banks. Relative to this notification, the tax authorities did not send any notices of assessment with reference to the year 2013 by 31 December 2018, the deadline established under paragraph 132, second period of Law 208/2015 for any issuing of said notice. Therefore, it can be assumed that the tax authorities are in agreement with the bank's comments.

On 12 and 15 June 2018, the Tax Authorities, Lombardy Regional Office, Audits Sector, Large Taxpayers Office carried out targeted accesses at Banca Popolare di Milano s.c.a r.l. and Banca Italease S.p.A., relative to tax periods 2010, 2011, 2012 and 2013, to verify the proper determination and relative use of tax credits deriving from the transformation of deferred tax assets. These accesses were completed without any findings.

On 20 November 2018, the Finance Police, Milan Economic/Financial Police Unit, Tax Protection Group carried out targeted access of Release S.p.A., relative to tax periods 2016 and 2017, with regards to proper determination of intra-EU VAT. As of the reporting date, the inspection was still under way. No findings have been identified in the inspection reports.

10.6.2 Other provisions for risks and charges - personnel expenses

These amount to 481.3 million at 31 December 2018 and are mainly represented by residual charges to be paid to finance the Solidarity Fund against redundancy incentive plans for personnel begun in previous years (353.6 million) 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 414.2 million 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 (322.6 million);
b) liabilities deriving from onerous contracts and other commitments following rationalisation of the distribution network (46.5 million);
c) estimated liabilities against probable reimbursements of fees consequent to the possible early repayment by customers of insurance policies (20.4 million);
d) risks associated with guarantees granted against the disposal of equity investments or other assets or groups of assets (4.7 million).

Category a) includes the provision made against risks associated with notification activities carried out relative to the specialised company Intermarket Diamond Business S.p.A. ("IDB") regarding customers interested in purchasing diamonds. This was carried out in almost all years between 2003 and 2016, prior to the merger which gave rise to Banco BPM.

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 penalty on IDB and the reporting banks (amounting, in the case of Banco BPM, to 3.35 million). The Bank paid the amount of the fine and challenged the AGCM's decision with the Tribunale Amministrativo Regionale (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 this operation, judicial investigations are also pending in relation, among other things, to the assumption of aggravated fraud.
The Court of Milan declared IDB bankrupt on 10 January 2019.
In relation to this event and the claims and disputes arising with customers following the date on which the administrative penalty was applied by the AGCM, the Bank has been analysing the individual cases of customers who have made complaints and communicating with them and the Consumer Associations in order to assess, also with an eye to customer care and maintaining relationships with its customers, any possible initiatives to be taken, including repayment, in the case of customers who were not able to resell the diamonds acquired through IDB, as established under the contract between IDB and its customers.
In this context, the Bank decided to supplement the general provisions set aside to cover disputes with customers with a specific provision based on a prudent assessment of the information available for the pending and potential complaints and disputes, without prejudice to the approach to customers indicated above. More specifically, relative to the provision established at the end of 2017, amounting to 43.0 million, a total of 33.1 million has been used for repayments made in the meantime to customers with whom settlements have been signed. The additional provision charged to the income statement in 2018 amounted to 275.3 million, bringing the total amount of the provision available for potential repayment claims to 285.2 million.
Also taking into consideration the above cited uses of the provision against repayments already made, the total financial resources made available by the Group total 318.3 million.
Estimating the liability deemed probable based on management of claims and disputes has been especially difficult. The amount of the liability to be estimated is a function of several variables, some of which have largely evolved independently of the managerial actions carried out by the bank and actually depend on phenomena that are difficult to establish in advance. In this context, the estimation approach is necessarily based on subjective assessments, which have been and will be updated over time in order to use all of the new or additional information that has become and will be made available.
More specifically, the main variables to be considered in estimating the current value of the liability include:

- the total amount of claims judged to have legal grounds (also considering the statute of limitations) which will be received and disputes associated with the issue;
- an estimate of repayments to be paid to customers who have made these claims and the sums associated with the 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, media focus 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. When determining the provision, the cases already made against the Group, claims received, and an estimate of claims which can be assumed to arrive in the future were all taken into consideration, without considering any decrease in the risk of claims against possible sales of stones 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 bank has had to progressively acquire, as the issue evolves, the information needed to structurally organise the process to deal with claims. The methods used to determine repayments for customers, to resolve claims with an eye to settlement, has also been refined over time. This has necessarily influenced and will continue to influence the amount of repayments proposed. Hence, the average percentage value of repayments proposed and accepted may vary over time. The estimate of financial resources deemed likely to be paid out against the total amount of legal cases and claims received and expected used the average repayment percentage paid to customers with whom settlement agreements have already been signed as the reference. In almost all cases, these agreements involved the customer retaining ownership of the stones and the bank making a cash repayment.
Considering the difficulty and uncertainty in forecasting the variables illustrated above, a statistical estimate based on the most recent information obtainable from the claims and dispute management process (the most updated information about developments in claims and settlements up to the month of January 2019 was used) was accompanied by an estimate based on an alternative scenario using more severe assumptions which therefore make use of a higher expected number of clams and a higher repayment percentage. This process led to the identification of an interval of possible values for the provision for risks and charges, ranging from a minimum of 236.6 million to a maximum of 333.8 million within which the median value of 285.2 million is the provision recognised in the financial statements at 31 December 2018.
At 30 June 2018, the provision amounted to 103.0 million. The significant increase seen during the course of the second half mainly derives from an unexpected development in the volume of claims, which led to a consequent revision of the methodological approach used for the estimate.

Note that in estimating this provision, discounting factors were not considered, given that it is held that most claims 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 2018 is revealed to be greater or smaller than the financial resources effectively paid out by the banks of the Group relative to disputes and claims with their customers. Consequently, the possibility that additional allocations or writebacks 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 35.7 million recognised against the bank's voluntary 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 against future charges to be paid following the closure of 518 branches during the year. This estimate considers, among other things, the rents to be paid during the contractual period which could not be cancelled, as well as costs for dismantling and restoring the internal areas.

Item c) 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, not associated with the achievement of established sales objectives, as better specified below.

To that end, note that in the context of the contracts stipulated at the time of the disposal of equity investments or business units in 2018 and previously, 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 the 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 the Banco BPM to pay indemnities, when applicable:

- the sale of the controlling interest in Aletti Gestielle SGR to Anima Holding in 2017;
- the sale of a 65% shareholding stake 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 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 unit 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 the 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 equity investment 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. To that end, note that at 31 December 2018 no allocations were necessary.

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 at 31 December 2017.

Section 13 - Group equity Items 120, 130, 140, 150, 160, 170 and 180

13.1 "Share capital" and "Treasury shares": breakdown

As at 31 December 2018, share capital was 7,100 million euro, consisting of 1,515,182,126 ordinary shares subscribed and fully paid up.

The "treasury shares" item is represented by 4,004,510 shares of the Parent Company, fully held by the same, for a book value of 12.6 million.

13.2 Share capital – Number of shares of the Parent Group: Annual changes

	Ordinary	Other
A. Existing shares at the beginning of the period	**1,515,182,126**	**-**
- fully paid up	1,515,182,126	-
- not fully paid up	-	-
A.1 Treasury shares (-)	(4,492,254)	-
A.2 Outstanding shares: opening balance	**1,510,689,872**	**-**
A. Increases	**487,744**	**-**
B.1 New issues	-	-
for a fee:	-	-
- business combinations transactions	-	-
- bond conversion	-	-
- exercise of warrants	-	-
- other	-	-
without compensation:	-	-
- to employees	-	-
- to directors	-	-
- other	-	-
B.2 Sale of treasury shares	487,744	-
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. Outstanding shares: closing balance	**1,511,177,616**	**-**
D.1 Treasury shares (+)	4,004,510	-
D.2 Existing shares at the end of the period	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 at 31 December 2018.

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 3,578.0 million, classified as follows:

- Profit reserves of 3,073.2 million
- Other reserves of 504.8 million.

Please see the "statement of changes in consolidated Shareholders' Equity" for evidence of changes in the reserves during 2018, as well as the schedule included in the Notes to the Banco BPM individual financial statements for the information required under article 2427 of the Civil Code.
In particular, note that the parent company has "legal reserves" totalling 1,420.0 million 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

The Group has no equity instruments as of the reporting date, nor did it at 31 December 2017.

13.6 Other information

There is no other information worthy of note with respect to that already provided in previous sections.

Section 14 - Non-controlling interests - Item 190

14.1 Breakdown of item 190 "Non-controlling interests"

Company names	31/12/2018	31/12/2017
Investments in consolidated companies with significant minority interests	-	-
Other equity investments	45,599	63,310
Total	**45,599**	**63,310**

Minority interests amount to 45.6 million, compared to 63.3 million at 31 December 2017.

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 31/12/2018
	First Stage	Second Stage	Third stage	
Commitments to disburse funds	**47,144,540**	**1,412,105**	**1,097,439**	**49,654,084**
a) Central Banks	1,188	-	-	1,188
b) Public Administrations	1,305,594	64,273	3,682	1,373,549
c) Banks	2,549,605	123,079	-	2,672,684
d) Other financial companies	3,252,956	31,567	97,853	3,382,376
e) Non-financial companies	36,936,628	1,102,810	981,418	39,020,856
f) Households	3,098,569	90,376	14,486	3,203,431
Financial guarantees given	**799,721**	**59,948**	**53,689**	**913,358**
a) Central Banks	-	-	-	-
b) Public Administrations	42,954	716	19	43,689
c) Banks	206,989	1,218	-	208,207
d) Other financial companies	80,786	5,199	101	86,086
e) Non-financial companies	418,564	40,824	50,244	509,632
f) Households	50,428	11,991	3,325	65,744

At 31 December 2017, guarantees and commitments given were as follows:

Transactions	Amount 31/12/2017
1) Financial guarantees given	872,992
a) Banks	175,072
b) Customers	697,920
2) Commercial guarantees given	5,947,847
a) Banks	308,533
b) Customers	5,639,314
3) Irrevocable commitments to disburse funds	9,879,318
a) Banks	412,805
i) of certain use	227,802
ii) of uncertain use	185,003
b) Customers	9,466,513
i) of certain use	370,429
ii) of uncertain use	9,096,084
4) Commitments underlying credit derivatives: protection sales	-
5) Assets to guarantee third party obligations	518
6) Other commitments	520,069
Total	**17,220,744**

2. Other commitments and guarantees given

	Nominal value Total 31/12/2018
1. Other guarantees given	**5,915,933**
of which: impaired credit exposures	507,571
a) Central Banks	-
b) Public Administrations	22,163
c) Banks	316,335
d) Other financial companies	172,367
e) Non-financial companies	5,265,444
f) Households	139,624
2. Other commitments	**329,744**
of which: impaired credit exposures	125
a) Central Banks	-
b) Public Administrations	-
c) Banks	25,372
d) Other financial companies	19,127
e) Non-financial companies	126,863
f) Households	158,382

3. Assets pledged on own liabilities and commitments

Portfolios	Amount 31/12/2018
1. Financial assets designated at fair value through profit and loss	351,453
2. Financial assets designated at fair value through other comprehensive income	6,435,726
3. Financial assets designated at amortised cost	42,735,991
4. Property, plant and equipment	-
of which: property, plant and equipment classified as inventories	-

At 31 December 2017, assets guaranteeing own liabilities could be broken down as follows:

Portfolios	Amount 31/12/2017
1. Financial assets held for trading	417,096
2. Financial assets designated at fair value through profit and loss	7,991
3. Financial assets available for sale	10,786,546
4. Investments held to maturity	2,928,989
5. Due from banks	1,235,928
6. Loans to customers	29,630,812
7. Property, plant and equipment	-
Total	**45,007,362**

The amount of assets guaranteeing own liabilities and commitments recognised in the balance sheet assets amounted to 49,523.2 million, for the most part relative to parent company activities and referred:

- for 17,181.9 million to financial assets, of which 16,696.6 million relative to loans transferred to the vehicle company, guaranteeing the holders of covered bank bonds issued by the parent company, as described in detail in the section D.4 Prudential consolidation - Covered bond transactions, contained in Part E - Section 1 of these Notes;
- for 14,109.8 million to loans serving to guarantee financing operations with central banks (Abaco);
- for 13,992 million to securities underlying repurchase agreements or security loans;
- for 1,043.5 million to deposits guaranteeing OTC derivative contracts settled based on agreements

- for 3,196 million to securities serving as deposits/guarantees for other operations, mainly associated with refinancing operations with central banks.

With regards to assets serving to guarantee loans obtained from the ECB, in addition to that indicated above, we note the use of the following assets which, from an accounting point of view, are not represented in the Balance Sheet assets:

- securities deriving from own asset securitisation operations for 4,099.8 million;
- covered bond issues repurchased for a nominal value of 8,618.2 million;
- securities received as a pledge for a nominal value of 231.4 million.

Finally, 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 repurchase agreements receivable. The book value of these repurchase agreements receivable, recognised among amounts due from banks and customers, based on the counterparty, amounted to 1,495.2 million (nominal value 1,519.6 million).

4. Disclosure on operating leases

For the Banco BMP Group, the most significant type of operating lease is represented by rental contracts for properties used for commercial business (bank branches). Relative to these contracts, the following table illustrates commitments to pay rent relative to the contractual period which cannot be cancelled, broken down by payment due dates, which as a whole amount to 453.8 million.

Payment due dates	Amount
Up to 1 year	95,289
From 1 to 5 years	212,049
Over 5 years	146,438
Total	**453,776**

For other types of operating leases, commitments to pay future fees are insignificant.

5. Breakdown of investments against unit-linked and index linked policies

At 31 December 2018 the Group had no investments against unit-linked or index-linked policies.

6. Management and brokering for third parties

Type of services	Amount 31/12/2018
1. Execution of customer orders	**156,130,412**
a) purchases	81,663,919
1. settled	81,435,611
2. not settled	228,308
b) sales	74,466,493
1. settled	74,221,564
2. not settled	244,929
2. Portfolio management	**3,484,909**
a) individual	3,484,909
b) collective	-
3. Securities custody and administration	**100,112,027**
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	65,092,517
1. securities issued by companies included in the scope of consolidation	6,515,581
2. other securities	58,576,936
c) third party securities under custody with third parties	62,660,761
c) own securities under custody with third parties	35,019,510
4. Other transactions	-

Financial asset and liabilities subject to offsetting in financial statements, or subject to framework offsetting agreements or similar agreements

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 "framework offsetting agreements or similar agreements", 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 stipulated by the parent company with banks or institutional counterparties and some over the counter (OTC) derivatives stipulated with individual Group companies with the counterparty London Clearing House (LCH).

Specifically, the amount of the amounts offset shown tables 7 and 8 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 1,462.8 million, of which 1,195.3 million relative to repurchase agreements the effect of which decreases the following balance sheet items:

- 40. Financial assets designated at amortised cost
  a) loans to banks - offset for 1,092.8 million;
  b) loans to customers - offset for 102.5 million.

- 10. Financial liabilities designated at amortised cost
  c) due to banks - offset for 362.9 million;
  a) due to customers - offset for 102.5 million;
  b) securities issued - offset for 729.9 million.

The effect of the offset decreasing "securities issued" is due to the representation used for funding repurchase agreements with the use of repurchased own issues.
The remaining 267.5 million relative to OTC derivatives contracts, offset at the level of individual Group companies with the counterparty LCH, serve to decrease the following balance sheet items:

- 20. Financial assets designated at fair value through profit and loss
  a) Financial assets held for trading - offset for 236 million;
- 50. Hedging derivatives - offset for 31.5 million.
- 20. Financial liabilities held for trading - offset for 236 million;
- 40. Hedging derivatives – offset for 31.5 million.

For instruments that could potentially be offset, should certain events occur and that would be presented in tables 7 and 8 below in the column "Related amounts not subject to offsetting in financial statements", note that the Group has the following agreements in place:

- for derivatives: "ISDA Master Agreement" and offsetting agreements with clearing houses;
- for repurchase agreements receivable and payable: framework contract "Global Master Repurchase Agreements (GMRA)" and offsetting agreements with the Cassa di Compensazione e Garanzia (CC&G);
- for securities lending operations: "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 1,868.8 million (recognised under items 20 and 50 of the balance sheet assets) of which, net of offsetting, 1,316.4 million (1,583.9 million gross) are supported by netting contracts (70.4% in percentage terms), as indicated in table 7 (columns c and a);
- those with a negative fair value amount to 3,452.7 million (recognised under items 20 and 40 of the balance sheet liabilities) of which, net of offsetting, 2,149.3 million (2,416.9 million gross) are supported by netting contracts (62.2% in percentage terms), as indicated in table 8 (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 at 31 December 2018 had a fair value of 936.8 million.

With reference to securities lending operations, it should be noted that tables 7 and 8 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 operations and repurchase agreements falling under offsetting or similar agreements, note that these operations are represented under the items "repurchase agreements receivable/payable" indicated in the tables showing the breakdown of amounts due to and from banks and customers, based on the type of counterparty, found in Part B - Consolidated balance sheet disclosure. The relative measurement criteria is amortised cost.

For the purposes of creating tables 7 and 8 below, in line with standard IFRS 7 and the instructions contained in Circular 262, note that:

- the effects of potential offsetting of balance sheet 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 in guarantee".

These effects are calculated for each individual counterparty supported by a framework 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 7 and 8 below.

7. Financial assets subject to offsetting in financial statements, or subject to framework offsetting agreements or similar agreements

Technical forms	Gross amount of financial assets (a)	Amount of financial liabilities offset in the balance sheet (b)	Net amount of financial assets shown in the balance sheet (c=a-b)	Associated amounts not subject to offsetting in the balance sheet		Net amount (f=c-d-e) 31/12/2018	Net amount (f=c-d-e) 31/12/2017
				Financial instruments (d)	Cash deposits received as guarantees (e)		
1. Derivatives	1,583,929	267,494	1,316,435	1,055,734	206,618	54,083	83,939
2. Repurchase agreements	7,553,035	1,195,343	6,357,692	6,357,692	-	-	-
3. Securities lending	633,750	-	633,750	602,385	-	31,365	67,313
4. Other	-	-	-	-	-	-	-
Total 31/12/2018	**9,770,714**	**1,462,837**	**8,307,877**	**8,015,811**	**206,618**	**85,448**	**X**
Total 31/12/2017	**8,615,109**	**194,898**	**8,420,211**	**7,819,082**	**449,877**	**X**	**151,252**

8. Financial liabilities subject to offsetting in financial statements, or subject to framework offsetting agreements or similar agreements

Technical forms	Gross amount of financial liabilities (a)	Amount of financial assets offset in the balance sheet (b)	Net amount of financial liabilities shown in the balance sheet (c=a-b)	Associated amounts not subject to offsetting in the balance sheet		Net amount (f=c-d-e) 31/12/2018	Net amount (f=c-d-e) 31/12/2017
				Financial instruments (d)	Cash deposits given as guarantees (e)		
1. Derivatives	2,416,824	267,494	2,149,330	1,104,343	898,762	146,225	86,368
2. Repurchase agreements	15,402,668	1,195,343	14,207,325	14,207,325	-	-	16,621
3. Securities lending	1,097,761	-	1,097,761	1,040,132	-	57,629	37,354
4. Other transactions	-	-	-	-	-	-	-
Total 31/12/2018	**18,917,253**	**1,462,837**	**17,454,416**	**16,351,800**	**898,762**	**203,854**	**X**
Total 31/12/2017	**14,802,223**	**194,898**	**14,607,325**	**13,363,277**	**1,103,705**	**X**	**140,343**

9. Securities lending operations

The table below provides information about Group securities lending operations (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 companies in the Banca Akros Group. Securities obtained as a loan are, as a rule, used for mirrored securities lending operations (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 operations 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 2018 against securities received and given in cash-backed loans. Operations 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 operation	Type of securities		
	Government securities	Bank securities	Other securities
Cash-backed loaned securities received - Due from:			
a) Banks	-	4,720	124,914
b) Financial brokers	322,622	52,027	129,463
c) Customers	-	-	-
Total receivables for securities lending	**322,622**	**56,747**	**254,377**
Security or cash-backed loaned securities received not available to the lender from:			
b) Financial brokers	-	-	-
c) Customers	-	24,785	89,444
Total (fair value)	**-**	**24,785**	**89,444**
Cash-backed loaned securities given - Due to:			
a) Banks	269,699	330,776	381,741
b) Financial brokers	-	13,558	101,538
c) Customers	-	28	416
Total payables for securities lending	**269,699**	**344,362**	**483,695**
Security-backed or non-guaranteed loaned securities given:			
a) Banks	721,361	3,164	6,081
b) Financial brokers	-	-	11,606
c) Customers	-	-	-
Total (fair value)	**721,361**	**3,164**	**17,687**

"Security-backed or non-guaranteed loaned securities given" include certain operations regarding government securities loaned by the parent company, without receiving any guarantees, for 569.1 million.

10. Joint control disclosure

As of 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 2018
1. Financial assets designated at fair value through profit and loss	67,020	7,814	-	74,834
1.1 Financial assets held for trading	55,245	-	-	55,245
1.2 Financial assets designated at fair value	-	-	-	-
1.3 Other financial assets mandatorily at fair value	11,775	7,814	-	19,589
2. Financial assets designated at fair value through other comprehensive income	309,139	-	X	309,139
3. Financial assets designated at amortised cost	198,007	2,274,632	X	2,472,639
3.1. Due from banks	2,464	38,254	X	40,718
3.2. Loans to customers	195,543	2,236,378	X	2,431,921
4. Hedging derivatives	X	X	(135,836)	(135,836)
5. Other assets	X	X	6,095	6,095
6. Financial liabilities	X	X	X	134,716
Total	**574,166**	**2,282,446**	**(129,741)**	**2,861,587**
of which: interest on impaired financial assets	542	463,950	-	464,492

The sub-item "Financial liabilities" refers to interest income accruing on ECB funding operations for 87.0 million, represented by TLTRO II loans payable.
Interest accrued in 2017 amounted to 115.5 million and included 31.7 million of amounts not recognised in the previous year's financial statements, in the absence of conditions for their recognition.
To that end, note that this interest is calculated at the negative rate of 0.4%, given that at 31 January 2018 the banks of the Group (Banco BPM and BPM) had 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 writebacks from discounting of impaired loans.

The table below, while not fully comparable, shows the breakdown of interest income in 2017, prepared in line with the classification and measuring criteria of the IAS 39 financial instruments, drafted in accordance with the provisions of the previous version of Bank of Italy Circular 262 (fourth update).

Items/Technical forms	Debt securities	Loans	Other transactions	Total 2017
1. Financial assets held for trading	38,586	-	17,495	56,081
2. Financial assets designated at fair value through profit and loss	225	-	-	225
3. Financial assets available for sale	364,401	-	-	364,401
4. Investments held to maturity	185,948	15	-	185,963
5. Due from banks	2,335	26,886	590	29,811
6. Loans to customers	5,339	2,078,980	2,879	2,087,198
7. Hedging derivatives	X	X	-	-
8. Other assets	X	X	174,703	174,703
Total	**596,834**	**2,105,881**	**195,667**	**2,898,382**

1.2 Interest and similar income: other information

1.2.1 Interest income on financial assets in foreign currencies

Items	2018	2017
Interest income on financial assets in foreign currencies	167,176	61,179

1.2.2 Interest income on financial leasing transactions

Items	2018	2017
Interest income on financial leasing transactions	33,899	35,384

1.3 Interest and similar expense : breakdown

Items/Technical forms	Payables	Securities	Other transactions	Total 2018	Total 2017
1. Financial liabilities designated at amortised cost	(164,696)	(368,709)	X	(533,405)	(664,745)
1.1 Due to central banks	(402)	X	X	(402)	(1)
1.2. Due to banks	(90,809)	X	X	(90,809)	(37,299)
1.3. Due to customers	(73,485)	X	X	(73,485)	(99,046)
1.4 Debt securities issued	X	(368,709)	X	(368,709)	(528,399)
2. Financial liabilities held for trading	(12,133)	-	(38,551)	(50,684)	(16,931)
3. Financial liabilities designated at fair value	-	(12,517)	-	(12,517)	(116,573)
4. Other liabilities and funds	X	X	(720)	(720)	(72,805)
5. Hedging derivatives	X	X	65,090	65,090	(52,206)
6. Financial assets	X	X	X	(36,789)	-
Total	**(176,829)**	**(381,226)**	**25,819**	**(569,025)**	**(923,260)**

1.4 Interest and similar expense:other information

1.4.1 Interest expense on financial liabilities in foreign currencies

Items	2018	2017
Interest expense on financial liabilities in foreign currencies	(24,575)	(13,993)

1.4.2 Interest expense on liabilities for financial leasing transactions

This case is not relevant to the Group, neither for the year in course nor the prior one, hence it is omitted from the relative table.

1.5 Hedging differentials

Items	2018	2017
A. Positive hedging differentials:	355,339	156,545
B. Negative hedging differentials:	(426,085)	(208,751)
C. Balance (A-B)	**(70,746)**	**(52,206)**

Section 2 - Fees and commissions – Items 40 and 50

2.1 Fee and commission income: breakdown

Service type/Amounts	Total 2018	Total 2017
a) guarantees given	78,577	80,906
b) credit derivatives	-	-
c) management, brokerage and advisory services	910,741	1,021,905
1. trading of financial instruments	34,913	29,533
2. trading of currency	3,466	5,678
3. portfolio management	28,294	37,462
3.1 Individuals	28,294	37,462
3.2 collective	-	-
4. securities custody and administration	7,911	12,984
5. custodian bank	14,367	18,861
6. placement of securities	584,622	680,550
7. receipt and transmission of orders	39,075	50,834
8. consulting	8,475	3,579
8.1 concerning investments	2,622	1,037
8.2 concerning financial structure	5,853	2,542
9. distribution of third party services	189,618	182,424
9.1. portfolio management	2,961	3,514
9.1.1 individuals	2,961	3,514
9.1.2 collective	-	-
9.2 insurance products	105,805	115,783
9.3 other products	80,852	63,127
d) collection and payment services	179,519	174,695
e) servicing for securitisations	13	75
f) factoring services	-	-
g) tax collection and treasury services	-	-
h) management of multilateral trading facilities	-	-
i) keeping and managing current accounts	222,274	230,047
j) other services	558,437	567,435
Total	**1,949,561**	**2,075,063**

Sub-item c) 6. "securities placement" refers for 575.6 million to fee income from placing of UCITS units (661.8 million in 2017).

Sub-item j) "other services" includes fees relative to Bancomat and credit card services for 105.1 million (118.5 million at 31 December 2017), the fee for making funds available (Credit Availability Fee) for 291.4 million (309.3 million the previous year) and fee income from loans to customers for 122.2 million (91.5 million in 2017).

It should be specified that, in relation to Group operations, cashflows associated with fees recognised in the income statement for 2018 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 measured 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 2018, against services rendered in previous years amounted to only 0.7 million, equal to the difference between the ascertainment of greater revenues totalling 9.5 million (with 5.6 million attributable to the agreement to place third party credit cards and 2.4 million to distribution of insurance products) and lower revenues for 8.8 million.

2.2 Fee and commission expense: breakdown

Services/Amounts	Total 2018	Total 2017
a) guarantees received	(5,198)	(4,777)
b) credit derivatives	-	-
c) management and brokerage services:	(26,554)	(39,476)
1. trading of financial instruments	(11,552)	(19,017)
2. trading of currency	(3)	-
3. portfolio management:	-	(1,109)
3.1. own	-	(1,109)
3.2 delegated to third parties	-	-
4. securities custody and administration	(7,966)	(7,236)
5. placement of financial instruments	(1,485)	(4,284)
6. Off-site offer of financial instruments, products and services	(5,548)	(7,830)
d) collection and payment services	(9,338)	(12,635)
e) other services	(59,711)	(67,765)
Total	**(100,801)**	**(124,653)**

The sub-item e) "other services" includes fees relative to Bancomat and credit card services for 38 million (48.3 million at 31 December 2017).

Section 3 - Dividends and similar income - Item 70

3.1 Dividends and similar income: breakdown

Items/Income	Total 2018	
	Dividends	Similar income
A. Financial assets held for trading	25,834	-
B. Other financial assets mandatorily at fair value	10,686	-
C. Financial assets designated at fair value through other comprehensive income	15,436	-
D. Equity investments	-	-
Total	**51,956**	**-**

The table below, while not fully comparable, shows the breakdown of dividends and similar income in 2017, prepared in line with the classification and measuring criteria of the IAS 39 financial instruments, drafted in accordance with the provisions of the previous version of Bank of Italy Circular 262 (fourth update).

Items/Income	Total 2017	
	Dividends	Income from UCITS units
A. Financial assets held for trading	24,135	-
B. Financial assets available for sale	24,962	4,756
C. Financial assets designated at fair value	-	56
D. Equity investments	-	X
Total	**49,097**	**4,812**

Section 4 - Profits (losses) on trading - Item 80

4.1 Profits (losses) on trading: breakdown

Transactions/Income components	Capital gains (A)	Profit from trading (B)	Losses (C)	Losses from trading (D)	Net result [(A+B) - (C+D)]
1. Financial assets held for trading	**24,759**	**224,498**	**(134,154)**	**(215,331)**	**(100,228)**
1.1 Debt securities	7,255	94,867	(52,564)	(76,996)	(27,438)
1.2 Equity instruments	17,502	127,572	(81,384)	(137,349)	(73,659)
1.3 UCIT units	2	84	(206)	(804)	(924)
1.4 Loans	-	-	-	-	-
1.5 Other	-	1,975	-	(182)	1,793
2. Financial liabilities held for trading	**73,346**	**78,830**	**(7,380)**	**(117,781)**	**27,015**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	10,262	18,527	(1,883)	(5,580)	21,326
2.3 Other	63,084	60,303	(5,497)	(112,201)	5,689
Financial assets and liabilities: conversion differences	**X**	**X**	**X**	**X**	**127,387**
3. Derivative instruments	**1,548,347**	**3,760,092**	**(1,537,458)**	**(3,765,649)**	**(149,784)**
3.1 Financial derivatives:	1,544,795	3,755,325	(1,536,482)	(3,758,468)	(149,946)
- on debt securities and interest rates	1,225,438	2,653,183	(1,241,810)	(2,590,022)	46,789
- on equity instruments and equity indices	312,964	953,968	(288,540)	(1,021,050)	(42,658)
- on currencies and gold	X	X	X	X	(155,116)
- Other	6,393	148,174	(6,132)	(147,396)	1,039
3.2 Credit derivatives	3,552	4,767	(976)	(7,181)	162
of which: natural hedges associated with the fair value option	X	X	X	X	-
Total	**1,646,452**	**4,063,420**	**(1,678,992)**	**(4,098,761)**	**(95,610)**

Section 5 - Fair value adjustments in hedge accounting - Item 90

5.1 Fair value adjustments in hedge accounting: breakdown

Income components/Amounts	Total 2018	Total 2017
A. Revenue from:		
A.1 Fair value hedging derivatives	175,315	721,465
A.2 Hedged financial assets (fair value)	385,121	598,908
A.3 Hedged financial liabilities (fair value)	55,912	126,485
A.4 Cash flow hedging derivatives	-	-
A.5 Assets and liabilities in foreign currency	1,318	135
Total income from hedged assets (A)	**617,666**	**1,446,993**
B. Charges related to:		
B.1 Fair value hedging derivatives	(108,393)	(637,058)
B.2 Hedged financial assets (fair value)	(440,641)	(787,901)
B.3 Hedged financial liabilities (fair value)	(71,098)	(17,946)
B.4 Cash flow hedging derivatives	-	-
B.5 Assets and liabilities in foreign currency	(191)	(3,169)
Total charges from hedging activities (B)	**(620,323)**	**(1,446,074)**
C. Fair value adjustments in hedge accounting (A - B)	**(2,657)**	**919**
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 2018		
	Income	Losses	Net result
Financial assets			
1. Financial assets designated at amortised cost	617,082	(855,144)	(238,062)
1.1. Due from banks	-	-	-
1.2. Loans to customers	617,082	(855,144)	(238,062)
2. Financial assets designated at fair value through other comprehensive income	225,944	(95,004)	130,940
2.1 Debt securities	225,944	(95,004)	130,940
2.2 Loans	-	-	-
Total assets	**843,026**	**(950,148)**	**(107,122)**
Financial liabilities designated at amortised cost	-	-	-
1. Due to banks	-	-	-
2. Due to customers	-	-	-
3. Debt securities issued	6	(4,514)	(4,508)
Total liabilities	**6**	**(4,514)**	**(4,508)**

The result shown in correspondence with item "1.2. Loans to customers", as a whole negative at 238.1 million, is influenced by derisking actions carried out during 2018. In fact, these include effects associated with the disposal of the bad loan portfolio connected to the Exodus project, completed in the first half of 2018, which as a whole were negative for 275.7 million. For more details, please see the section "Other significant aspects relating to Group accounting policies", in Section 5 - Other aspects" in Part A.1 of these consolidated Notes. In this context, we also note the sale of exposures classified as probable default in the naval sector, which involved the recognition of profits from disposal of around 10 million in December 2018. For more information, please see Section 2 - Financial assets at fair value through profit and loss in part B of these Notes.

Finally, we note that the item in question also includes the positive result of 18.3 million deriving from the sale of certain government securities. In particular these includes securities issued by Spain (for a nominal value of 375

million) and by Germany (nominal value of 200 million) which were disposed of by the parent company in July 2018. To that end note that this disposal was consistent with the concept of significance and frequency established under accounting standard IFRS 9 for the Hold to Collect business model, which describes the activities in question, considering that the transactions involved a limited number of transactions in July relative to four government securities, for a value equal to around 4% of the portfolio of securities classified at amortised cost held by the parent company.

Gains from the sale of financial assets designated at fair value through comprehensive income mainly refer to profits from sales of Italian government securities.

The table below, while not fully comparable, shows the breakdown of profit (loss) from disposal/repurchase in 2017, prepared in line with the classification and measuring criteria of the IAS 39 financial instruments, drafted in accordance with the provisions of the previous version of Bank of Italy Circular 262 (fourth update).

Items/Income components	Total 2017		
	Income	Losses	Net result
Financial assets			
1. Due from banks	33	-	33
2. Loans to customers	222,251	(444,193)	(221,942)
3. Financial assets available for sale	79,317	(52,289)	27,028
3.1 Debt securities	57,533	(3,246)	54,287
3.2 Equity instruments	8,909	(44,950)	(36,041)
3.3 UCIT units	12,875	(4,093)	8,782
3.4 Loans	-	-	-
4. Investments held to maturity	2,458	-	2,458
Total assets	**304,059**	**(496,482)**	**(192,423)**
Financial liabilities			
1. Due to banks	-	-	-
2. Due to customers	-	-	-
3. Debt securities issued	497	(9,693)	(9,196)
Total liabilities	**497**	**(9,693)**	**(9,196)**

Section 7 - Profits (losses) on financial asset and liabilities designated at fair value through profit and loss – Item 110

7.1 Net change in value of other financial assets and liabilities designated at fair value through profit and loss: breakdown of financial assets and liabilities designated at fair value

Transactions/Income components	Capital gains (A)	Gains on disposal (B)	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	**3,408**	**10,693**	**(3,086)**	**(40,645)**	**(29,630)**
2.1 Debt securities issued	3,408	10,693	(3,086)	(40,645)	(29,630)
2.2. Due to banks	-	-	-	-	-
2.3. Due to customers	-	-	-	-	-
3. Financial assets and liabilities in foreign currencies: conversion differences	**X**	**X**	**X**	**X**	**-**
Total	**3,408**	**10,693**	**(3,086)**	**(40,645)**	**(29,630)**

7.2 Net change in value of other financial assets and liabilities designated at fair value through profit and loss: breakdown of other financial assets mandatorily measured at fair value

Transactions/Income components	Capital gains (A)	Gains on disposal (B)	Losses (C)	Losses on disposal (D)	Net result [(A+B) - (C+D)]
1. Financial assets	**96,995**	**14,212**	**(90,755)**	**(9,531)**	**10,921**
1.1 Debt securities	846	4,396	(39,633)	(581)	(34,972)
1.2 Equity instruments	32,902	287	(2,001)	(1,577)	29,611
1.3 UCIT units	15,415	8,640	(33,744)	(445)	(10,134)
1.4 Loans	47,832	889	(15,377)	(6,928)	26,416
2. Financial assets in foreign currencies: conversion differences	**X**	**X**	**X**	**X**	**1,557**
Total	**96,995**	**14,212**	**(90,755)**	**(9,531)**	**12,478**

Section 8 - Net losses/recoveries on credit risk – Item 130

8.1 Net value adjustments for credit risk related to financial assets designated at amortised cost: breakdown

Transactions/Income components	Value adjustments (1)			Value recoveries (2)		Total 2018
	First and second stage	Third stage		First and second stage	Third stage	
		Write-off	Other			
A. Due from banks	(21)	-	-	2,645	16	2,640
- loans	-	-	-	2,621	16	2,637
- debt securities	(21)	-	-	24	-	3
of which: originated or acquired impaired credit	-	-	-	-	-	-
B. Loans to customers	(49,293)	(140,010)	(2,746,103)	35,975	1,222,016	(1,677,415)
- loans	(45,118)	(140,010)	(2,746,103)	27,395	1,222,016	(1,681,820)
- debt securities	(4,175)	-	-	8,580	-	4,405
of which: originated or acquired impaired credit	-	-	-	-	-	-
Total	**(49,314)**	**(140,010)**	**(2,746,103)**	**38,620**	**1,222,032**	**(1,674,775)**

Net value adjustments for credit risk for impairment of loans to customers - financing, includes adjustments on bad loans disposed of as part of the ACE project, for which accounting derecognition has not yet occurred.
In fact, while the transaction will be fully completed in 2019, the approval of the binding purchase offer on 10 December 2018 and the specific identification of the loans which were transferred at the end of December 2018 are such as to generate impacts on the financial statements as at 31 December 2018, in terms of the classification and measurement of the loans to be transferred. For measurement purposes, expected losses relative to the cited portfolio were quantified on the basis of the best estimate of recoverable flows to be realised following the completion of the transaction, with the transfer to Elliott of 95% of the Mezzanine and Junior tranches. As a whole, the negative impact of this measurement came to 659.9 million. For more details, please see the section "Other significant aspects relating to Group accounting policies", found in Section 5 - Other aspects, in Part A.1 of these consolidated Notes.

8.2 Net value adjustments for credit risk related to financial assets designated at fair value through other comprehensive income: breakdown

Transactions/Income components	Value adjustments (1)			Value recoveries (2)		Total 2018
	First and second stage	Third stage		First and second stage	Third stage	
		Write-off	Other			
A. Debt securities	(5,275)	-	-	1,521	-	(3,754)
B Loans	-	-	-	-	-	-
- to customers	-	-	-	-	-	-
- to banks	-	-	-	-	-	-
of which: originated or acquired impaired financial assets	-	-	-	-	-	-
Total	**(5,275)**	**-**	-	**1,521**	-	**(3,754)**

The tables below, while not fully comparable, show the breakdown of the net adjustments for impairment of the portfolio of the IAS 39 financial instruments at 31 December 2017, drafted in accordance with the provisions of the previous version of Bank of Italy Circular 262 (fourth update).

Net value adjustments for credit impairment: breakdown

Transactions/Income components	Value adjustments			Value recoveries				Total 2017
	Specific		Portfolio	Specific		Portfolio		
	Cancellations	Other		A	B	A	B	
A. Due from banks	**-**	**-**	**-**	**-**	**82**	**-**	**2,014**	**2,096**
- Loans	-	-	-	-	82	-	2,014	2,096
- Debt securities	-	-	-	-	-	-	-	-
B. Loans to customers	**(181,195)**	**(2,433,068)**	**(23,634)**	**594,419**	**656,612**	**-**	**85,722**	**(1,301,144)**
Acquired deteriorated loans	-	-		-	-			-
- Loans	-	-	X	-	-	X	X	-
- Debt securities	-	-	X	-	-	X	X	-
Other loans	(181,195)	(2,433,068)	(23,634)	594,419	656,612	-	85,722	(1,301,144)
- Loans	(181,195)	(2,420,036)	(20,408)	594,419	656,612	-	85,426	(1,285,182)
- Debt securities	-	(13,032)	(3,226)	-	-	-	296	(15,962)
C. Total	**(181,195)**	**(2,433,068)**	**(23,634)**	**594,419**	**656,694**	**-**	**87,736**	**(1,299,048)**

Key:
A = From interest
B = Other recoveries

Net losses on impairment of financial assets available for sale: breakdown

Transactions/Income components	Value adjustments		Value recoveries		Total 2017
	Specific		Specific		
	Cancellations	Other	A	B	
A. Debt securities	-	(27,318)	-	-	(27,318)
B. Equity instruments	-	(3,004)	-	-	(3,004)
C. UCIT units	-	(64,454)	x	x	(64,454)
D. Loans to banks	-	-	x	-	-
E. Loans to customers	-	-	-	-	-
F. Total	**-**	**(94,776)**	**-**	**-**	**(94,776)**

Key:
A = From interest
B = Other recoveries

Net losses on impairment of financial assets held to maturity: breakdown

In 2017, no value adjustments were recognised on financial assets held to maturity.

Net losses on impairment of other financial transactions: breakdown

Transactions/Income components	Value adjustments			Value recoveries				Total 2017
	Specific		Portfolio	Specific		Portfolio		
	Cancellations	Other		A	B	A	B	
A. Guarantees given	-	(42,299)	-	-	49,626	-	3,147	10,474
B. Credit derivatives	-	-	-	-	-	-	-	-
C. Commitments to disburse funds	-	-	(9,145)	-	-	-	-	(9,145)
D. Other loans	(11,493)	(1,607)	-	-	1,178	-	-	(11,922)
E. Total	**(11,493)**	**(43,906)**	**(9,145)**	**-**	**50,804**	**-**	**3,147**	**(10,593)**

Key:
A = From interest
B = Other recoveries

Section 9 - Profit/loss from contractual changes without derecognition - Item 140

9.1 Profit/loss from contractual changes: breakdown

Items/Income components	Total 31/12/2018		
	Income	Losses	Net result
Financial assets at FV recognised in other income statement components			
Contractual changes on financial assets at FV recognised through comprehensive profit and loss	-	-	-
Financial assets at amortised cost			
Contractual changes on financial assets at amortised cost	-	(1,843)	(1,843)
Total	**-**	**(1,843)**	**(1,843)**

Section 10 - Net premiums - Item 160

This item is of no significance for the Group.

Section 11 - Balance, 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 2018	Total 2017
1) Employees	**(1,718,822)**	**(1,763,135)**
a) salaries and wages	(1,206,731)	(1,238,605)
b) social security contributions	(316,006)	(326,181)
c) termination indemnities	(68,527)	(71,939)
d) pension expenses	(265)	(333)
e) provisions for employee termination indemnities	(5,039)	(1,985)
f) provisions for severance fund and similar obligations:	(4,045)	(6,291)
- defined contribution	-	(2,168)
- defined benefit	(4,045)	(4,123)
g) payments to external complementary pension funds:	(44,019)	(44,371)
- defined contribution	(44,019)	(44,371)
- defined benefit	-	-
h) costs deriving from share-based payment agreements	(2,917)	(2,972)
i) other employee benefits	(71,273)	(70,457)
2) Other personnel in service	**(172)**	**(2,342)**
3) Directors and Statutory Auditors	**(9,416)**	**(9,575)**
4) Retired personnel	**(200)**	**-**
Total	**(1,728,610)**	**(1,775,052)**

12.2 Average number of employees per category

	2018	2017
Employees	21,834	23,179
a) executives	335	377
b) total middle managers	8,582	9,205
of which: 3rd and 4th level	4,557	4,824
c) remaining employees	12,917	13,597
Other personnel	12	48
Average number of personnel	**21,846**	**23,227**

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 2018	Total 2017
- Social security costs relative to current work provided	(2,146)	(2,131)
- Financial expense	(1,905)	(2,007)
- Expected return from assets serving the plan	-	-
- Actuarial gains and losses	-	-
- Social security costs relative to past work provided	-	-
- Gains and losses from reductions or extinctions	6	15
Total	**(4,045)**	**(4,123)**

12.4 Other employee benefits

Other employee benefits, the costs of which are shown in the table above 12.1, under the item "i) other employee benefits", amounted to 71.3 million (70.4 million in 2017). This amount refers to contributions for meal tickets, costs for insurance policies stipulated for employees, costs for professional courses for employees and seniority bonuses.

12.5 Other administrative expenses: breakdown

Type of expense/Sector	Total 2018	Total 2017
a) Real estate expenses	(207,874)	(217,904)
- rents and maintenance	(166,102)	(171,135)
- cleaning expenses	(9,391)	(13,488)
- electricity, water and heating	(32,381)	(33,280)
b) Indirect taxes and duties	(330,799)	(339,457)
c) Postal, telephone, printing and other office expenses	(32,998)	(37,173)
d) Maintenance and fees for furniture, machines and systems	(59,467)	(63,560)
e) Professional services and consulting	(110,997)	(139,946)
f) Expenses for reports and information	(12,395)	(13,379)
g) Security and armoured cars	(21,248)	(21,047)
h) Distribution of third-party services	(226,780)	(259,426)
i) Advertising, entertainment and gratuities	(16,313)	(22,138)
l) Insurance premiums	(12,428)	(15,469)
m) Transport, car hiring and travel	(15,597)	(19,248)
n) Other costs and sundry expenses	(199,236)	(134,895)
Total	**(1,246,132)**	**(1,283,641)**

The item n) "Other costs and expenses" at 31 December 2018 included charges relative to the banking system totalling 138.8 million (106.9 million at 31 December 2017), as well as the fee to maintain DTA deductibility for 25.2 million, as better detailed in the following sections.

Contributions to deposit guarantee schemes and resolution mechanisms

With 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 and the creation of the Single Resolution Mechanism (EU Regulation no. 806/2014 of 15 July 2014), significant changes were made to European law concerning the governance of banking crises, with the strategic purpose of strengthening the single market and ensuring system-wide stability. Following the assimilation of these directives into national legislation, from 2015, credit entities must provide the financial resources needed to finance the Interbank Deposit Guarantee Fund (IDGF) and the National Resolution Fund, merged into the Single Resolution Fund (SRF) from 2016, by paying ordinary and, where necessary, extraordinary contributions.
In compliance with the DGSD directive, the IDGF has envisaged that Italian banks must pay ordinary annual contributions until the target level is reached, corresponding to 0.8% of total guaranteed deposits of the Italian banks that are members of the IDGF. Said level must be reached by 3 July 2024. The extent of the contribution requested of the individual bank is proportional to the amount of its guaranteed deposits as at 30 September of each year, with respect to the total guaranteed deposits of the Italian member banks of the IDGF and the degree of risk relating to the member bank with guaranteed deposits with respect to the level of risk of all of the other member banks of the IDGF.
As envisaged by the BRRD, Italian banks must make annual ordinary contributions until the SRF has acquired financial resources that are at least 1% of the total guaranteed deposits of all authorised credit entities in all participating Member States. This level must be reached by 1 January 2024. The contributions from each entity are calculated based on the ratio of the amount of their liabilities (net of guaranteed deposits and own funds, for entities belonging to a group, of intergroup liabilities) to the total liabilities (net of guaranteed deposits and own funds) of Italian banks and of the relative level of risk of each credit entity to the level of risk of all other Italian banks.

Note that if the available financial resources of the IDGF and/or of the SRF are insufficient, respectively to guarantee reimbursement to depositors or to fund the resolution, it is envisaged that the credit entities must then make extraordinary contributions.
The ordinary contribution 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 SRF and the third quarter for the IDGF.
More specifically, for 2018:

- the ordinary contribution to the SRF, indicated in the income statement for 2018, amounted to 68.1 million (the ordinary contribution for 2017 was 62.4 million). In this regard, please note that in 2018, as in the previous year, the Group did not avail itself of the option of fulfilling the request by entering into an irrevocable commitment to pay (IPC).
- the ordinary contribution to the IDGF, indicated in the income statement for 2018, amounted to 45.2 million (the ordinary contribution for 2017 was 44.5 million).

In addition, note that in May 2018, the Bank of Italy called in additional contributions to the National Resolution Fund for 25.5 million euro, in relation to the financial requirements connected with the termination measures carried out prior to the launch of the SRF; this amount was also indicated in the 2018 income statement, under "Other administrative expenses" (in 2017 no additional contributions were requested).

Fee to guarantee the convertibility of DTA - legislative changes to Decree Law no. 59/2016

Please recall that article 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 (DTA) 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 Article 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 DTA"). 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 2018 were added, which came to 25.2 million (26.2 million was indicated in the income statement in 2017).

Section 13 - Net provisions for risks and charges - Item 200

13.1 Net provisions for risks and charges relative to commitments to disburse funds and financial guarantees given: breakdown

	Allocations	Reversals	Total 2018
Commitments to disburse funds and financial guarantees given	(3)	10,730	10,727

13.2 Net provisions for other commitments and guarantees given: breakdown

	Allocations	Reversals	Total 2018
Other commitments and guarantees given	-	1,433	1,433

13.3 Net other provisions for risks and charges: breakdown

	Allocations	Reversals due to excess	Total 2018	Total 2017
Risks and charges for legal disputes	(34,985)	25,902	(9,083)	(16,502)
Other risks and charges	(355,948)	7,530	(348,418)	2,745
Total	**(390,933)**	**33,432**	**(357,501)**	**(13,757)**

Net other provisions for risks and charges amounted to 357.5 million and for the most part were represented (275.3 million) 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 claims, already received and expected, deriving from notification of customers interested in acquiring diamonds from the company Intermarket Diamond Business S.p.A., a company which was declared bankrupt by the Court of Milan on 10 January 2019. This item also includes the allocation of 46.2 million for foreseeable charges following the closure of 518 branches in the context of the reorganisation of the distribution network and the additional allocation against the decision to recalculate the conditions applied to customers regarding investigation fees and the granting of credit relative to previous years, based on metrics recently defined under more severe regulations and interpretative indications issued by the supervisory bodies (30.1 million). Finally, the item includes writebacks on allocations for commitments and guarantees for 12.2 million and other allocations of limited import.

Section 14 - Net adjustments to/recoveries on property and equipment - Item 210

14.1 Net value adjustments on property and equipment: breakdown

Asset/Income components	Depreciation	Writedowns for impairment	Value recoveries	Net result
	(a)	(b)	(c)	(a + b + c)
A. Property, plant and equipment				
A.1 Owned	(108,770)	(44,135)	-	(152,905)
- For functional use	(86,022)	(3,488)	-	(89,510)
- For investment	(22,748)	(40,647)	-	(63,395)
- Inventories	X	-	-	-
A.2 Acquired under financial lease	(2,188)	-	-	(2,188)
- For functional use	-	-	-	-
- For investment	(2,188)	-	-	(2,188)
Total	**(110,958)**	**(44,135)**	**-**	**(155,093)**

Value adjustments for impairment refer to writedowns on certain real estate properties held for investment purposes, to adjust their carrying value to the lower recoverable value derived from appraisal updates.

Section 15 - Net adjustments to/recoveries on intangible assets - Item 220

15.1 Net value adjustments on intangible assets: breakdown

Asset/Income components	Depreciation	Writedowns for impairment	Value recoveries	Net result
	(a)	(b)	(c)	(a + b + c)
A. Intangible assets				
A.1 Owned	(108,969)	(8,149)	-	(117,118)
- Generated internally	-	-	-	-
- Other	(108,969)	(8,149)	-	(117,118)
A.2 Acquired under financial lease	-	-	-	-
Total	**(108,969)**	**(8,149)**	**-**	**(117,118)**

Value adjustments for impairment include writedowns on software of 3.8 million, carried out following the integration of the Group's IT systems, as well as impairment of client relationships for 4.4 million.

Section 16 - Other operating expenses/income - Item 230

16.1 Other operating expenses: breakdown

	Total 2018	Total 2017
Expenses on leased assets	(15,662)	(11,713)
Amortisation of leasehold improvements costs	(17,775)	(13,751)
Other	(56,650)	(49,448)
Total	**(90,087)**	**(74,912)**

The item "other" includes legal settlement charges exceeding the provisions allocated for 23.8 million (25.5 million the previous year), operating losses relative to branch management (robbery, fraud, theft and other damages) for 6.9 million (11.4 million in 2017), as well as contingent liabilities and other contingencies.

16.2 Other operating income: breakdown

	Total 2018	Total 2017
Income on current accounts and loans	36,096	48,958
Recoveries on tax	255,589	256,970
Recoveries on expenses	31,106	37,602
Rents receivable on real estate	51,381	65,994
Other	416,718	3,163,574
Total	**790,890**	**3,573,098**

The sub-item "income on current accounts and loans" refers to the "fast enquiry fee" introduced by Decree Law 201 of 6 December 2011, converted by Law 214/2011.
Costs recovered mainly include those for legal expenses totalling 18.9 million (27.9 million the previous year).
The sub-item "other" mainly refers to capital gains, totalling 313.6 million, resulting from the sale of custodian bank and fund administration assets to BNP Paribas Securities Services (200.0 million) and the sale to Anima SGR of sub-advisory mandates on insurance assets carried out on behalf of the insurance joint ventures associated with the

bancassurance network of the former Banco Popolare (113.6 million), as described in more detail in the section on significant events during the year in the Report on Operations.
The previous year the sub-item "other" mainly referred to "badwill", equal to 3,076.1 million, recognised in the income statement following the completion of the PPA process at 1 January 2017, the date the merger between the Banco Popolare and BPM Groups took place.

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 2018	Total 2017
1) Companies under joint control		
A. Income	**-**	**-**
1. Revaluations	-	-
2. Profits from disposal	-	-
3. Value recoveries	-	-
4. Other income	-	-
B. Charges	**-**	**-**
1. Writedowns	-	-
2. Value adjustments for impairment	-	-
3. Losses from disposal	-	-
4. Other expenses	-	-
Net result	-	-
2) Companies subject to significant influence		
A. Income	**330,255**	**186,623**
1. Revaluations	159,552	173,995
2. Profits from disposal	170,703	-
3. Value recoveries	-	-
4. Other income	-	12,628
B. Charges	**(95)**	**(7,959)**
1. Writedowns	(95)	(7,959)
2. Value adjustments for impairment	-	-
3. Losses from disposal	-	-
4. Other expenses	-	-
Net result	**330,160**	**178,664**
Total	**330,160**	**178,664**

The items Revaluations and Writedowns include profits and losses deriving from measurement of equity investments in companies subject to significant influence using the equity method. In particular, profits refer for 126 million to Agos Ducato, for 9.6 million to Vera Vita, for 9.1 million to Vera Assicurazioni, for 5.8 million to Bipiemme Vita, for 3.1 million to Factorit, for 3.2 million to SelmaBipiemme, for 0.9 million to Alba Leasing, for 0.8 million to Etica SGR. Losses are mainly associated with Renting Italease, sold during the year.

Profits from disposal (170.7 million) refer to the overall economic effects of the sale fo 65% of Avipop Assicurazioni and Popolare Vita, net of sales costs.

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

The Group does not hold any property, plant and equipment or intangible assets designated at fair value or revalued value.

Section 19 - Value adjustments on goodwill - Item 270

18.1 - Value adjustments on goodwill: breakdown

The results of recoverability checks on goodwill recognised in the financial statements did not lead to writedowns 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 consolidated Notes.
Please see that found in part A - Accounting policies for a description of the methods used to determine losses of value in goodwill.

Section 20 - Profits (losses) on disposal of investments - Item 280

20.1 Profits (losses) on disposal of investments: breakdown

Income components/Sectors	Total 2018	Total 2017
A. Real estate	**10,985**	**10,189**
- Profits from disposal	12,870	24,459
- Losses from disposal	(1,885)	(14,270)
B. Other assets	**(8,330)**	**2,881**
- Profits from disposal	3,660	3,084
- Losses from disposal	(11,990)	(203)
Net result	**2,655**	**13,070**

Profits/losses from disposal of real estate refer mainly to disposal transactions carried out during the year by the parent company.
Losses from disposal of other assets almost entirely refer 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 2018	Total 2017
1. Current taxes (-)	(66,977)	(28,542)
2. Changes in current taxes for previous years (+/-)	5,649	21,055
3. Decreases in current taxes for the year (+)	33,929	53,809
3.bis Decreases in current taxes for the year due to tax credits pursuant to Italian Law no. 214/2011 (+)	65,699	456,516
4. Change in deferred tax assets (+/-)	95,020	(473,475)
5. Change in deferred tax liabilities (+/-)	69,508	116,357
6. Taxes accruing during the year (-) (-1+/-2+3+3bis+/-4+/-5)	**202,828**	**145,720**

Note that among the changes in deferred tax assets (point 4 in the previous table), 64 million is included for IRAP deferred tax assets on value adjustments of loans to customers deriving from first time application of accounting standard IFRS 9. To that end, it should be specified that the recognition of these derives from the regulations introduced by paragraphs 1067 and 1068 of article 1, Law 145 of 30 December 2018 (known as the "2019 Budget Law"), which changed the tax regime in effect as of the date in which the effects relative to the transition to IFRS 9 were definitively determined. As this was a regultory change which occurred after first time application, the tax effects were recognised as a balancing entry in the income statement, rather than in shareholders' equity. For more information, please refer to the appendix “Disclosure on first time adoption of the accounting standards IFRS 9 – Financial instruments and IFRS 15 – Revenue from contracts with customers”.

21.2 Reconciliation between theoretical tax charge and actual tax charge

IRES	2018		2017	
Profit (loss) before tax from continuing operations		**(272,820)**		**1,698,722**
Negative components of gross result not definitively significant (+)		**438,974**		**1,419,248**
Non-deductible interest payable	1,900		1,716	
Capital losses from disposal/valuation of equity investments/OCI	277,779		155,881	
Non-deductible taxes other than income taxes	28,663		30,151	
Non-deductible loan losses	2,067		3,644	
Administrative expenses with limited deductibility	7,042		11,829	
Other non-deductible expenses	49,319		48,217	
Goodwill impairment	-		1,014,494	
Losses of foreign companies	-		1,560	
Consolidation effects of infragroup equity investments	1,918		135,198	
Allocations	2,266		4,676	
Other	68,020		11,882	
Positive components of gross result not definitively significant (-)		**(662,258)**		**(3,536,791)**
Insignificant portion of capital gains from disposal/valuation of equity investments/OCI	(524,647)		(302,007)	
Insignificant portion of dividends before consolidation entries	(527,805)		(342,826)	
Cancellation of infragroup dividends	533,219		341,502	
Consolidation effects of infragroup equity investments	-		(386)	
Other	(143,025)		(3,233,074)	
Definitive increases not associated with gross result elements (+)		**89**		**-**
Other	89		-	
Definitive decreases not associated with gross result elements (-)		**(107,008)**		**(122,988)**
Lump sum 10% IRAP deduction and employee work cost IRAP deduction	(23)		(130)	
Portion of ACE subsidisable income	(53,778)		(93,975)	
Other	(53,207)		(28,883)	
IRES calculation base, income statement		**(603,023)**		**(541,809)**
Nominal IRES rate	24%		24%	
Effective IRES		**144,726**		**130,034**
IRES tax rate		**53.05%**		**7.65%**

IRAP	2018		2017	
Before tax profit (loss) from continuing operations		**(272,820)**		**1,698,722**
Negative components of gross result not definitively significant (+)		**960,964**		**2,603,363**
Non-deductible interest payable	2,209		2,882	
Non-deductible portion of amortisation/depreciation of functional assets	44,611		35,234	
Other non-deductible administrative expenses	188,240		205,337	
Personnel expenses net of deductions allowed (tax wedge reduction, disabled, etc.)	-		6,208	
Other value adjustments pursuant to item 130 of the income statement	-		90,168	
Net provisions for risks and charges	364,180		35,975	
Other operating expenses	17,216		3,517	
Losses on equity investmetns	324,595		934,453	
Goodwill impairment	-		1,033,506	
Consolidation effects of infragroup equity investments	1,918		111,970	
Other	17,995		144,113	
Positive components of gross result not significant definitively (-)		**(838,898)**		**(4,329,749)**
Profits from equity investments	(495,510)		(414,326)	
Insignificant portion of dividends before consolidation entries	(219,590)		(195,880)	
Cancellation of infragroup dividends	533,219		341,502	
Other operating income	(102,033)		(3,288,322)	
Profits from disposals of insignificant investments	(14,261)		(698,913)	
Consolidation effects of infragroup equity investments	-		(386)	
Other	(540,723)		(73,424)	
Definitive increases not associated with gross result elements (+)		**1,206,222**		**670,073**
Adjustments to neutralise negative production value	1,206,222		670,073	
Definitive decreases not associated with gross result elements (-)		**(879,504)**		**(373,622)**
Other	(879,504)		(373,622)	
IRAP calculation base, income statement		**175,964**		**268,787**
Nominal average weighted IRAP rate	5.134%		5.251%	
Effective IRAP		**(9,034)**		**(14,114)**
IRAP tax rate		**(3.31%)**		**(0.83%)**

IRES and IRAP not accruing during the year and other taxes	2018		2017	
Total impact		**67,136**		**29,800**
IRES - Current and prepaid tax assets and liabilities from previous years	(13,950)		(4,005)	
IRES - Additional 3.5% rate	19,734		18,562	
IRAP - Current and prepaid tax assets and liabilities from previous years	61,580		13,612	
Foreign taxes - other	(228)		1,631	
IRES and IRAP tax rate not accruing during the year and other taxes		**24.61%**		**1.75%**
Total taxes on gross result	**2018**		**2017**	
Total IRES + IRAP + Other taxes	**202,828**		**145,720**	
Total tax rate	**74.34%**		**8.58%**	

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 2018	Total 2017
1. Income	-	456,856
2. Charges	(4)	(332,474)
3. Result of valuations of groups of associated assets and liabilities	-	1,586
4. Profit (loss) from disposal	940	682,638
5. Taxes and duties	-	(46,344)
Profit (loss)	**936**	**762,262**

For 2018, the item includes the contribution to the income statement for the year of the subsidiary Mariner and capital gains realised following the disposal of the same in July.

The amount relative to the previous year, shown under the item Profit (loss) from disposal, refers to the capital gains realised before taxes following the sale of Aletti Gestielle SGR in December 2017. The contribution to the income statement through the date of sale of this latter subsidiary is shown in the remaining items, together with the contribution generated by the net assets of the subsidiary Mariner.

22.2 Breakdown of income taxes relative to discontinued operations

	Amount 2018	Amount 2017
1. Current taxes (-)	-	(36,662)
2. Change in deferred tax assets (+/-)	-	(176)
3. Change in deferred taxes (-/+)	-	-
4. Income taxes for the year (-1+/-2+/-3)	**-**	**(36,838)**

Section 23 - Income (loss) attributable to minority interests - Item 340

23.1 Breakdown of item 340 "Income (loss) attributable to minority interests"

Company names	2018	2017
Consolidated equity investments with significant minority interests	-	-
Other equity investments	(9,623)	(9,658)
Total	**(9,623)**	**(9,658)**

Section 24 - Other information

There is no other significant information other than that already provided in the above sections.

Section 25 - Profit per share

	31/12/2018		31/12/2017	
	Basic EPS	**Diluted EPS**	**Basic EPS**	**Diluted EPS**
Weighted average of ordinary shares (number)	1,510,954,842	1,510,954,842	1,514,538,059	1,514,538,059
Attributable result (in thousands of euro)	(59,432)	(59,432)	2,616,362	2,616,362
EPS (euro)	**(0.039)**	**(0.039)**	**1.727**	**1.727**
Attributable result without badwill and impairment (thousands of euro)	(56,503)	(56,503)	557,841	557,841
EPS (euro)	**(0.037)**	**(0.037)**	**0.368**	**0.368**

25.1 Average number of ordinary shares with diluted capital

As at 31 December 2018, 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	31/12/2018
10. Profit (loss) for the period	**(69,055)**
Other comprehensive income without reclassification to the income statement	(219,348)
20. Equity securities designated at fair value through other comprehensive income:	**(247,275)**
a) fair value change	(245,994)
b) transfers to other shareholders' equity components (*)	(1,281)
30. Financial liabilities designated at fair value through profit or loss (changes to its own credit risk):	**7,145**
a) fair value change	7,058
b) transfers to other shareholders' equity components	87
40. Hedges of equity securities 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	**-**
60. Intangible assets	**-**
70. Defined benefit plans	**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	**197**
100. Income taxes relative to other income components without reclassification to the income statement	**13,139**
Other income components with reclassification to the income statement	**(299,351)**
110. Foreign investment hedges:	**(754)**
a) fair value changes	(754)
b) reclassification to income statement	-
c) other changes	-
120. Exchange rate differences:	**2,721**
a) change in value	-
b) reclassification to income statement	-
c) other changes	2,721
130. Cash flow hedges:	**1,715**
a) fair value changes	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 securities) designated at fair value through other comprehensive income:	**(442,100)**
a) fair value changes	(287,182)
b) reclassification to income statement	(154,400)
- credit risk adjustments	2,399
- profit/loss from disposal	(156,799)
c) other changes	(518)
160. Non-current assets and disposal groups held for sale:	**-**
a) fair value changes	-
b) reclassification to income statement	-
c) other changes	-
170. Share of valuation reserves related to investments in associates carried at equity:	**(8,670)**
a) fair value changes	(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	**147,737**
190. Total other comprehensive income	**(518,699)**
200. Comprehensive Income (Items 10+190)	**(587,754)**
210. Consolidated comprehensive income attributable to minority interests	(9,599)
220. Consolidated comprehensive income attributable to the parent company	**(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 securities.
For that shown above, in order to render this transfer neutral within comprehensive income for financial year 2018, it was conventionally shown as a positive component under sub-item 20 a) "Fair value changes".

PART E – INFORMATION ON RISKS AND RELATED HEDGING POLICIES

Introduction

The document regarding the requirements of the Third Pillar (or Pillar 3) regulation, which sets forth the information aimed at providing disclosure on risk monitoring and management for the Banco BPM Group (capital adequacy, exposure to risks and the general characteristics of the systems that manage and control the aforementioned risks), in accordance with the provisions of the Bank of Italy Circular no. 285 of 17 December 2013 and specifically Part Eight of the EU CRR Regulation no. 575/2013, is made available within the terms provided for by the regulations in the Investor Relations section of the www.bancobpm.it website.

As specified in Part A of the Notes, the balances for the previous year are not fully comparable with the new accounting categories introduced by IFRS 9.
Therefore, similar to the other parts of the Notes, also in this Part E, the comparison data for 2017—if presented—is determined in application of the former IAS 39 and are therefore not consistent with the 2018 data.

That said, in this Part E, the comparison data was presented exclusively in Section 1 "Risks of budgetary consolidation" and in Section 2 "Risks of prudential consolidation" – "A Credit quality"and "B Credit exposure distribution and concentration", with the sole purpose of providing an indication of the reference aggregates for the previous year, without prejudice to the lack of full comparability of data which, following the introduction of IFRS 9, has undergone profound changes in classification and measurement.

In any case, specific evidence of this circumstance is provided each time the comparison data is presented.

In Section 1, the information is provided with reference only to the prudential consolidation, except in the cases expressly indicated. The tables show the figures gross of transactions with other companies included in the consolidation of the financial statements.

Section 1 - Risks of the accounting consolidated perimeter

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.

This provision applies, in theory, to receivables acquired as a result of the business combination with the former BPM 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 the gross value of 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 impaired 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.
Consequently, the tables in this section and in section 2 below have been drawn up using the "open balance" representation.
In order to give an appreciation of the differences with respect to a "closed balance" presentation, table A.1.2 "Distribution of financial assets by portfolio and credit quality (gross and net values)" is presented in two forms ("closed balances" and "open balances").

For the purposes of quantitative information on credit quality, the term "credit exposures" does not include equity securities or UCIT units.

A.1 Impaired and non-impaired 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	Other non-performing exposures	Performing exposures	Total
1. Financial assets designated at amortised cost	1,591,510	5,047,921	87,535	1,767,325	115,345,716	123,840,007
2. Financial assets designated at fair value through other comprehensive income	-	-	-	-	14,854,728	14,854,728
3. Financial assets designated at fair value	-	-	-	-	-	-
4. Other financial assets mandatorily at fair value	3,656	135,685	-	1,448	367,515	508,304
5. Financial assets held for sale	1,330,000	164	662	6,664	238,658	1,576,148
Total 31/12/2018	**2,925,166**	**5,183,770**	**88,197**	**1,775,437**	**130,806,617**	**140,779,187**
Total 31/12/2017 (*)	**6,487,692**	**6,467,942**	**80,425**	**-**	**127,591,881**	**140,627,940**

(*) Values determined in accordance with accounting standard IAS 39 and reclassified to provide a like-for-like comparison.

Information on the portfolio to which the credit exposures subject to concessions belong

As at 31st December 2018, exposures granted (so-called exposures with forbearance measures) amounted to 5,478.2 million euro (of which 3,383.3 million euro impaired and 2,094.9 million euro not impaired) and were entirely attributable to the portfolio of "financial assets measured 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)

"Closed balance" exposures

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 designated at amortised cost	11,180,670	(4,453,704)	6,726,966	(390,120)	117,493,097	(380,056)	117,113,041	123,840,007
2. Financial assets designated at fair value through other comprehensive income	-	-	-	-	14,864,243	(9,515)	14,854,728	14,854,728
3. Financial assets designated at fair value	-	-	-	-	-	-	-	-
4. Other financial assets mandatorily at fair value	290,455	(151,114)	139,341	-	-	-	368,963	508,304
5. Financial assets held for sale	5,262,465	(3,931,639)	1,330,826	(653,801)	246,029	(707)	245,322	1,576,148
Total 31/12/2018	**16,733,590**	**(8,536,457)**	**8,197,133**	**(1,043,921)**	**132,603,369**	**(390,278)**	**132,582,054**	**140,779,187**
Total 31/12/2017 (**)	**23,038,202**	**(10,002,143)**	**13,036,059**		**127,802,514**	**(218,625)**	**127,591,881**	**140,627,940**

(*) Value to be shown for disclosure purposes
(**) Values determined in accordance with accounting standard IAS 39.

"Open balance" Exposures

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 designated at amortised cost	11,814,237	(5,087,271)	6,726,966	(390,120)	117,493,097	(380,056)	117,113,041	123,840,007
2. Financial assets designated at fair value through other comprehensive income	-	-	-	-	14,864,243	(9,515)	14,854,728	14,854,728
3. Financial assets designated at fair value	-	-	-	-	-	-	-	-
4. Other financial assets mandatorily at fair value	323,880	(184,539)	139,341	-	-	-	368,963	508,304
5. Financial assets held for sale	6,157,084	(4,826,258)	1,330,826	(653,801)	246,029	(707)	245,322	1,576,148
Total 31/12/2018	**18,295,201**	**(10,098,068)**	**8,197,133**	**(1,043,921)**	**132,603,369**	**(390,278)**	**132,582,054**	**140,779,187**
Total 31/12/2017 (**)	**25,499,793**	**(12,463,734)**	**13,036,059**		**127,904,139**	**(320,250)**	**127,591,881**	**140,627,940**

(*) Value to be shown for disclosure purposes
(**) Values determined in accordance with accounting standard IAS 39.

Held for trading portfolio 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 low credit quality		Other assets Net exposure
	Accumulated capital losses	Net exposure	
1. Financial assets held for trading	(61,559)	6,353	3,908,315
2. Hedging derivatives	-	-	148,937
Total 31/12/2018	**(61,559)**	**6,353**	**4,057,252**
Total 31/12/2017	**(63,598)**	**11,145**	**4,406,752**

Poor credit quality exposures, with a book value of 6.4 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 2018, there were no disclosures to be made.

B.2 Unconsolidated structured entities

B.2.1 Prudentially consolidated structured entities

As at 31 December 2018, there were no disclosures to be made.

B.2.2 Other structured entities

The Group holds interests in investment funds (funds and SICAVs), primarily in order to meet its investment needs. Total exposure to these investments amounted to €492.4 million (€467.1 million at 31 December 2017). For further details, reference should be made to the information provided in the tables of composition of items 20 a) and 20 c) of the balance sheet assets, contained in Part B of these Notes.

The only 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 theplacement of investment funds in 2018 amounted to €575.5 million (€661.7 million in 2017).

Section 2 - Risks of prudential consolidation

During the third quarter of 2018, the Board of Directors of the Parent Company Banco BPM approved the new Risk Appetite Framework (hereinafter "RAF") whereby the Body with Strategic Supervision Function defines 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 summarise risk exposure;
3. the system of thresholds, which defines the risk appetite;
4. the escalation process, activated with different intensities and players when the various thresholds are reached;
5. the Risk Appetite Statement (RAS), in which the methods for calculating the thresholds and metrics are analysed;

6. the instruments and procedures which support the representation and operational management of the RAF, including Significant Transactions (ST).

The RAF makes it possible to establish, formalise, synergistically and unitarily communicate and monitor the consistency of the risk profile (of the Group and of the individual relevant companies) with the risk appetite approved by the Board of Directors and constitutes a policy for the development of the main company processes.
The system of metrics takes into account the recent regulatory instructions on Risk Governance and leverages the annual internal Risk Identification process, which has allowed 5 risk areas to be identified as relevant for the Group for RAF purposes: First and Second Pillar Capital Adequacy, Liquidity Adequacy, Credit Quality, Profitability and Operational/Conduct.
The indicators selected for monitoring the Group's exposure in the risk areas noted above were broken down into 2 levels, strategic—as they enable the Board of Directors to guide the Group's strategic policies—and operational, which fall under the purview of the Managing Body, as they supplement the strategic indicators and, when possible, anticipate their trends through greater monitoring frequency.
The system of thresholds for the strategic indicators defines 4 thresholds: i) Risk Target (Medium/Long-Term Objective); ii) Risk Trigger, the surpassing of which activates the escalation processes laid out in the Framework; iii) Risk Tolerance (tolerance threshold); and iv) Risk Capacity (maximum risk that can be assumed). For the Operational indicators, on the other hand, only the Risk Trigger threshold is used to distinguish the stress area from the business as usual area.
The Risk Function develops the RAF to support the Managing Body (MB), in collaboration with the Planning 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.
Risk prevention activities are also carried out in the process of managing Significant Transactions (relating to credit, finance, disposal of bad loans transactions, etc.) which involves, firstly, the Risk Function, which is required to express a prior, non-binding opinion on all significant transactions.

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 bank's administrative responsibilities, the MiFID regulation, anti-money laundering, workplace health and safety and work-related stress.

The Group's Risk Appetite Framework (RAF)

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 process of self-assessment of capital adequacy (ICAAP) and liquidity adequacy (ILAAP). The framework is also used as an operational tool in the context of the Recovery Plan and as part of the definition of remuneration policies.
The general principles that guide the Group's risk assumption process can be summarised as follows:

- activities are performed taking into account the risks assumed and the controls set in place to mitigate the same from a short and medium-long term perspective;
- 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 recent regulatory guidance on Risk Governance. All significant risks identified during this process are considered when defining the Risk Appetite Framework, and specific indicators are identified for their monitoring. In particular, the Group's RAF perimeter has identified different indicators divided into the main risk areas: First and Second Pillar Capital Adequacy, Liquidity Adequacy, Credit Quality, Profitability, Operational/Conduct.
The indicators that summarise the Group's risk profile in these areas have been divided into 2 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 enables the strategic 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 by the use of stress tests. Consistently, with the Trigger values, the system of limits used for operational purposes is defined (the so-called "Risk Limits);
- 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.

Instead, as regards the Operational indicators, only the Risk Trigger is established. Exceeding the risk limits triggers the prompt activation of specific escalation processes.
The Risk Function, in collaboration with Planning and 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 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.

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. Within integrated risk reporting, the Risk Function analyses the main risks to which the Group is exposed and periodically assesses the risk profile of the RAF indicators, comparing them with the thresholds established in the framework, providing historic and detailed analyses to explain the trends, the focus areas, and the areas for improvement.
Benchmarking analysis of the main Italian and European banks allows Corporate Bodies and top management to gain a more integrated view of Group risks.

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, the 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 Accounting 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 summarised in the annual ICAAP (Internal Capital Adequacy Assessment Process) report.
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, without taking into consideration the benefit of diversifying risks), 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. The simulations are conducted under normal operating conditions and also consider the results of the application of stress scenarios.

First and second pillar liquidity adequacy

The Banco BPM Group manages the adequacy of its liquidity profile both from a current and future perspective, as regards Pillar I and Pillar II, based on Basel 3 rules and the guidelines of the Supervisory Authority.

Regarding the Pillar I, the Group's regulatory liquidity adequacy is continuously monitored through two ratios: the Liquidity Coverage Ratio (LCR), which promotes the short-term resilience of the liquidity risk profile of the bank by ensuring that it has sufficient high-quality liquid resources to overcome a situation of acute stress lasting one month; the Net Stable Funding Ratio (NSFR), which seeks to encourage longer-term resilience by providing the bank with greater incentive to fund its activities by utilising more stable sources of funding on a structural basis. This structural ratio has a time horizon of one year and was developed to guarantee that assets and liabilities have a sustainable maturity structure. These ratios are integrated into Pillar II by metrics developed internally, complementary to the regulatory liquidity ratios and stress analyses.
The Group has also adopted an Internal Liquidity Adequacy Assessment Process (ILAAP). ILAAP is the internal process by which Gruppo Banco BPM manages and monitors liquidity risk at Group level and assesses the adequacy of liquidity in both the short and medium/long term. The ILAAP also provides for an annual internal self-assessment of the overall Liquidity Risk Management Framework aimed at continuous improvement of the process itself.

Risks considered to be significant by the Group

The process of identifying risks (the so-called 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 is a map of risks that comprises a list of the risks considered significant for the Banco BPM Group. This represents the basis for defining the RAF indicators and the risks contained in it must be considered in the ICAAP, both from a quantification perspective, where possible, and in terms of a description and assessment of the measures set in place to prevent and mitigate risk.
The Parent Company, Banco BPM, guarantees the measurement, monitoring and management of the capital requirements for each type of risk and guarantees the supervision and the quantification of the capital resources available to the Group to cover its risk exposure with a view to complying with the regulatory obligations of Pillar I and Pillar II of Basel II. 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 Pillar I risks (credit risk, counterparty risk, market risk and operational risk), the risks retained significant by the Banco BPM Group after the Risk Identification process 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	Current and prospective risk linked to a potential decrease in net interest income with respect to the objectives set due to a low level of customer satisfaction with the Group's products and services due to adverse market conditions.
CONCENTRATION OF RISKS	This is the risk that the exposure towards a single counterparty could lead to, at the same time, different types of risk.
CONDUCT	This risk is included in operational risk and 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 finalisation of transactions or in the management of processes, as well as losses due to relations with commercial counterparties, sellers and suppliers.
GEOPOLITICAL	Risk deriving from geopolitical uncertainties within the European system.
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 on the basis of which strategic decisions are made, generates an erroneous output due to an erroneous specification, defective execution or improper use of the model.
NON-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. Country risk is a broader concept than sovereign risk because it refers to all exposures irrespective of the nature of the counterparties, be they natural persons, businesses, banks or public administrations.
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	This is the risk resulting from current regulatory changes that could influence the pursuit of the strategies identified by the Group.
REPUTATIONAL	This is the risk linked to a negative perception of the bank's image by 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 source of 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 relevance of different types of Credit Risk Mitigation (CRM) tools is assessed in terms of reducing the capital requirement obtained thanks to their use.
STRATEGIC	This is the current or future risk of a potential decrease in profits or capital as a result of incorrect market positioning or erroneous management decisions. 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 the 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 variable rates also represent a source of interest rate risk, which 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.

Risks arising from the Brexit negotiations

As indicated in the Directors' 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.

Stress test

The Banco BPM Group has implemented a detailed stress testing framework, meaning a set of quantitative and qualitative techniques which permit the bank to assess its vulnerability to exceptional but plausible events. The framework also includes guidelines relating to the application of stress scenarios, as well as the roles and responsibilities of the corporate functions and Corporate Bodies. The framework for long-term forecasting and for stress testing adopted by Banco BPM comprises a coordinated set of methods, processes, controls and procedures that define the main variables to be used from a forward-looking perspective for estimates in normal and adverse conditions, for planning and risk management purposes as well as regulatory and managerial ones.
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 analysis process is based on quantifying the firm-wide impacts relating to stress testing, which enable a global assessment in terms of the Bank's risk profile.
These tests allow identification of the risk factors that contribute more than others to these negative results 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:

- Drafting the Risk Appetite Framework (RAF)
- Strategic and operational planning
- Quantifying operational limits
- Calculation of IFRS 9 ECL
- Internal Capital Adequacy Assessment Process (ICAAP)
- Internal Liquidity Adequacy Assessment Process (ILAAP)
- Liquidity Contingency Plan
- Recovery Plan
- Short-Term Exercise (STE).

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 time-scales dictated regularly by the Supervisory Authority. Specifically. In 2018 the Group was involved in the EU-Wide stress testing exercise, coordinated by EBA/ECB, which aimed to verify the Group's resilience in both baseline and adverse scenarios.
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 perspective of the risks, of the relative economic and financial impacts, assessing the overall soundness of the bank in the event of adverse or alternative scenarios with respect to the benchmarks, therefore providing support for the preparation of the budget and the business plan;
- overcoming the limitations arising from risk management models based on historical data (for example Historical VaR 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. Stress tests are actually used to define specific internal trigger thresholds which when reached trigger the activation of resolution plans as envisaged by the Bank Recovery and Resolution Directive (BRRD) relating to the prevention and management of bank and investment company crises.

Internal risk control system

The following paragraphs contain a description of the structure and the duties of the corporate audit functions of the new Banco BPM Group. The main corporate functions of the Parent Company Banco BPM involved in risk management and control are the following:

- Audit Function;
- Risk Function;
- Compliance Function.

The Audit Function reports directly to the Board of Directors and performs the Internal Auditing activities set forth in the Supervisory Provisions by carrying out auditing and monitoring activities—on-site and remotely—at the Group's Banks and Product Companies, by virtue of a specific outsourcing agreement or its role as Parent Company. The head of the Audit function has direct access to the Body with a control function and communicates with it without restrictions or intermediaries.
On the one hand, the Audit function aims to monitor the regular performance of operations and the evolution of risks, with a view to third-level controls, including on-site checks, and, on the other hand, to strives to assess the completeness, adequacy, functionality and reliability of the organisational structure and other components of the internal control system. The Function brings possible improvements to the attention of corporate Bodies, with particular reference to the RAF, the risk management process and the instruments for measuring and controlling the same. Based on the results of its audits, it then makes recommendations to the corporate Bodies.
In accordance with the Group's Governance Model, the Parent Company conducts the internal audit function centrally for the entire Group, also on the behalf of its Subsidiaries.
When performing its duties, the Audit function takes the provisions of the widely accepted professional standards into account. The Audit function directly communicates the results of the checks 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 maintains relations with the Supervisory Authorities in accordance with the provisions of internal regulations.

The Risk Function reports directly to the Managing Director of Banco BPM.The head of the function has direct access to the Body with Strategic Supervision Function and the Control Body and communicates with them without restrictions or intermediaries.
The Risk Function of the Parent Company takes on the role of risk control function pursuant to the Bank of Italy Circular 285/2013, ensuring the functional coordination of the risk controls of Group Companies and oversees—at Group level and in an integrated way—the processes of managing risk (Enterprise Risk Management), developing and measuring risk (Risk Models) and the process of validating internal risk measurement models (Internal Validation).
The Risk Function and the structures within it are independent from the operating functions and activities. In particular, they are tasked with:

- in line with corporate strategies and objectives, defining guidelines and policies on risk management, compliance and legal matters;
- coordinating the implementation of guidelines and policies on risk management, compliance and legal matters by the relevant group business units, and in other corporate departments as appropriate;
- guaranteeing the measurement and control of group exposure to the various types of risk and the related capital absorption, verifying the implementation of guidelines and policies defined on risk management and compliance with the thresholds defined within the Group Risk Appetite Framework;
- guaranteeing the development and the continuous improvement of the models and of risk measurement metrics—for First and Second Pillar, in ordinary and stressed conditions—also through projects addressed to implementing advanced models, to aligning to standards that are introduced at international level over time to implementing Supervisory regulations and directives as well as to developing increasing effective oversight;
- overseeing the process of validating the internal models used to calculate capital requirements;

- overseeing the process of verifying, through second-level controls, the proper conduct of performance monitoring on individual exposures, and checking the consistency of classifications, the consistency of provisions and the adequacy of the loan recovery process.

The activities of the Head of the Risk Function also seek to facilitate the corporate Bodies in performing their respective duties as regards the Internal Audit System, by:

- intercepting all relevant information for the quantification and management of risk promptly and in a coordinated manner;
- a more integrated ability to process, systematise and contextualise the information acquired and to make evaluations (both in terms of risk and of the value of the assets) independently from other applications;
- an (integrated) summary presentation of corporate risks and, therefore in this way, a greater understanding, by the Corporate bodies, of the main problems highlighted by the second-level internal audit system;
- the adoption of prompt and consistent corrective measures relating to the problems and the relative priorities highlighted by the second-level internal Audit Functions.

Internal Validation Function, which reports directly to the Risk Function, independently oversees the internal validation processes of risk measurement and management systems to assess the model risk implicit in the methods used to measure risk, conducts controls aimed at validating the calculation of capital requirements and validating pricing models.

The Compliance Function of the Parent Company, which reports directly to the Managing Director, oversees the management of non-compliance risk with regard to all company activities, according to a risk-based approach, and verifies that internal procedures are adequate to mitigate such risk. To that end, the regulatory compliance function has access to all the activities of the Parent Company and the Companies of the Group, both central and peripheral, and to all necessary information, including through direct dialogue with personnel. It enjoys direct access to the Body with Strategic Supervision Function and to the Control Body and communicates with them without restrictions or intermediaries.
The Compliance function is directly responsible for managing the risk of non-compliance with the most relevant regulations concerning the exercise of banking and brokering activities, the management of conflicts of interest, transparency in regards to customers and, more generally, the regulations designed to protect the consumer, as well as regulations for which there are no existing forms of specialised supervision within the Parent Company and the Group Companies. With reference to other regulations for which specific forms of Specialist Supervision are envisaged, the tasks of the Compliance function—on the basis of an assessment of the adequacy of the specialist controls to manage the risk profiles of non-compliance—are graduated and the Compliance function itself is in any case responsible (in collaboration with the specialist functions in charge) for:

- defining the non-compliance risk assessment methods;
- identifying the relevant procedures;
- verifying the adequacy of said procedures in preventing the risk of non-compliance.

The Compliance function also takes on the responsibilities defined within the joint Regulation of the Bank of Italy and CONSOB, dated 29 October 2007, and subsequent amendments and additions, in terms of conformity control and the relative reporting of investment services and collective asset management (Art. 16).
The Anti Money Laundering function of the Parent Company is part of the Compliance function and reports directly to the relevant corporate Bodies. It oversees, with full autonomy in its controls, the risk of money laundering and the funding of terrorism, as well as reports of suspicious transactions. It performs the activities required by law from the head of the Anti Money Laundering function and the Suspicious Transaction Report (STR) Representative.

Improvement activities for the risk control and management system

Over time, the Banco BPM Group has launched many projects aimed at improving its risk control and management system. In particular, the Group is currently authorised to use its own internal models to calculate regulatory capital absorption with reference 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. For credit portfolios outside the scope of first-time validation, AIRB continues to apply the standard regulatory approach for prudential purposes. In 2017, the 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;

- market risk (starting from the recognition of 30 June 2007 for Banca Akros and of 30 June 2012 for Banco BPM and Banca Aletti). In 2018, the Parent Bank'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 portfolio. In 2018, project activities were started 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) on the first validation scope (for Banco Popolare companies, Banca Aletti, SGS BP and BP Property Management, with first reporting in June 2014) and on the roll-out scope shared with the Regulator (relating to the business segments of Aletti Gestielle SGR and the BP Leasing Division - formerly Banca Italease, first reporting as at 30 June 2016). The former BPM 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 remaining companies of the two former Groups have adopted the BIA (Basic Indicator Approach) method since 2008. From the date of the merger, the 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 the Banco BPM Group. In 2017, Banco BPM Group launched a project to extend the advanced methods of the former BPM component for management purposes. 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 RISKS

QUALITATIVE INFORMATION

1. General features

The Banco BPM Group pursues lending policy objectives that seek to:

- support the growth of the business activities 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 the budget objectives, and the business plan, 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 its role of management, direction and support for the Group.

The credit 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 weighted risk assets using advanced methods.
Portfolio risk monitoring is based on a default model that is applied on a monthly basis mainly to credit exposures of the Banco BPM Group, with regard to performing loans, cash loans and endorsement credits, of resident customers.

2. Credit risk management policies

2.1 Organisational features

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 responsible for risk management. They are updated annually within the RAF framework and guide the credit policies in relation to the development of the company's activities, the expected risk profile and the external context.
As required by supervisory regulations, the Group has internally defined the *ex-ante* management process for Significant Transactions (ST) and the monitoring of large exposures, governed by specific company regulations on the subject.
The Parent Company defines the Group's credit policies in tandem with the budget process and in line with the strategies, propensity to risk and economic objectives approved by the Board of Directors.

In order to measure credit risk in its various meanings and components, the Group adopts models and metrics developed in compliance with supervisory regulations, aimed at ensuring sound and prudent management of the risk positions taken and at complying with regulatory requirements, also assessing the effect of scenario changes to which the loan portfolio is exposed.
These models must undergo regular back testing and stress testing to guarantee their statistical robustness and prudence, validated by an operating unit independent of the function responsible for their development, and reviewed at least once a year by the Audit Function.

From a regulatory perspective, risk-weighted assets (RWA) are determined using an internal ratings-based approach (the AIRB Approach) on the risk segments/parameters validated by the Supervisory Authorities and the Standard Approach for other exposures, in line with the Group's roll-out plan.
The risk parameters of the models are regularly calibrated.
The process of developing and updating/changing the rating models is made up of the set of activities and procedures that aim to define, at an initial stage or at a later update point, the rating models applicable to credit exposures, i.e. statistical or experiential models intended to support the credit assessments conducted by the Companies of the Banking Group and at determining the capital requirements of the same against the risk of unexpected losses.
With reference to the validated segments, there are:

- five rating models (four for Business customers and one for Private customers), which use financial statement, performance and qualitative information (Business customers) and sociological/performance information (Private customers), calibrated according to a long-term approach (through-the-cycle), in order to neutralise possible impacts deriving from an expansionary or recessive phase of the economic cycle;
- two models of performing LGD (one for Business customers, one for Private customers).

Operationally, the measurement of the unexpected loss on credit risk is made by quantifying the economic capital by applying a Credit VaR portfolio model.

The central feature of the credit risk measurement models is the Rating System, a structured and documented set of methods, organisational and control processes and database organisation methods that allows for the relevant information to be collected and processed in order to formulate summary assessments of the riskiness of a counterparty and of individual credit transactions.
The rating system is built into decision-making processes and the management of corporate operations and plays a significant role in the following Group processes:

- Credit policies;
- Commercial planning;
- Capital planning;
- Risk Appetite Framework;
- Product pricing;
- Granting loans;
- Loan monitoring and management;
- Provisioning;
- Risk measurement and control;
- ICAAP and ILAAP;
- Bonus system management;
- A.Ba.Co. (other funding tools).

The methods for the management of ratings in the various company processes are governed by the regulations that are issued from time to time concerning these areas. The regulatory framework for credit risk, developed in line with company standards, is based on specific Regulations and Process Rules, specifically the Regulation on credit and counterparty risks and the Regulation on autonomy Limits and the powers to extend and manage credit.
The principles defined in the issued Regulations are applied and included organically in the text of the regulations for the processes included in the corporate taxonomy.
The credit granting processes guarantee an adequate, objective and consistent assessment of creditworthiness and risks through the use of ratings to guide decision-making.
Specifically, the ratings are used to define the decision-making competence through a weighted method based on the creditworthiness assessment of each counterparty, summarised by the rating, as well as on the factors used to contain the assumed risk.
The assessment of the risks already assumed or to be assumed is conducted with regard to the individual customer and the Risk Group, i.e. the group of persons connected through the links that were taken into consideration when recording the Economic Groups, as well as those of joint accounts and joint obligation, with reference to the entire Banking Group.
The criteria for assigning responsibilities to the various parties/organisational units involved in the credit granting process are based on principles of separateness in order to guarantee independence of mind and prudence when assuming risks.
In this regard, the roles of the "Proponent", the "Decision Maker" and any "Intermediate Body expressing an opinion" are clearly distinguished within the activities envisaged in the credit granting process.
For non-resident customers, the assumption of "Credit Risk", "Delivery Risk", "Placement Risk" and "Evidence Risk" must be subject to the prior verification of compliance with the ceiling authorised for "Country Risk".
The "Authorisation, monitoring and management of overruns and/or past-due loans" standard defines the constant monitoring activities that the manager must conduct when handling the relationship with reference to overruns and past-due and unpaid instalments and to uses against overdue or reduced overdraft facilities.
Managing overruns is accompanied by a special procedure that has made access to data on positions in the situation defined as "past due being processed" more efficient, allowing current and historical information that is available to be consulted, including the details of the individual report, as well as lists to be obtained which are based on the parameters chosen by the user.
Forborne credit is identified as part of the credit granting process and, subsequently, via the Electronic Credit Line Procedure.
Forborne credit is identified with reference to both performing positions on the watch list and those classified as non-performing exposures, for which financial difficulties have been found (this status is objective for positions classified as non-performing exposures) and the granting of tolerance.
The Relationship Manager, in the role of "Proponent", is responsible for:

- conducting an assessment of the customer's financial difficulties. All the information used in the preliminary assessment to analyse creditworthiness in the Electronic Credit Line Procedure, including a specific

supplementary check-list that is different for Businesses and Private customers, are used to form a judgement;
- assessing the proposed loan grant in terms of its forbearance;
- entering in the IT system its assessment of whether the customer is in a state of financial difficulty and the identification, or lack thereof, of the concession in proposal as a measure of forbearance.

The Intermediate Body which expresses its opinion is required to share the Proponent's assessments.
The Deliberating Bodies are responsible for certifying the consistency or inconsistency of the assessment formulated by the Proponent.

The evidence expressed during the resolution on the individual line of credit automatically identifies all the accounts connected to it as "forborne".
Once classified as forborne, exposures are managed as part of the reference processes ("Monitoring and management of impaired credit" for "Exposures subject to impaired concessions" and "Monitoring and management of credit: watchlist" for "Other exposures subject to concessions").
Decisions on the discontinuation of forborne credit or the "performing" reclassification of "Exposures subject to impaired concessions" are assisted by the IT system.
In this regard, positions that exceed the objective parameters defined by the EBA regulations are automatically highlighted and the proposals are subject to a structured process that allows all available assessment elements to be examined and the history consulted.
The reclassification as higher risk of the "performing" exposure, already previously subject to tolerance, occurs automatically when the events defined by the EBA regulations are found.

Country Risk, which identifies the risk factors attributable to the political, macroeconomic, institutional and legal situation of a foreign country, is considered, with reference to all transactions of a commercial and financial nature, if the counterparty is resident or based in a foreign country. Country risk focuses on two main elements:
- political risk, the set of factors concerning the political and institutional system that may influence a country's willingness to honour its commitments;
- the risk of transfer, the set of economic factors that may influence the possibility that a given country may establish, as part of its economic policy, limits on the transfer of capital, dividends, interest, commissions or royalties to foreign creditors and/or investors.

For non-resident customers, the assumption of Credit Risk, Delivery Risk, Placement Risk and Evidence Risk must be subject to the prior verification of compliance with the ceiling authorised for Country Risk.
Please note that Transfer Risk is included in the credit portfolios that use ECAI ratings (exposures to States and central Administrations, supervised Intermediaries and non-resident Corporate entities). The residual scope (non-resident customers without ECAIs), which is limited, is regularly monitored 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.
Procedures and tools to support processes include:
- in the Credit Granting processes, the Electronic Credit Line Procedure supports the Network in the preliminary, proposal, resolution and finalisation phases and automatically calculates the decision-making competence;
- the web-based Electronic Credit Line Procedure supports the credit granting process with a specific work flow with parametric management and permits constant tracking of the preliminary process—proposal—forwarding to the superior Bodies and resolution, as well as the automatic control of the required documents and the validity of the assessment elements;
- for procedures in favour of Private customers, Small Businesses and Small Economic Operators, decision-making engines (ScoPri, Transact) are used to support the financing of the proposed transaction, which define a summary valuation with increasing riskiness;
- 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 impaired loans, differentiated according to status (Past Due and Impaired, Restructured, Non-Performing), a new Electronic Management Procedure was 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.
A document summarising the overall trend of first and second pillar risks was also produced on a monthly basis to support the regular integrated reporting of Group risks, aimed at monitoring the development of economic capital and reporting the appropriate evidence to corporate Bodies.

2.2 Management, measurement and control systems

The 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 internal rating system, which is structured based on probability of default (PD), loss given default (LGD) and exposure at default (EAD) risk parameters, 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 IFRS9 accounting principles that have been in force since January 2018.

The classification of non-performing exposures is conducted in line with the criteria established by the EBA.
To a great extent, the management of non-performing loans in the Group is based on a model that assigns the management of a specific set of loans (portfolio) to specialist resources. In particular, at the start of the year the Group established a unit dedicated to the management of non-performing positions, including through the assignment of portfolios, named NPL Unit, in keeping with what is set forth in the 2016-2019 Strategic Plan guidelines. The primary aim of the NPL Unit, which reports to the Managing Director, is to manage non-performing loans with a view to optimising recovery efficiency and speed and creating opportunities for maximising value.
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.
For a snapshot of the Group's impaired loans as at 31 December 2018, please refer to the information provided previously in the section of the Report on Operations commenting on the yearly results.

Portfolio risk monitoring is also based on a default model that is applied on a monthly basis to credit exposures of the Banco BPM Group, with regard to performing loans, cash loans and endorsement credits, of resident customers. For more information on the general features of this model, please refer to paragraph "E. Prudential Consolidation - Credit risk measurement models".
With regard to the other exposures—differing from performing ordinary and financial resident customers—the control of the risks is achieved by means of 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% likelihood 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.

In order to implement the above requirements the Group:

- defined the reference framework to ascertain whether there has been a significant increase in credit risk ("Framework Stage Assignment") and the subsequent classification of performing exposures from Stage 1 to Stage 2;
- developed models – including forward-looking information – to be used both for the purposes of stage assignment (lifetime PD) and for the calculation of the expected credit loss at one year and lifetime.

Framework stage assignment

In order to allocate exposures to the various stages, the Banco BPM Group has classified them as follows:

- performing loans in Stages 1 and 2;
- non-performing loans in Stage 3. The analysis has led to the conclusion that the relative scope is in line with that of non-performing loans, determined according to the definitions contained within current supervisory provisions[1] (bad loans, unlikely to pay, past due), since they are deemed consistent with the 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.

In regard to performing loans, the significant deterioration in creditworthiness was defined at the single relationship level 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 will be made on the basis of quantitative and qualitative criteria. For the staging of debt securities that are characterised by more than one purchase transaction for the same ISIN, the Group has decided to use the First In-First Out (FIFO) method to calculate the original creditworthiness of the quantities subject to valuation.

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, the Group has identified the following criteria:

- relative quantitative criteria, based on statistical observations, considered an indication of a significant increase in credit risk over time;
- absolute qualitative criteria, represented by the identification of trigger events or the exceeding of absolute thresholds as part of the credit monitoring process;
- backstop indicators, i.e. factors of credit delinquency, the existence of which gives rise to the presumption that there has been a significant increase in credit risk, unless there is evidence to the contrary. Presumably, except in exceptional cases attributable to specific types of counterparties, such as Public Administrations, the Group believes that the credit risk of the exposure should be considered significantly

[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).

increased if past due/delinquent for more than 30 days, without prejudice to the application of the thresholds of significance provided for by supervisory regulations.

With reference to absolute qualitative criteria, their identification is based on the so-called "watch-list", i.e. the Group's monitoring system through which performing positions that show an anomalous trend from a credit point of view are intercepted by means of automatic or manual mechanisms. From the above-mentioned "watch-list", those indicators considered expressive of a significant increase in credit risk were then selected (e.g. synthetic judgement of the degree of risk of the individual customer above a certain threshold, prejudicial events). This includes all exposures affected by forbearance measures which have this attribute still active, regardless of whether the current probation period is regular.

With particular reference to the quantitative criterion applicable to credit exposures to customers, the Banco BPM Group has chosen to take the change between the Lifetime Probability of Default (LPD) at the date of origin of the financial instrument and the same probability measured at the reporting date as a reference, considering the residual duration of the transaction. The development of the model has 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.

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.
The starting point for the determination of these thresholds is represented by the risk bands adopted by the Group in the various business processes. In particular, these bands represent a clustering, differentiated by risk segment, of the rating classes aimed at grouping together groups of counterparties with the same risk level. The use of these bands makes it possible to achieve consistency between the processes of assessing credit exposures for balance sheet purposes and the internal processes of credit management (disbursement, pricing, monitoring and classification), thus ensuring that the impact of the accounting model on expected losses can also be understood from a credit risk assessment management perspective.
The staging model is therefore based on the identification of thresholds that determine the "jump" in the risk band and, consequently, on the identification of changes in PD between the date of origination and reporting considered expressive of a significant increase in credit risk for the counterparty. The identification of these thresholds is based on the Group's historical observations and has been subject to a calibration process aimed at identifying the perimeter of the positions to be classified in Stage 2 before the transition to impaired exposure, limiting the so-called false negatives of return from Stage 2 to Stage 1.

For the portfolios of loans to banking counterparties and debt securities that do not have an investment grade rating, the relative quantitative criterion is based on a change in the probability of default at twelve months, rather than over the residual lifetime of the instrument. This simplified approach, taking account of the type of counterparty/issuer, is justified by the insignificance of the difference in impact compared to the more complex model used on the portfolio of exposures represented by loans to customers.

Debt securities with an investment grade rating at the reporting date, which are mainly attributable to government securities, are classified as Stage 1 because the Banco BPM Group has made use of the Low Credit Risk Exemption for this category and this category only. This exemption represents the convenient expedient of not conducting the test related to the significant deterioration of credit risk with exposures whose credit risk is considered low.

With reference to the functioning of the model, the Banco BPM Group has decided to adopt a symmetrical reclassification model from Stage 2 to Stage 1. In cases where the conditions triggering the significant deterioration in credit risk cease to exist at a later valuation date, the financial instrument returns to being measured based on the expected loss over twelve months. It should also be noted that in the event of a return 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 therefore depend on the automatic application of the framework stage assignment that was illustrated previously.

Expected Credit Loss – Stage 1 and Stage 2

With reference to the Expected Credit Loss (ECL) calculation model for measuring the impairment of instruments classified under Stages 1 and 2, it should be noted that its development was based on the new internal model for measuring credit risk, which was approved by the Supervisory Authority in February 2018, with its extension to credit exposures acquired by the former BPM Group as part of the business combination from which Banco BPM originated.

Based on this model, with specific adjustments, new IFRS 9 compliant risk parameters have been developed, in terms of:

- one-year and lifetime probability of default (PD): 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);
- Loss Given Default (LGD): the percentage of loss in the event of default on the basis of historical experience over a given observation period;
- Exposure at Default (EaD): the amount of exposure at the time of default.

In defining the scope of the model, with respect to the regulatory parameters, we have taken into account:

- the conditions of the current economic cycle (Point-in-Time risk measures);
- forecast information regarding the future trends in market factors (forward-looking risk measures) on which the expected lifetime loss depends. This forecast information refers to a defined time period (typically the expected duration of the credit exposure under assessment).

Additionally, factors that are only relevant for regulatory purposes (such as the down turn component considered in the regulatory LGD calculation to account for the adverse economic cycle) were removed, while the risk parameters over the entire lifetime of the instrument were considered.

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 and included forward-looking factors is provided below.

Estimating the PD parameter

As illustrated above, the probability of default must be estimated not only in the twelve months following the reporting date, but also in future years in order to allow lifetime provisions to be calculated.
For the Group, the PD curves were constructed by multiplying the migration matrices of the various risk segments defined by the internal rating models (Large Corporate, Mid Corporate, Mid Corporate Plus, Small Business, Private) which are conditioned on the economic cycle. 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 sectoral clusters (e.g. industry, 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 were 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.

Estimating the LGD parameter

In addition to the removal of adjustments used for regulatory purposes (indirect costs and down turn factor), from a forward-looking perspective, the estimate of this parameter takes into account the impact of the economic cycle on both the value associated with real estate guarantees through the property price index (thus changing the ratio

between the residual debt and the value of the guarantee) and the component represented by the probability of bad loans via a specific scaling factor obtained by simulating the default cycles with the migration matrices between statuses.

EAD Estimation

To calculate the parameter in question, the exposure considered 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 (guarantees and commitments to disburse funds, whether irrevocable or revocable), the EAD is equal to the nominal value weighted by a specific credit conversion factor (CCF).

Inclusion of forward-looking factors

With particular regard to the accounting principle of incorporating forward-looking scenarios into the estimate of expected losses, multiple scenarios are usedin the calculation of ECLs, also taking into account the non-linearity between the default rates of the portfolio and the dynamics of macroeconomic variables.
Forecasts for macroeconomic indicators are quantified based on five possible future scenarios which are assigned the respective probability of occurrence determined internally by the Group.
More specifically, in addition to the most likely baseline scenario, alternative scenarios were developed to be better (positive and very positive) and worse (severe and very severe).
In order to condition the credit risk parameters used to estimate expected losses, and in particular the PD, to the macroeconomic cycle, satellite models have been developed, differentiated by sector cluster (e.g. "Consumer Families", "Industry", "Financial Companies"), capable of linking the trend of default rates to that of the macroeconomic variables specific to each cluster.
Based onmacroeconomic scenarios, satellite models are used to determine the evolution of future PiT migration matrices for the first three years following the reporting date from which to derive the PD curves necessary to estimate lifetime expected losses. More in detail, through the multiplication of the cited PiT future matrix, suitably brought back to the TTC matrix by means of a defined smoothing process, the cumulative PD curves are determined.
To this end, the methodology provides, through statistical simulation techniques, a generation of future trends of macroeconomic variables (10,000 scenarios) to which corresponds a certain level of PD.
The resulting PD distribution is then divided into 5 intervals in order to select 5 PD values from the best (very positive) to the worst (very severe). The average of the values of the macroeconomic variables underlying each interval identifies a scenario, to which a probability of occurrence is associated.
The cumulative PD curves obtained under each of the five selected scenarios are then mediated between them, using as weights the probability of occurrence of the macroeconomic scenarios chosen.

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 five scenarios, included in the satellite models, considered capable of influencing the expected losses of the Group's performing credit exposures, and the relative probability of occurrence.

Macroeconomic indicators	Scenario									
	very negative		negative		baseline		positive		very positive	
	range of values		range of values		range of values		range of values		range of values	
GDP Italy	(1.7%)	0.5%	(0.5%)	0.8%	0.8%	1.2%	1.6%	2.0%	1.9%	3.2%
Domestic consumption	(1.4%)	0.3%	(0.6%)	0.8%	0.5%	1.3%	1.5%	1.9%	2.1%	2.6%
Construction investments	(3.6%)	0.8%	(1.1%)	1.8%	1.5 %	3.1%	2.6%	4.4%	3.8%	6.7%
Index of residential property prices	0.8%	1.1%	1.1%	1.3%	1.1%	1.9%	1.2%	2.8%	1.2%	3.2%
Unemployment rates	11.2%	12.0%	11.2%	11.4%	10.7%	11.1%	10.0%	11.1%	9.6%	11.0%
Probability of occurrence		5.00%		20.00%		50.00%		20.00%		5.00%

Expected Credit Loss – Stage 3

For the models used to determine the expected losses on exposures classified under Stage 3, i.e. impaired exposures, reference should be made to the section "Methods for determining impairment losses on IFRS 9 Financial Instruments" in Part "A.2 - Information on the main accounting items".

2.4 Credit risk mitigation techniques

The Group is always careful to acquire tools that protect credit, or the use of tools and techniques that reduce credit risk. To this end, 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 on from this analysis, it may be considered appropriate to collect additional collateral for risk mitigation purposes, taking into account the likely recoverable value offered by the collateral.
The system for recording collateral property for loan transactions allows the automatic periodic revaluation of the value of assets and identifies the assets for which the conditions for updating the report are met in line with the criteria established by current Regulations.
The value of the financial collateral is constantly and automatically monitored, so as to compare the present value of the collateral to the initial one, and to allow the manager to act in time in case the collateral suffers from a significant impairment loss.
For securities pledged as collateral, an automatic alert system is in operation, which shows the loss of value in the collateral beyond a certain threshold, highlighting their critical nature to the manager of the relationship so that the latter can take targeted 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, so as to obtain a significant credit risk mitigation.

3. Impaired 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. Specifically, the non-performing classification is carried out:

- automatically, for positions that reach the thresholds provided for by the Supervisory Body's Past Due provisions;
- by means of a resolution made by a Body empowered to do so (i) on a proposal automatically generated by the IT system, for positions that reach the set thresholds, from time to time, by internal processes for monitoring and managing credit, or (ii) on a proposal from a proponent Body, for positions that indicate the occurrence of events which are detrimental to the continuation of the performing banking relationship.

To a great extent, the management of non-performing loans within the Banco BPM Group is based on a model that assigns the management of a specific set of loans (portfolio) to specialist resources.
Management responsibilities vary according to the status of the position classification:

- the management of positions classified as Past Due and Unlikely to Pay is assigned, with the sole exception of positions below a defined threshold, to specialist managers who can be placed, depending on the relevance of the position, in the Credit Function or in the Credit structures of the Network (Divisions and Business Areas). For these positions, the managers of impaired positions are responsible for handling decisions concerning the positions assigned to their respective portfolios, in compliance with the decision-making powers they have been granted, yet are supported in the administrative management by the Network's (commercial) managers in whose portfolio the account remains, as well as the allocation of the economic results achieved;
- the management of positions classified as Bad Loans is entirely assigned to specialist managers employed directly by the new NPL unit or, with reference to Release S.p.A., to the managers of the latter.

The management model for bad loans, which has been designed to make the recovery and de-risking process of said portfolio more effective and efficient, is worth special focus. Specifically, the rules for assigning individual positions to managers with specialist skills entails the application of dimensional and qualitative criteria that allow portfolios managed by dedicated specialist teams to be identified.

The assignment of procedures to the various portfolios and the related processes are monitored with a high level of granularity in order to highlight the effectiveness of the actions taken and to direct portfolio interventions or those

related to specific deals that better ensure the implementation of operational strategies in accordance with the overall objectives of the defined de-risking plan.

In addition to managing the recovery process, managers are also responsible for evaluating bad loans in order to determine the amount of expected losses on individual positions with a total exposure of more than 300 thousand euro. In making this assessment, the operator shall take into account:

- the overall risk of the customer and related relationships, as well as of the economic group to which they belong, if any;
- the situation of the Italian Central Credit Register with particular attention to possible guarantees to third parties;
- the capital soundness of the debtor and any guarantors;
- the value of the asset used as collateral;
- the time required to recover debt.

In order to support the activities relating to the last two points, the bank has empirically estimated haircut parameters, which are defined as the reduction to be applied to the value of the assets pledged as collateral in order to align them with the amount that the institution is likely to be able to collect after their sale, and the time extensions that the manager must take into account for the purposes of the analytical assessment of the bad position. The resulting loss forecasts 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 300 thousand euro. Instead, the statistical evaluation model estimated by the Risk Function is implemented.

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, the statistical evaluation model is applied on a fixed-rate basis;
- for UTP positions that exceed certain pre-determined limits, 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 by the manager are periodically reviewed.

System of controls for credit processes

The structure of the control system for credit processes is based on:

- first-level (or line) controls, aimed at ensuring the proper functioning of processes. The first level controls include the so-called “automatic controls”, i.e. carried out directly by application procedures, controls carried out directly by operating structures, and hierarchical controls, implemented within the same chain of responsibility. Second instance controls are also implemented through the credit structures of the Business Areas, in particular through the role of the "Credit Quality Manager", the credit monitoring structures located in the Divisions, the Credit Quality and Control Service located in the Loans Department, the NPL Performance Management unit as regards the non-performing portfolio, as well as through specialist structures for specific areas;
- 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 impaired 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.

Guidance, control and support activities

With the creation of the Banco BPM Group in 2017, the NPL Unit was created, which reports directly to the CEO. It is dedicated to the management and recovery of bad loans in order to ensure the challenging objectives defined in

the Business Plan are achieved, in terms of reducing the non-performing portfolio and optimising recovery performance. Specifically, the main responsibilities of the new function include:

- supervising, coordinating and controlling credit recovery activities at a Group level for positions classified as non-performing;
- guaranteeing maximum economic returns from the effective and efficient management of non-performing positions, even in the event of sale to third parties, in compliance with the strategic guidelines defined at Group level and by internal regulations;
- defining guidelines and recovery strategies in compliance with internal regulations;
- managing relationships with external bodies for recovering credit in non-performing positions and relative disputes;
- guaranteeing the systematic monitoring of the NPL portfolio;
- supervising the process of administration and evaluation of provisions for non-performing positions;
- defining guidelines for managing the disposal portfolio and ensuring its implementation in compliance with internal regulations.

To fulfil its responsibilities, the Unit has been structured as follows:

- NPL Performance Management, which is tasked with providing support when defining and implementing strategies for the management of bad loans by defining business intelligence systems, the operational monitoring of recovery performance and first level/second instance controls;
- NPL Administration, which is tasked with the administrative management of bad loans by keeping the accounts for non-performing loans, providing operational support to credit recovery activities and managing agreements with third parties;
- Disposal Portfolio Development, which is tasked with the overall management of disposal deeds and maximising economic returns by supervising, monitoring, coordinating and enhancing the NPL portfolio disposal process;
- Debt Recovery, which is tasked with managing the internal debt recovery process of positions classified as non-performing;
- NPL Property Portfolio Development, which is tasked with enhancing the property portfolio regarding non-performing positions through the development of dedicated strategies.

The monitoring and constant control of reduction targets for bad loans indicated in the Business Plan, as well as the performance deriving from recovery, is reported monthly to the NPL Committee, the main purposes of which include:

- approving the levels of provisions and/or closure of specific non-performing positions;
- defining the main recovery strategies;
- monitoring the performance of workout activity;
- monitoring the progress of the operating plan, with a particular focus on stock reduction and observed levels of hedging.

3.2 Write-off

For all positions classified as non-performing, 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 - Information on the main accounting items" and in the Introduction to this section.

4. Financial assets subject to commercial renegotiations and exposures with forbearance

An analysis of the exposures relating to assets valued at amortised cost subject to concession is provided below, on the basis of seniority, distinguishing between impaired and non-performing exposures.

Year of last concession	Exposures performing	Exposures impaired	Total
2018	701,622	1,270,713	1,972,335
2017	705,324	948,178	1,653,502
2016	394,552	924,994	1,319,546
2015	142,342	661,394	803,736
2014	85,726	521,424	607,150
2013	23,636	488,552	512,188
2012	3,558	50,036	53,593
2011	978	11,087	12,065
2010	1,327	15,369	16,695
2009	261	1,760	2,020
preceding	-	14,314	14,314
Total	**2,059,326**	**4,907,819**	**6,967,145**

The above exposures are broken down in the following table according to the number of concessions granted to the counterparty (one concession, two concessions, more than two concessions).

Number of concessions	Performing	Non-performing	Total
1	1,109,684	2,542,137	3,651,821
2	487,920	1,314,524	1,802,444
>2	461,722	1,051,158	1,512,880
Total	**2,059,326**	**4,907,819**	**6,967,145**

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 (measured at fair value through profit or loss, measured at fair value through comprehensive income, measured 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 BPM 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 budgetary consolidation".

A.1 Impaired and non-impaired 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	First Stage			Second Stage			Third stage		
	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 designated at amortised cost	584,965	125,587	20,439	278,374	459,085	348,300	45,364	186,420	4,699,798
2. Financial assets designated at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
Total 31/12/2018	**584,965**	**125,587**	**20,439**	**278,374**	**459,085**	**348,300**	**45,364**	**186,420**	**4,699,798**

The table below, while not fully comparable, the disclosure on the distribution of financial assets by past due bands at 31 December 2017 prepared in line with the classification and measuring criteria of the IAS 39 financial instruments, drafted in accordance with the provisions of the previous version of Bank of Italy Circular 262 (fourth update).

Exposures / Time Past Due	Exposure not impaired due to time past due					Total (Net Exposure)
	Less than 3 months past due	From 3 months to 6 months past due	From 6 months to 1 year past due	Over 1 year past due	Not past due	
1. Financial assets held for trading	-	-	-	-	4,178,014	4,178,014
2. Financial assets available for sale	-	-	-	-	15,714,458	15,714,458
3. Investments held to maturity	-	-	-	-	11,560,769	11,560,769
4. Due from banks	-	-	-	-	5,164,647	5,164,647
5. Loans to customers	2,119,456	265,644	174,058	26,416	92,558,441	95,144,015
6. Financial assets designated at fair value through profit and loss	-	-	-	-	7,992	7,992
7. Financial assets held for sale	-	-	-	-	-	-
8. Hedging derivatives	1	-	-	11,303	232,506	243,810
Total 31/12/2017	**2,119,457**	**265,644**	**174,058**	**37,719**	**129,416,827**	**132,013,705**

A.1.2 Prudential consolidation - Financial assets, commitments to disburse funds and financial guarantees given: changes in total value adjustments and total provisions

Causes/stages of risk	Total value adjustments							
	Stage 1 assets				Stage 2 assets			
	Financial assets designated at amortised cost	Financial assets designated at fair value through other comprehensive income	of which: individual write-downs	of which: collective write-downs	Financial assets designated at amortised cost	Financial assets designated at fair value through other comprehensive income	of which: individual write-downs	of which: collective write-downs
Total value adjustments - opening balance	**122,896**	**5,041**	**-**	**128,013**	**274,888**	**2,097**	**-**	**277,581**
Increases in financial assets acquired or originated	-	-	-	-	-	-	-	-
Derecognitions other than write-offs	-	-	-	-	-	-	-	-
Net adjustments to/recoveries on credit risk (-/+)	5,382	2,488	-	7,869	(20,821)	(111)	-	(21,528)
Contract changes without derecognition	-	-	-	-	-	-	-	-
Changes in estimation methodology	-	-	-	-	-	-	-	-
Write-offs not recognised directly in the income statement	-	-	-	-	-	-	-	-
Other changes	(1,885)	-	-	(1,863)	(404)	-	-	(404)
Total value adjustments - closing balance	**126,393**	**7,529**	**-**	**134,019**	**253,663**	**1,986**	**-**	**255,649**
Recoveries from collections on financial assets subject to write-off	-	-	-	-	-	-	-	-
Write-off recorded directly in the income statement	-	-	-	-	-	-	-	-

Causes/stages of risk	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 designated at amortised cost	Financial assets designated at fair value through other comprehensive income	of which: individual write-downs	of which: collective write-downs		First Stage	Second Stage	Third stage	
Total value adjustments - opening balance	**13,510,980**	**-**	**13,485,260**	**25,720**	**2,899,966**	**22,776**	**10,420**	**26,163**	**13,975,261**
Increases in financial assets acquired or originated	-	-	-	-	-	-	-	-	**-**
Derecognitions other than write-offs	(2,969,358)	-	(2,969,358)	-	(514,830)	-	-	-	**(2,969,358)**
Net adjustments to/recoveries on credit risk (-/+)	1,565,600	-	1,557,594	8,006	18,962	(6,206)	(1,307)	(553)	**1,544,472**
Contract changes without derecognition	-	-	-	-	-	-	-	-	**-**
Changes in estimation methodology	-	-	-	-	-	-	-	-	**-**
Write-offs not recognised directly in the income statement	(1,852,078)	-	(1,848,956)	(3,122)	(223,606)	-	-	-	**(1,852,078)**
Other changes	(5,167,873)	-	(5,165,181)	(2,692)	(1,425,433)	-	-	-	**(5,170,162)**
Total value adjustments - closing balance	**5,087,271**	**-**	**5,059,359**	**27,912**	**755,059**	**16,570**	**9,113**	**25,610**	**5,528,135**
Recoveries from collections on financial assets subject to write-off	19,231	-	19,173	58	-	-	-	-	**19,231**
Write-off recorded directly in the income statement	(154,781)	-	(160,201)	(780)	(25,577)	-	-	-	**(154,781)**

A.1.3 Prudential consolidation - Financial assets, commitments to disburse funds and financial guarantees given: transfers between the different stages of credit risk (gross and nominal values)

	Gross values/nominal value					
	Transfers between first and second stage		Transfers between second and third stage		Transfers between first and third stage	
	From first to second stage	From second to first stage	From second to third stage	From third to second stage	From first to third stage	From third to first stage
1. Financial assets designated at amortised cost	2,674,108	5,891,199	788,303	513,665	453,523	68,608
2. Financial assets designated at fair value through other comprehensive income	60,370	2,868	-	-	-	-
3. Commitments to disburse funds and financial guarantees given	736,410	468,603	87,530	69,248	182,794	35,277
Total 31/12/2018	**3,470,888**	**6,362,670**	**875,833**	**582,913**	**636,317**	**103,885**

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 loan exposures					
a) Bad loans	322	X	(258)	64	-
- of which: exposures with forbearance	-	X	-	-	-
b) Unlikely-to-pay loans	15,294	X	(15,294)	-	-
- of which: exposures with forbearance	-	X	-	-	-
c) Non-performing past-due exposures	-	X	-	-	-
- of which: exposures with forbearance	-	X	-	-	-
d) Performing past-due exposures	X	18	-	18	-
- of which: exposures with forbearance	X	-	-	-	-
e) Other performing exposures	X	7,184,866	(7,809)	7,177,057	-
- of which: exposures with forbearance	X	-	-	-	-
Total (A)	**15,616**	**7,184,884**	**(23,361)**	**7,177,139**	**-**
B. Off-balance-sheet loan exposures					
a) Non-performing	-	X	-	-	-
b) Performing	X	4,266,528	(655)	4,265,873	-
Total (B)	**-**	**4,266,528**	**(655)**	**4,265,873**	**-**
Total (A+B)	**15,616**	**11,451,412**	**(24,016)**	**11,443,012**	**-**

(*) 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 loan exposures					
a) Bad loans	10,109,179	X	(7,184,077)	2,925,102	(1,043,921)
- of which: exposures with forbearance	806,052	X	(520,653)	285,399	(27,310)
b) Unlikely-to-pay loans	8,100,468	X	(2,903,751)	5,196,717	-
- of which: exposures with forbearance	4,694,917	X	(1,611,281)	3,083,636	-
c) Non-performing past-due exposures	107,066	X	(18,869)	88,197	-
- of which: exposures with forbearance	16,411	X	(2,102)	14,309	-
d) Performing past-due exposures	X	1,833,019	(57,600)	1,775,419	-
- of which: exposures with forbearance	X	391,174	(17,105)	374,069	-
e) Other performing exposures	X	126,186,197	(329,245)	125,856,952	-
- of which: exposures with forbearance	X	1,772,361	(51,530)	1,720,831	-
Total (A)	**18,316,713**	**128,019,216**	**(10,493,542)**	**135,842,387**	**(1,043,921)**
B. Off-balance-sheet loan exposures					
a) Non-performing	1,659,087	X	(80,028)	1,579,059	-
b) Performing	X	55,879,716	(43,148)	55,836,568	-
Total (B)	**1,659,087**	**55,879,716**	**(123,176)**	**57,415,627**	**-**
Total (A+B)	**19,975,800**	**183,898,932**	**(10,616,718)**	**193,258,014**	**(1,043,921)**

(*) Value to be shown for disclosure purposes

A.1.6 Prudential consolidation - Cash credit exposures to banks: changes in gross impaired exposures

Causes/Categories	Bad loans	Unlikely to pay	Non-performing past-due exposures
A. Initial gross exposure	**1,598**	**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	**(1,276)**	**-**	**-**
C.1 expenses for performing exposures	-	-	-
C.2 write-offs	(1,255)	-	-
C.3 receipts	-	-	-
C.4 proceeds from disposals	-	-	-
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	(21)	-	-
D. Final gross exposure	**322**	**15,294**	**-**
- of which: exposures transferred but not derecognised	-	-	-

A.1.6 bis Prudential consolidation - Cash credit exposures to banks: changes in gross exposures subject to gross concessions, broken down by credit quality

As at 31 December 2018, as in the previous year, there were no exposures to banks subject to concession measures; the related table is therefore omitted.

A.1.7 Prudential consolidation - Cash credit exposures to customers: changes in gross impaired exposures

Causes/Categories	Bad loans	Unlikely to pay	Non-performing past-due exposures
A. Initial gross exposure	**15,793,632**	**9,683,230**	**95,394**
- of which: exposures transferred but not derecognised	163,995	34,035	3,564
B. Increases	**1,832,156**	**2,136,713**	**146,483**
B.1 entries from performing exposures	259,317	1,392,659	114,908
B.2 revenues from originated or acquired impaired financial assets	-	-	-
B.3 transfers from other categories of non-performing loans	1,307,348	55,386	572
B.4 contract changes without derecognition	-	287,441	-
B.5 other increases	265,491	401,227	31,003
C. Decreases	**(7,516,609)**	**(3,719,475)**	**(134,811)**
C.1 expenses for performing exposures	(224)	(1,031,800)	(20,150)
C.2 write-offs	(1,890,800)	(123,616)	(479)
C.3 receipts	(558,617)	(1,097,900)	(33,694)
C.4 proceeds from disposals	(1,637,374)	(43,890)	-
C.5 losses on disposal	(840,625)	(14,516)	-
C.6 transfers to other categories of non-performing loans	(213)	(1,289,619)	(73,474)
C.7 contract changes without derecognition	-	-	-
C.8 other decreases	(2,588,756)	(118,134)	(7,014)
D. Final gross exposure	**10,109,179**	**8,100,468**	**107,066**
- of which: exposures transferred but not derecognised	88,974	22,355	2,110

With reference to transactions for the assignment of impaired loans, the item "other decreases" includes the gross amount of the exposures subject to assignment exceeding the sum of the realizable value and any loss on assignment.

A.1.7 bis Prudential consolidation - Cash credit exposures to customers: changes in gross exposures subject to gross concessions broken down by credit quality

Reasons/Quality	Concessionary exposures: impaired	Concessionary exposures: performing
A. Initial gross exposure	**7,218,762**	**2,426,368**
- of which: exposures transferred but not derecognised	17,470	27,557
B. Increases	**1,433,841**	**1,383,005**
B.1 entries from performing exposures not subject to concessions	919,409	560,896
B.2 entries from performing exposures subject to concessions	490,752	X
B.3 entries from exposures subject to impaired concessions	X	739,709
B.4 other increases	23,680	82,400
C. Decreases	**(3,135,223)**	**(1,645,838)**
C.1 outflows to performing exposures not covered by concessions	X	(1,039,282)
C.2 outflows to performing exposures subject to concessions	(739,709)	X
C.3 outflows to exposures subject to impaired concessions	X	(490,752)
C.4 write-offs	(182,730)	-
C.5 receipts	(668,224)	(115,417)
C.6 proceeds from disposals	(118,291)	-
C.7 losses on disposal	(73,885)	-
C.8 other decreases	(1,352,384)	(387)
D. Final gross exposure	**5,517,380**	**2,163,535**
- of which: exposures transferred but not derecognised	11,382	19,378

A.1.8 Prudential consolidation - Impaired cash credit exposures to banks: changes in total value adjustments

Causes/Categories	Bad loans		Unlikely to pay		Non-performing past-due exposures	
	Total	- of which: exposures with forbearance	Total	- of which: exposures with forbearance	Total	- of which: exposures with forbearance
A. Total value adjustments - opening balance	**1,530**	**-**	**15,294**	**-**	**-**	**-**
- of which: exposures transferred but not derecognised	-	-	-	-	-	-
B. Increases	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Writedowns from originated or acquired impaired financial assets	-	X	-	X	-	X
B.2 other writedowns	-	-	-	-	-	-
B.3 losses on disposal	-	-	-	-	-	-
B.4 transfers from other categories of non-performing loans	-	-	-	-	-	-
B.5 contract changes without derecognition	-	X	-	X	-	X
B.6 other increases	-	-	-	-	-	-
C. Decreases	**(1,272)**	**-**	**-**	**-**	**-**	**-**
C.1 writebacks from valuation	(17)	-	-	-	-	-
C.2 writebacks from collection	-	-	-	-	-	-
C.3 gains on disposal	-	-	-	-	-	-
C.4 write-offs	(1,255)	-	-	-	-	-
C.5 transfers to other categories of non performing loans	-	-	-	-	-	-
C.6 contract changes without derecognition	-	X	-	X	-	X
C.7 other decreases	-	-	-	-	-	-
D. Total value adjustments - closing balance	**258**	**-**	**15,294**	**-**	**-**	**-**
- of which: exposures transferred but not derecognised	-	-	-	-	-	-

A.1.9 Prudential consolidation - Impaired cash credit exposures to customers: changes in total value adjustments

Causes/Categories	Bad loans		Unlikely to pay		Non-performing past-due exposures	
	Total	- of which: exposures with forbearance	Total	- of which: exposures with forbearance	Total	- of which: exposures with forbearance
A. Total value adjustments - opening balance	**10,551,852**	**843,635**	**3,134,217**	**1,796,707**	**14,969**	**3,351**
- of which: exposures transferred but not derecognised	77,520	481	4,726	1,416	786	14
B. Increases	**3,184,357**	**633,024**	**1,147,186**	**604,355**	**18,469**	**2,626**
B.1 Writedowns from originated or acquired impaired financial assets	-	X	-	X	-	X
B.2 other writedowns	1,864,965	391,980	1,050,636	518,392	17,025	2,055
B.3 losses on disposal	840,625	64,026	14,516	9,859	-	-
B.4 transfers from other categories of non performing loans	407,950	174,250	7,223	3,145	832	7
B.5 contract changes without derecognition	-	X	1,842	X	-	X
B.6 other increases	70,817	2,768	72,969	72,959	612	564
C. Decreases	**(6,552,132)**	**(907,167)**	**(1,377,652)**	**(711,268)**	**(14,569)**	**(3,875)**
C.1 writebacks from valuation	(461,669)	(45,015)	(479,343)	(329,664)	(4,284)	(684)
C.2 writebacks from collection	(191,672)	(12,862)	(136,342)	(91,314)	(118)	(14)
C.3 gains on disposal	(563,676)	(30,008)	(34,012)	(11,044)	-	-
C.4 write-offs	(1,890,800)	(131,332)	(123,616)	(51,395)	(479)	(3)
C.5 transfers to other categories of non performing loans	(871)	-	(405,446)	(173,246)	(9,688)	(3,174)
C.6 contract changes without derecognition	-	X	-	X	-	X
C.7 other decreases	(3,443,444)	(736,789)	(198,893)	(133,118)	-	-
D. Total value adjustments - closing 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

With regard to the assignment of impaired 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 assignment).

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/AA-	A+/A-	BBB+/BBB-	BB+/BB-	B+/B-	below B-		
A. Financial assets designated at amortised cost	**4,602,441**	**10,546,707**	**24,436,614**	**6,681,251**	**1,108,002**	**634,902**	**81,389,931**	**129,399,848**
- First Stage	4,597,441	10,473,285	23,538,916	5,718,802	846,621	121,010	64,618,938	109,915,013
- Second Stage	5,000	73,422	886,237	924,843	238,557	252,720	5,252,691	7,633,470
- Third stage	-	-	11,461	37,606	22,824	261,172	11,518,302	11,851,365
B. Financial assets designated at fair value through other comprehensive income	**4,402,427**	**1,897,815**	**7,797,618**	**100,596**	**519,110**	**-**	**146,677**	**14,864,243**
- First Stage	4,402,427	1,825,283	7,797,618	40,270	478,282	-	110,679	14,654,559
- Second Stage	-	72,532	-	60,326	40,828	-	35,998	209,684
- Third stage	-	-	-	-	-	-	-	-
Total (A+B)	**9,004,868**	**12,444,522**	**32,234,232**	**6,781,847**	**1,627,112**	**634,902**	**81,536,608**	**144,264,091**
of which: originated or acquired impaired financial assets	-	-	-	-	-	-	1,519,336	1,519,336
C. Commitments to disburse funds and financial guarantees given								**-**
- First Stage	687,169	7,749,982	10,428,744	3,555,919	394,612	26,567	25,105,019	47,948,012
- Second Stage	-	47,628	485,887	171,638	23,679	63,633	686,047	1,478,512
- Third stage	-	-	7,733	16,090	3,434	139,068	985,066	1,151,391
Total (C)	**687,169**	**7,797,610**	**10,922,364**	**3,743,647**	**421,725**	**229,268**	**26,776,132**	**50,577,915**
Total (A+B+C)	**9,692,037**	**20,242,132**	**43,156,596**	**10,525,494**	**2,048,837**	**864,170**	**108,312,740**	**194,842,006**

The 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 evaluations of the same customer, the most prudent one is adopted, in the case of three evaluations, 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 regulatory portfolios Enterprise and Retail.
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.

Exposures to banks	Internal rating classes								Unrated	Total
	AAA	AA	A	BBB	BB	B	CCC	Default		
A. Financial assets designated at amortised cost	**105**	**293,232**	**331,456**	**316,252**	**154,614**	**1,378**	**-**	**323**	**2,885,378**	**3,982,738**
- First Stage	105	293,232	331,456	316,002	145,914	1,378	-	-	2,668,508	3,756,595
- Second Stage	-	-	-	250	8,700	-	-	-	216,870	225,820
- Third stage	-	-	-	-	-	-	-	323	-	323
B. Financial assets designated at fair value through other comprehensive income	**-**	**269,720**	**288,870**	**187,042**	**459,348**	**-**	**-**	**-**	**936,414**	**2,141,394**
- First Stage	-	229,582	256,476	124,032	397,747	-	-	-	923,873	1,931,710
- Second Stage	-	40,138	32,394	63,010	61,601	-	-	-	12,541	209,684
- Third stage	-	-	-	-	-	-	-	-	-	-
Total (A + B)	**105**	**562,952**	**620,326**	**503,294**	**613,962**	**1,378**	**-**	**323**	**3,821,792**	**6,124,132**
of which: originated or acquired impaired financial assets	-	-	-	-	-	-	-	-	-	-
C. Commitments to disburse funds and financial guarantees given										**-**
1. First Stage	11,492	372,839	534,328	394,524	128,630	6,673	-	-	1,309,296	2,757,782
2. Second Stage	-	-	-	5,668	714	-	-	-	117,915	124,297
3. Third stage	-	-	-	-	-	-	-	-	-	-
Total commitments to disburse funds and financial guarantees given	**11,492**	**372,839**	**534,328**	**400,192**	**129,344**	**6,673**	**-**	**-**	**1,427,211**	**2,882,079**
Total (A + B + C)	**11,597**	**935,791**	**1,154,654**	**903,486**	**743,306**	**8,051**	**-**	**323**	**5,249,003**	**9,006,211**

Exposures to customers	Internal rating classes						Unrated	Total
	LOW	LOW-MEDIUM	MEDIUM	MEDIUM-HIGH	HIGH	DEFAULT		
A. Financial assets designated at amortised cost	**18,799,612**	**28,475,441**	**17,255,765**	**7,579,467**	**4,719,630**	**8,484,055**	**240,432**	**85,554,402**
- First Stage	18,716,549	27,980,271	16,550,720	6,016,280	760,238	-	226,827	70,250,885
- Second Stage	83,063	495,170	705,045	1,563,187	3,959,392	-	13,605	6,819,462
- Third stage	-	-	-	-	-	8,484,055	-	8,484,055
B. Financial assets designated at fair value through other comprehensive income	**-**	**-**	**28,114**	**-**	**-**	**-**	**-**	**28,114**
- First Stage	-	-	28,114	-	-	-	-	28,114
- Second Stage	-	-	-	-	-	-	-	-
- Third stage	-	-	-	-	-	-	-	-
Total (A + B)	**18,799,612**	**28,475,441**	**17,283,879**	**7,579,467**	**4,719,630**	**8,484,055**	**240,432**	**85,582,516**
of which: originated or acquired impaired financial assets	-	-	-	-	-	1,280,274	-	1,280,274
C. Commitments to disburse funds and financial guarantees given								**-**
1. First Stage	18,715,975	11,726,437	7,271,146	2,020,481	407,532	-	238,053	40,379,624
2. Second Stage	37,381	36,113	434,164	347,406	396,217	-	2,884	1,254,165
3. Third stage	-	-	-	-	-	1,051,511	-	1,051,511
Total commitments to disburse funds and financial guarantees given	**18,753,356**	**11,762,550**	**7,705,310**	**2,367,887**	**803,749**	**1,051,511**	**240,937**	**42,685,300**
Total (A + B + C) segmented	**37,552,968**	**40,237,991**	**24,989,189**	**9,947,354**	**5,523,379**	**9,535,566**	**481,369**	**128,267,816**
Total unsegmented	-	-	-	-	-	3,466,866	54,101,120	57,567,986
Total	**37,552,968**	**40,237,991**	**24,989,189**	**9,947,354**	**5,523,379**	**13,002,432**	**54,582,489**	**185,835,802**

Exposures	Internal rating classes						Unrated	Total
	LOW	LOW-MEDIUM	MEDIUM	MEDIUM-HIGH	HIGH	DEFAULT		
Large Corporate	8,996,846	4,869,324	2,845,816	411,861	28,858	700,881	-	17,853,586
Mid Corporate Plus	7,171,366	6,446,348	4,248,879	1,820,261	1,087,962	1,849,442	119,370	22,743,628
Mid Corporate	6,633,878	8,544,654	6,876,897	3,875,191	1,610,736	2,948,420	63,343	30,553,119
Small Business	6,777,675	5,701,271	7,611,270	3,060,107	1,528,064	3,135,474	298,656	28,112,517
Private Customers	7,973,203	14,676,394	3,406,327	779,934	1,267,759	901,349	-	29,004,966
Total Exposures by segment	**37,552,968**	**40,237,991**	**24,989,189**	**9,947,354**	**5,523,379**	**9,535,566**	**481,369**	**128,267,816**

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						Signature loans				
								Other derivatives									
			Real estate - Mortgages	Real estate, finance leases	Securities	Other collateral	CLN (Credit linked notes)	Central counterparties	Banks	Other financial companies	Other entities	Public administrations	Banks	Other financial companies	Other entities	
1. Secured on-balance-sheet loan exposures:	**762,256**	**762,180**	**-**	**2,058**	**756,449**	**-**	**-**	**-**	**-**	**-**	**-**	**520**	**-**	**-**	**887**	**759,914**
1.1. fully secured	761,217	761,141	-	2,058	756,449	-	-	-	-	-	-	-	-	-	887	759,394
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2. partially secured	1,039	1,039	-	-	-	-	-	-	-	-	-	520	-	-	-	520
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Secured off-balance sheet loan exposures:	**171,394**	**171,296**	**-**	**-**	**-**	**118,790**	**-**	**-**	**-**	**-**	**-**	**4,152**	**-**	**328**	**14,276**	**137,546**
2.1. fully secured	49,008	48,991	-	-	-	47,346	-	-	-	-	-	-	-	100	1,545	48,991
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2. partially secured	122,386	122,305	-	-	-	71,444	-	-	-	-	-	4,152	-	228	12,731	88,555
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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 (1)+(2)
							Credit derivatives					Signature loans				
								Other derivatives								
			Real estate - Mortgages	Real estate, finance leases	Securities	Other collateral	CLN (Credit linked notes)	Central counterparties	Banks	Other financial companies	Other entities	Public administrations	Banks	Other financial companies	Other entities	
1. Secured on-balance-sheet loan exposures:	**77,035,874**	**69,488,381**	**41,648,941**	**1,664,901**	**7,425,380**	**771,772**	**-**	**-**	**-**	**-**	**-**	**2,836,366**	**125,303**	**411,714**	**11,233,720**	**66,118,097**
1.1. fully secured	72,476,711	65,484,525	41,632,134	1,664,901	7,249,612	692,250	-	-	-	-	-	1,116,793	37,580	391,373	10,650,785	63,435,428
- of which impaired	13,010,065	6,292,106	4,087,695	597,751	52,110	362,063	-	-	-	-	-	50,740	1,750	25,718	828,865	6,006,692
1.2. partially secured	4,559,163	4,003,856	16,807	-	175,768	79,522	-	-	-	-	-	1,719,573	87,723	20,341	582,935	2,682,669
- of which impaired	814,900	279,956	11,016	-	19,768	1,643	-	-	-	-	-	27,591	1,381	3,181	144,146	208,726
2. Secured off-balance sheet loan exposures:	**10,492,915**	**10,462,465**	**1,395,443**	**3,254**	**427,450**	**470,162**	**-**	**-**	**-**	**-**	**-**	**89,218**	**18,010**	**156,113**	**6,585,013**	**9,144,663**
2.1. fully secured	8,604,213	8,576,957	1,361,048	3,254	292,151	340,321	-	-	-	-	-	35,222	5,267	149,945	5,931,090	8,118,298
- of which impaired	335,518	319,660	114,080	1	16,826	4,868	-	-	-	-	-	978	-	99	149,842	286,694
2.2. partially secured	1,888,702	1,885,508	34,395	-	135,299	129,841	-	-	-	-	-	53,996	12,743	6,168	653,923	1,026,365
- of which impaired	83,937	82,690	1,090	-	4,248	1,074	-	-	-	-	-	4,740	-	20	28,274	39,446

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	**1,004,446**	**1,123,032**	**(235,163)**	**887,869**	**196,899**
A.1. For functional use	-	-	-	-	-
A.2. For investment purposes	1,004,446	1,123,032	(235,163)	887,869	196,899
A.3. Inventories	-	-	-	-	-
B. Equity instruments and debt securities	**45,285**	**16,066**	**(1,793)**	**14,273**	**-**
C. Other assets	**-**	**-**	**-**	**-**	**-**
D. Non-current assets and disposal groups held for sale	**5,000**	**6,132**	**(2,172)**	**3,960**	**-**
D.1. Property, plant and equipment	5,000	6,132	(2,172)	3,960	-
D.2. Other assets	-	-	-	-	-
Total 31/12/2018	**1,054,731**	**1,145,230**	**(239,128)**	**906,102**	**196,899**

B. Distribution and concentration of the loan exposures

B.1 Prudential consolidation - Distribution by sector of the on and off balance sheet exposures for loans to customers

Exposures/Counterparties	Public administrations		Financial companies		Financial companies (of which: insurance companies)		Non-financial companies		Families	
	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 loan exposures										
A.1 Bad loans	77	(268)	50,862	(120,144)	-	-	2,442,987	(5,793,962)	431,176	(1,269,703)
- of which exposures with forbearance	-	-	11,107	(23,222)	-	-	247,479	(443,600)	26,813	(53,831)
A.2 Unlikely-to-pay loans	2,314	(1,752)	171,408	(249,298)	-	-	4,327,498	(2,474,466)	695,497	(178,235)
- of which exposures with forbearance	-	-	86,328	(137,757)	-	-	2,648,652	(1,398,916)	348,656	(74,608)
A.3 Non-performing past-due exposures	5	(2)	620	(106)	-	-	55,144	(10,872)	32,428	(7,889)
- of which exposures with forbearance	-	-	-	-	-	-	9,755	(1,439)	4,554	(663)
A.4 Performing exposures	29,166,549	(11,535)	16,982,858	(19,782)	314,348	(363)	49,455,390	(245,819)	32,027,574	(109,709)
- of which exposures with forbearance	3,551	(5)	7,379	(143)	-	-	1,433,713	(51,831)	650,257	(16,656)
Total (A)	**29,168,945**	**(13,557)**	**17,205,748**	**(389,330)**	**314,348**	**(363)**	**56,281,019**	**(8,525,119)**	**33,186,675**	**(1,565,536)**
B. Off-balance sheet loan exposures										
B.1 Non-performing exposures	3,689	(12)	103,456	(577)	-	-	1,453,565	(76,961)	18,349	(2,478)
B.2 Performing exposures	4,822,928	(69)	3,663,971	(5,432)	137,935	(20)	43,541,480	(29,728)	3,568,713	(7,919)
Total (B)	**4,826,617**	**(81)**	**3,767,427**	**(6,009)**	**137,935**	**(20)**	**44,995,045**	**(106,689)**	**3,587,062**	**(10,397)**
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)**
Total (A+B) 31/12/2017 (*)	**27,407,237**	**(6,117)**	**16,541,429**	**(457,236)**	**384,374**	**(370)**	**76,998,041**	**(11,058,209)**	**30,890,139**	**(1,395,979)**

(*) Values determined according to accounting standard IAS 39 re-exposed for standardisation for comparison.

B.2 Prudential consolidation - Territorial distribution of the on and off balance sheet loan exposures towards customers

Exposures/Geographic areas	Italy		Other European countries		America		Asia		Rest of the world	
	Net exposures	Total value adjustments	Net exposures	Total value adjustments	Net exposures	Total value adjustments	Net exposures	Total value adjustments	Net exposures	Total value adjustments
A. On-balance sheet loan exposures										
A.1 Bad loans	2,914,763	(7,166,634)	9,137	(11,623)	519	(126)	461	(5,480)	222	(214)
A.2 Unlikely-to-pay loans	5,145,348	(2,846,013)	30,081	(35,844)	104	(6,877)	21,184	(15,017)	-	-
A.3 Non-performing past-due exposures	88,164	(18,858)	32	(10)	1	(1)	-	-	-	-
A.4 Performing exposures	114,616,255	(384,024)	8,271,788	(1,895)	4,577,431	(890)	148,240	(28)	18,657	(8)
Total (A)	**122,764,530**	**(10,415,529)**	**8,311,038**	**(49,372)**	**4,578,055**	**(7,894)**	**169,885**	**(20,525)**	**18,879**	**(222)**
B. Off-balance sheet loan exposures	-	-	-	-	-	-	-	-	-	-
B.1 Non-performing exposures	1,556,247	(80,028)	22,812	-	-	-	-	-	-	-
B.2 Performing exposures	51,442,264	(43,033)	3,398,084	(110)	514,777	(2)	10,579	(3)	231,388	-
Total (B)	**52,998,511**	**(123,061)**	**3,420,896**	**(110)**	**514,777**	**(2)**	**10,579**	**(3)**	**231,388**	**-**
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)**
Total (A+B) 31/12/2017 (*)	**144,961,357**	**(12,722,950)**	**5,006,399**	**(162,253)**	**2,048,890**	**(22,940)**	**191,846**	**(9,546)**	**12,728**	**(222)**

(*) Values determined according to accounting standard IAS 39.

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 loan exposures								
A.1 Bad loans	1,482,307	(3,662,436)	515,952	(1,428,789)	604,178	(1,314,248)	312,326	(761,161)
A.2 Unlikely-to-pay loans	2,637,052	(1,495,015)	980,294	(554,947)	1,155,574	(648,343)	372,428	(147,708)
A.3 Non-performing past-due exposures	40,360	(8,539)	13,610	(2,723)	23,998	(5,180)	10,196	(2,416)
A.4 Performing exposures	47,150,297	(210,449)	21,535,380	(67,398)	40,837,778	(79,303)	5,092,800	(26,874)
Total (A)	**51,310,016**	**(5,376,439)**	**23,045,236**	**(2,053,857)**	**42,621,528**	**(2,047,074)**	**5,787,750**	**(938,159)**
B. Off-balance sheet loan exposures								
B.1 Non-performing exposures	781,308	(44,702)	347,541	(22,600)	378,900	(9,194)	48,498	(3,532)
B.2 Performing exposures	26,573,966	(25,814)	13,946,382	(5,784)	8,976,383	(9,496)	1,945,533	(1,939)
Total (B)	**27,355,274**	**(70,516)**	**14,293,923**	**(28,384)**	**9,355,283**	**(18,690)**	**1,994,031**	**(5,471)**
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)**
Total (A+B) 31/12/2017 (*)	**62,971,556**	**(6,389,012)**	**25,885,812**	**(2,562,207)**	**49,337,508**	**(2,681,774)**	**6,766,481**	**(1,089,957)**

(*) Values determined according to accounting standard IAS 39.

B.3 Prudential consolidation - Territorial distribution of the on and off balance sheet loan exposures towards banks

Exposures/Geographic areas	Italy		Other European countries		America		Asia		Rest of the world	
	Net exposures	Total value adjustments	Net exposures	Total value adjustments	Net exposures	Total value adjustments	Net exposures	Total value adjustments	Net exposures	Total value adjustments
A. On-balance sheet loan exposures										
A.1 Bad loans	-	-	64	(258)	-	-	-	-	-	-
A.2 Unlikely-to-pay loans	-	(15,294)	-	-	-	-	-	-	-	-
A.3 Non-performing past-due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	3,848,853	(5,153)	2,686,714	(2,143)	365,074	(243)	70,227	(43)	206,207	(227)
Total (A)	**3,848,853**	**(20,447)**	**2,686,778**	**(2,401)**	**365,074**	**(243)**	**70,227**	**(43)**	**206,207**	**(227)**
B. Off-balance sheet loan exposures										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	1,617,263	(247)	838,028	(104)	100,019	(27)	629,876	(187)	169,466	(90)
Total (B)	**1,617,263**	**(247)**	**838,028**	**(104)**	**100,019**	**(27)**	**629,876**	**(187)**	**169,466**	**(90)**
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)**
Total (A+B) 31/12/2017(*)	**5,836,959**	**(16,626)**	**2,084,226**	**(416)**	**293,202**	**(1,225)**	**105,999**	**(30)**	**240,558**	**(4)**

(*) Values determined according to accounting standard IAS 39.

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 ("Basel III 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 the Implementation Regulation (UE) No. 680/2014, which sets out technical implementation rules for entities' reporting for supervisory purposes.
The provisions of Part Two – Chapter 10 of Circular 285 issued by the Bank of Italy are also applied.
An entity's exposure for loans 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 admissible capital ("CRD", article 392).
Taking into account the effect of the exemptions and the credit risk mitigation, the large exposures must, in any case, respect the limit of 25% of the entity's admissible capital.
At 31 December 2018 the admissible capital coincides with the amount of Treasury Funds.
On the basis of the new provisions, at said date there were 19 risk positions classified as "large exposures" for a total (non-weighed) amount of 70,569 million euro corresponding to a weighted exposure of 8,650 million euro.
The main groups identified as "large exposures" are:

- The Ministry of Economy and Finance for 21,453 million euro (9 million considering the weight factors and the exemptions pursuant to art. 400 CRD), mainly consisting of the government bonds in the portfolio;
- London Stock Exchange Group plc for 13,540 million euro (81 million considering the weight factors and the exemptions pursuant to art. 400 CRD), mainly consisting of repurchase agreements with Cassa Compensazione e Garanzia [the central counterparty clearing house];
- four central administrations of foreign countries for a total of 12,412 million euro (0 million considering the weight factors and the exemptions pursuant to art. 400 CRD), consisting exclusively of the government bonds in the portfolio.
- the Tax Authority for 5,369 million euro (12 million considering the weight factors and the exemptions pursuant to art. 400 CRD), mainly consisting of the items relative to taxation.
- at the end of the financial period 2018, the SPE Red Sea SPV was also reported as a "large exposure" in application of Regulation (UE) No. 1187/2014, which integrates the "CRD" regulation as regards technical provisions, understood as determining the total exposure in respect of a customer or groups of related customers as regards the transactions on the underlying assets.

The remaining 11 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.

	31/12/2018	31/12/2017
a) Amount (balance sheet value) (*)	70,569,418	52,409,986
b) Amount (weighted value) (*)	8,650,450	6,361,839
c) Number	19	11

(*) data expressed in thousands of euro

C. Securitisation transactions

Introduction

This section illustrates the Group's exposure for securitisations, both those in which the Group has the role of credit originator, and those of third parties in which the Group acts in the capacity of investor.

In particular, for third parties' securitisations, detailed in table C.2 below, the balance sheet value amounts to 59.4 million euro and represents the Group's only exposure in structured credit securities issued within the sphere of transactions originated by companies external to the Group (in percentage terms equal to about 0.2% of the Group's total investment in debt securities).

We mention that securitisation as a loan instrument has been progressively replaced by the issue of covered bonds ("CB"), as represented in the successive paragraph "E.4 Banking Group - Covered Bond Transactions". The Group has created a dedicated department within the Parent Company's Finance Organisational Structure, which is able to structure the securitisation transactions and the covered bond issues. The collateral portfolios of the transactions carried out are constantly monitored with the production of monthly and quarterly reports which show the trend of the collections, of both capital and interests, and the status of the loans.

In addition, in the financial period 2018 the Group completed securitisation transactions by the *en bloc* sale of bad loans originated by the Group within the sphere of the derisking actions, illustrated in "Section 5 – Other aspects" of Part A.1 of these Notes to the Financial Statements.

The securitisation transactions, in which the Group has subscribed all the liabilities issued by the SPE, are defined as "self-securitisations" and the funding represents the sole aim of said transactions. In fact, Banco BPM intervenes by subscribing the senior and mezzanine securities that are used to obtain liquidity from the market by means of monetary policy transactions with the Eurosystem or by repurchase transactions with market counterparties. Therefore said transactions are illustrated in Part E - Section 2- Prudential consolidation risks "1.4 - Liquidity risk".

QUALITATIVE INFORMATION

The table below lists the outstanding securitisation transactions at 31 December 2018, including the self-securitisation transactions that have been derecognised from the balance sheet, as illustrated in greater detail at the bottom of the table.

SPE	Originator	Securities date of issuance	Transaction	Securitisation type
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 leasing contracts
BPM Securitisation 2 S.r.l.	Banco BPM	July 2006	CMBS 2006	Performing residential mortgage loans
Securitisations fully derecognised from the financial statements				
Italfinance Securitization Vehicle S.r.l	Banco BPM	December 2005	ITA 8	Performing leasing contracts
Red Sea SPV S.r.l.	Banco BPM	June 2018	Exodus 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 leasing contracts
Warehousing transactions				
Leviticus SPV S.r.l.	Banco BPM		Ace project	Bad loans

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. Said derecognition was also carried out for the only self-securitisation transaction in force at 31 December 2018, entitled "ITA 11". Therefore in the above table the "ITA 8" securitisation transaction appears under both the "Non-derecognised securitisations", for the part of the loans of the non-banking sub-portfolio of which the Group maintains the risks and benefits, and under the "Fully derecognised securitisations" 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 2018, entitled "ITA 11". Details of the afore-mentioned agreement with Alba Leasing are given in the successive paragraph "Agreement on the securitisation loans between Banca Italease and Alba Leasing";
- the "Exodus project" transactions, as illustrated in the successive paragraph.

The new transactions not completed during the period and those closed are illustrated below.

New transactions of the period

Red Sea SPV S.r.l (Exodus project)

In June the Parent Group concluded the sale of a portfolio of bad loans with a gross nominal value of approximately 5.1 billion euro to the SPE Red Sea SPV S.r.l..
The sale was carried out by a securitisation transaction 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 September 2018.

The operation was completed in June, with the SPE issuing securities totalling approximately 1.9 billion euro, broken down as follows:

- senior securities for 1,656.5 million euro, backed by the Italian State;
- mezzanine securities for 152.9 million euro;
- junior securities for 51 million euro.

The securities, entirely subscribed by Banco BPM, were later sold, for a quota equal to 95% of the mezzanine and junior securities, to a third investor (Christofferson Robb & Company) on conclusion of a competitive process in which numerous Italian and foreign investors participated. With the placing of the mezzanine and junior securities, the conditions were achieved to allow for proceeding with the derecognition of the bad debts sold to the SPE.

The situation at the date of the subscription and at 31 December 2018, of the securities subscribed by the Parent Company is summed up below:

Type	Type	Nominal issue value	Nominal quota subscribed by Banco BPM	Initial recognition value	Value at 31/12/2018 (*)	Maturity date	Rating	Interest rate
Class A Asset Backed Floating Rate Notes due October 2038	Senior	1,656,504	1,656,504	1,656,504	1,428,614	29/10/2038	Moody's: Baa2; Scope: BBB	Euribor 6 M + 0.6%
Class B Asset Backed Floating Rate Notes due October 2038	Mezzanine	152,908	7,645	2,880	2,955	29/10/2038	Unrated	Euribor 6 M + 6%
Class J Asset Backed Variable Return Notes due October 2038	Junior	50,969	2,548	-	-	29/10/2038	Unrated	n.a.
Total		**1,860,381**	**1,666,698**	**1,659,384**	**1,431,568**			

(*) The variation relative to the Senior securities is mainly due to the redemptions in the period (equal to 227.1 million euro).

Further details on the operation can be found in Part A Accounting Policies of these Notes to the financial statements.

Warehousing transactions

Leviticus SPV S.r.l (Ace project)

As indicated in the section on "Significant events of the period" of the Group's Director's Report and in Part A of the Notes to the financial statements, on 10 December 2018 Banco BPM approved the binding offer received from the funds managed by Elliott Management (hereinafter "Elliott") and Credito Fondiario, which provides for, inter alia - the sale to the SPE Leviticus SPV S.r.l. of a portfolio of bad debts originated by the Group with the aim of carrying out a securitisation operation.

For this purpose, on 28 December 2018, the sale of a portfolio of loans classified as non-performing according to the law on securitisation (Law No. 130/1999), to Leviticus SPV S.r.l., a vehicle company founded for the purpose and not belonging to the Banco BPM Group, was concluded. 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).
Since the aforesaid SPE, at 31 December 2018, had not yet issued the securities the transactions was classified for balance sheet purposes as a warehousing transaction.

On 6 February 2019 the transaction was completed by the issue, on the part of Leviticus SPV S.r.l., of the following classes of securities, entirely subscribed by Banco BPM:

- Senior securities for 1,440.0 million euro, relative to which the procedure for the release, on the part of the Italian State, of the guarantee on the senior securities, pursuant to Decree Law 18/2016 ("GACS") is still in progress;
- Mezzanine securities for 221.5 million euro;
- Junior securities for 248.8 million euro.

Within the sphere of the aforesaid binding offer, Elliott undertook to buy 95% of the junior and mezzanine securities issued by the SPE Leviticus. The conclusion of the sale of the securities - which involves the important transfer of the risks and benefits of the portfolio of the loans sold - is planned to take place at the same time as the conclusion of the complete operation (within 30 June 2019), although the parties have the faculty of brining forward the date of effect of the transfer of the securities.
Lastly, it must be noted that while the overall operation was being concluded, the SPE Leviticus SPV S.r.l., on 31 December 2018, although not being held by the Group, is considered - for the purposes of the financial reporting - a subsidiary entity, as indicated in Part A - Section 3 – Consolidation area and methods of the Notes to the financial statements.

Transactions closed during the year

Tiepolo Finance

During the period the securitisation of bad ordinary and mortgage loans by the SPE "Tiepolo Finance S.r.l." was closed. In particular (i) on 21 May 2018 Banco BPM repurchased the entire remaining portfolio of mortgages underlying said operation and (ii) on 25 June 2018, an extraordinary payment was made by which the SPE, to the limits of the available funds and respecting the contractually established priority of the payments, provided for the final expenses of the operation, the liquidation of 414 thousand euro for the partial payment of the unpaid coupons that had matured on the Class C Junior securities and for the closure of the operation. More specifically, the SPE, on the basis of the contractual documentation of the transaction, provided for (i) the derecognition of the Class C Securities still outstanding and fully subscribed by Banco BPM for a value of 50.5 million euro (totally written down in the previous financial periods), bringing forward the contractual maturity date from 10 July 2018 to 25 June 2018, and derecognising all the other debts represented by the interests on the securities and (ii) the entry of the tax credit of 161 thousand euro on the Balance Sheet (which, on the date of maturity of the securities, was included in the separate assets) with a corresponding posting on the income statement of an contingent asset. Banco BPM, in turn, derecognised, as of 25 June 2018, the Class C Junior Securities posted on its own financial statements (already entirely written down in previous periods) and derecognised the remaining credit represented by interests, against of the aforementioned securities, partially offset by the debt for the consideration deriving from the repurchase of the non-performing loans, posting on the income statement a gain on securities amounting to 1.4 million euro, under

item "100" of the consolidated financial statements. Gains (losses) on the sale or repurchase of a) financial assets valued at amortized cost".
In June 2018, all contracts still outstanding regarding the transaction were closed with the signing of a Termination Agreement.

In December 2018, Banco BPM completed the purchase of 40% of the share capital of the SPE Tiepolo Finance S.r.l.; as a result of this transaction, Banco BPM now holds 100% of the company.

Leasimpresa Finance S.r.l. (LSMP2)

After the closure of the securitisation operation, in the previous period, on 28 June 2018 with effect as of 10 July 2018, Banco BPM purchased 100% of the share capital of the SPE. The shareholders' meeting of Leasimpresa Finance S.r.l. of 31 July 2018 resolved on the early winding up and liquidation of the company with legal effect as of 8 August 2018, the date of the recording of the resolution in the competent Companies' Register.

Erice Finance S.r.l.(ITABEI)

In June 2018 the closure of the Erice Finance S.r.l. securitisation operation was closed. (ITABEI), the securities issued within the sphere of the operation were entirely redeemed in September 2016.
More specifically, on 12 June 2018, Banco BPM and the SPE Erice Finance S.r.l. signed the agreement for the repurchase of the portfolio of the remaining credit deriving from leasing agreements; on 11 July 2018, with the signing of the Termination Agreement, all the remaining agreements signed within the sphere of the operation were closed.

Italfinance Securitisation Vehicle 2 S.r.l.(ITA9)

In October 2018, the securitisation operation of Italfinance Securitisation Vehicle 2 S.r.l. (ITA9) was closed and the securities still outstanding were redeemed; in particular, on 8 October 2018 Banco BPM and the SPE Italfinance Securitisation Vehicle 2 S.r.l. signed the agreement for the repurchase of the portfolio of the remaining credit deriving from leasing agreements and on 15 October 2018, the SPE redeemed the senior securities subscribed by institutional investors and the junior securities subscribed by Banco BPM.
On 25 October 2018, with the signing of the Termination Agreement all the remaining agreements signedwithin the context of the operation were closed.

Existing and significant securitisation transactions during 2018

BP Mortgages 2 (June 2007)

On 22 June 2007 Banca Popolare di Novara and Credito Bergamasco, now both Banco BPM, sold to the SPE BP Mortgages S.r.l. residential land mortgages and residential mortgages secured by a voluntary mortgage on property. The amount of the portfolio sold was equal to 1,610 million euro; on 29 June 2007 the SPE issued four classes of rated securities placed with institutional investors and two classes of unrated junior securities subscribed by the Originators; all the security classes are listed on the Irish Stock Exchange. As part of the transaction, the Originator Banks, now Banco BPM, had the role of Servicer to manage the collection of the loans.

Loan book

Bank	Amount 31/12/2018	Amount 31/12/2017
Banco BPM	287,338	353,308

The amounts given represent performing loans and unlikely to pay, past due - non-performing, and bad loans, net of related impairment provisions, amortised cost and include mortgage accruals.

Characteristics of issues

Classes	Type	Nominal value	Value at 31/12/2018	Interest rate	Maturity date	Rating Moody's/S&P/ Fitch (4)
A1	Senior	147,300	-	3-month Euribor + 0.07%		
A2	Senior (1)	1,382,000	157,145	3-month Euribor + 0.13%	July 2044	Aa3/AA-/AA
B	Mezzanine	28,200	28,200	3-month Euribor + 0.25%	July 2044	Aa3/A+/AA
C	Mezzanine (1)	36,200	36,200	3-month Euribor + 0.66%	July 2044	Aa3/A+/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**	**237,663**			

(1) Banco BPM (the former Banco Popolare) acquired Senior securities, after their placement on the market, for a nominal value of 685.8 million euro and mezzanine securities for a nominal value of 11.4 million euro.
(2) The M1 class junior security was subscribed to 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 at 31 December 2018.

Significant events during 2018

In March 2018, Banco BPM repurchased a portfolio of receivables deriving from bad loans until 31 January 2018. On 25 October 2018, Moody's downgraded the rating of Class A2, Class B and Class C Securities from "Aa2" to "Aa3", after Italy was downgraded.

Ancillary financial transactions

In order to shield the SPE from the the interest rate risk due to the mismatching between the rates of the securitised loans and the yields of the bonds issued, an Interest Rate Swap agreement was entered into by the Originator Banks, now Banco BPM, with SPE, brokered by Banca Aletti (now Banca Akros).

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 required to issue the guarantee, pursuant to the "First Demand Guarantee" agreement, the former Banco Popolare set up a collateral account, segregated from the company's separate equity, the amount of which is reviewed annually on the July Interest Payment Date to take account of the amortisation of the transferred portfolio; at 31 December 2018, 10.6 million euro in collateral had been paid.

Financial support provided to the entity (IFRS 12, par. 15)

During the year, no financial support was given, other than that provided in the contract.

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.

Loan book

Bank	Amount 31/12/2018	Amount 31/12/2017
Banco BPM	162,114	208,940

The amounts given represent performing loans and unlikely to pay, past due - non-performing, and bad loans, net of related impairment provisions, amortised cost and include mortgage accruals.

Characteristics of issues

Classes	Type	Issue value	Amount 31/12/2018	Interest rate	Maturity date	Rating Moody's/S&P/ Fitch (3)
A1	Senior	202,700	-	3-month Euribor + 0.06%		
A2	Senior (1)	1,172,650	67,854	3-month Euribor + 0.13%	April 2043	Aa3/A+/AA
B	Mezzanine	25,300	25,300	3-month Euribor + 0.19%	April 2043	Aa3/A+/AA
C	Mezzanine	32,600	32,600	3-month Euribor + 0.48%	April 2043	Aa3/BBB+/AA
M	Junior (2)	14,500	14,500	3-Month Euribor + 2.5% plus Additional Return	April 2043	unrated
	Total	**1,447,750**	**140,254**			

(1) Banco BPM (formerly Banco Popolare) purchased Senior securities, after their placement on the market, for a nominal value of 429.6 million euro and mezzanine securities for 8.3 euro million.
(2) The junior securities were subscribed to by the former Banca Popolare di Verona, now Banco BPM.
(3) Rating as at 31 December 2018.

Significant events during 2018
In March 2018, Banco BPM repurchased a portfolio of receivables deriving from bad loans until 31 January 2018.
On 25 October 2018, Moody's downgraded the rating of Class A2, Class B and Class C Securities from "Aa2" to "Aa3", after Italy was downgraded.

Ancillary financial transactions
In order to shield the SPE from the interest rate risk due to the mismatching between the rates of the securitised loans and the yields of the bonds issued, an Interest Rate Swap agreement was entered into with the SPE by the Originator Bank, brokered by Banca Aletti, now Banca Akros.

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 required to issue the guarantee, pursuant to the "First Demand Guarantee" agreement, the former Banco Popolare set up a collateral account, segregated from the company's separate equity, the amount of which is reviewed annually on the July Interest Payment Date to take account of the amortisation of the transferred portfolio; at 31 December 2018, 7.8 million euro in collateral had been paid.

Financial support provided to the entity (IFRS 12, par. 15)
During the year, no financial support was given, other than that provided in the contract.

Transactions relating to the former Banca Italease Group

The following paragraphs illustrate the financial support given to the transactions completed by the former Italease Group and provide a description of the characteristics of each transaction.

Contractual agreements with an obligation to provide financial support to the SPE (IFRS 12, par. 14)

Securitised loan agreement between Banca Italease and Alba Leasing (known as the "Securitised loan agreement")
On 24 December 2009, Alba Leasing and the former Banca Italease signed an agreement for the transfer of securitised loans to Alba Leasing from the banking channel.
The agreement on the securitised loans was structured to reproduce, for Alba Leasing, the economic financial effects that would have been generated if the portfolio of the securitised loans deriving from the banking channel existing at 31 December 2009 had been transferred to Alba Leasing as of 31 March 2009. In this context, the risks linked to possible non-payment of the loans included in the securitisation, originated by the banking channel, bear on Alba Leasing and, consistently, Alba Leasing receives the cash flows relative to the junior notes of the securitisation and is entitled to receive sums after the full payment of the junior notes.
Alba Leasing has also undertaken to pay the former Banca Italease the principal and interest amounts due in relation to instalments and/or payments or portions of loans from the banking channel which, after 31 December 2009, have been subject to default, increased, where due, by any charge, cost and/or amount provided for in the financial documentation of each securitisation transaction with respect to the non-payment - by the borrowers on their respective contractual due dates - of instalments and/or payments or portions of loans from the banking channel. The

former Banca Italeaese assumed the obligation towards Alba Leasing to transfer said sums to the SPEs. A similar obligation was assumed by the former Banca Italease towards Alba with reference to the receivables of the non-banking sub-portfolio.
In carrying out the above, Alba Leasing has undertaken to repay the principal of the junior securities relating to the securitised loans from the banking channel to the former Banca Italease, net of individual adjustments, in accordance with the rules and priorities provided for by each securitisation transaction. The other payments that will be made by the SPEs to the former Banca Italease - related to loans from the banking channel - will pertain to Alba Leasing for the portion regarding the junior notes and all other amounts subordinated to the same in the cascade of the payments. All of this, with the exception of the payments that will be made by the SPEs by way of remuneration of the junior notes for the portion pertaining to the securitised loans from the banking channel for the period up until 31 March 2009.

Repurchase of loans related to defaulted contracts
In September 2010, following the aforementioned "Securitised Loans Agreement Between Banca Italease and Alba Leasing", an agreement was signed amending the servicing contract that had been stipulated between the former Banca Italease (now Banco BPM) and the securitisation SPEs. Due to this aforementioned amended agreement, the former Banca Italease, upon the occurrence of certain conditions, undertook to provide credit support through disbursements to the SPE (agreement no longer in force), and/or to repurchase the receivables classified as default for an amount at least equal to the "Minimum Collateralisation Amount".

Financial support provided to the entity (IFRS 12, par. 15)
During the year, no financial support was given, other than that provided in the contract.

Description of the transactions

ITA 8

In October 2005, Mercantile Leasing (which then merged into Banca Italease) and Banca Italease (now Banco BPM) sold a portfolio of loans deriving from leasing 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, placed with institutional investors, and one class of unrated junior security subscribed to by the Originator Bank. The securities are listed on the Luxembourg Stock Exchange. As part of the transaction, the Originator Banks (now Banco BPM) had the role of Servicer for management of the loans.
Loan book

Bank	Amount 31/12/2018	Amount 31/12/2017
Banco BPM (former Banca Italease)	9,914	20,611

The amounts given represent performing loans and unlikely to pay, past due - non-performing, and bad loans, net of related impairment provisions, amortised cost and include mortgage accruals.

Characteristics of issues

Classes	Type	Issue value	Value at 31/12/2018	Interest rate	Maturity date	Rating Moody's/S&P(*)
A	Senior	959,000		3-month Euribor + 0.15%	March 2023	withdrawn
B	Mezzanine	83,000		3-month Euribor + 0.38%	March 2023	withdrawn
C	Mezzanine	56,000		3-month Euribor + 0.65%	March 2023	withdrawn
D	Mezzanine	18,500		3-month Euribor + 2.15%	March 2023	withdrawn
E	Junior	11,320	4,575	3-Month Euribor + 1% + Additional Return	March 2023	unrated
	Total	**1,127,820**	**4,575**			

(*) rating at 31 December 2018.

The securities include 2.3 million euro relating to junior securities held by Banco BPM and 2.2 million euro relating to the banking sub-portfolio, for which the provisions of the "Securitised Loan Agreement", described in the previous paragraph "Securitised loan agreement between Banca Italease and Alba Leasing", apply.

Significant events during 2018

In June 2018 the senior securities issued within the sphere of the ITA9 securitisation operation were fully redeemed. Thus, only the junior securities entirely held by Banco BPM remain.

Ancillary financial transactions

The full redemption of the Senior securities led, in December 2018, to the conclusion of the interest rate agreement stipulated between the SPE and BNP Paribas (front swap) and the back-to-back swap between BNP Paribas and Banco BPM to hedge the interest rate risk.

ITA 11

For information concerning the ITA 11 transaction, please refer to the "Liquidity risk" section of these Notes to the Consolidated Financial Statements.

BPM Securitisation 2 (July 2006)

On 30 May 2006 the former Banca Popolare di Milano S.c. a r.l. sold to the SPE BPM Securitisation 2 S.r.l. residential land mortgages and residential mortgages secured by a voluntary mortgage on property. The amount of the portfolio sold was equal to 2,011.3 million euro; on 4 July 2006 the SPE issued three classes of rated securities placed with institutional investors and one class of unrated junior securities subscribed by the Originator; all the security classes are listed on the Luxembourg Stock Exchange. The Originator Bank, Banca Popolare di Milano S.p.A. (now Banco BPM), had the role of Servicer to manage the collection of the loans.

Loan book

Bank	Amount 31/12/2018	Amount 31/12/2017
Banco BPM (former BPM)	169,028	211,346

The amounts given represent performing loans and unlikely to pay, past due - non-performing, and bad loans, net of related impairment provisions, amortised cost and include mortgage accruals.

Characteristics of issues

Classes	Type	Issue value	Value at 31/12/2018	Interest rate	Maturity date	Rating Fitch/Moody's/ S&P (2)
A1	Senior	350,000	-			
A2	Senior (1)	1,574,600	106,762	3-month Euribor + 0.14%	15.01.2043	AA/Aa3/AA
B	Mezzanine	40,300	6,210	3-month Euribor + 0.20%	15.01.2043	AA/Aa3/A+
C	Mezzanine	50,400	50,400	3-month Euribor + 0.70%	15.01.2043	BBB+/A3/A+
	Total	**2,015,300**	**163,372**			

(1) The former Banca Popolare di Milano S.c. a r.l. purchased, after their placement on the market, A2 Senior securities for a current nominal value of 31.8 million euro. The securities were transferred to BPM S.p.A., now Banco BPM.

(2) Rating at 31 December 2018.

Significant events during 2018

In October 2018, after the downgrading of Italy's country rating, (i) Moody's downgraded the rating of the Class A2 and Class B Securities from "Aa2" to "Aa3" and (ii) the Fitch agency increased Class C Securities from "BBB" to "BBB+".

Ancillary financial transactions

The transaction structure entailed the establishment of a Cash Reserve as a guarantee for contractual commitments, the target level of which, on the securities issue date, was 26.6 million euro, consisting in the disbursement of a subordinated loan of the same amount by the former Banca Popolare di Milano S.c.a.r.l.. This loan was repaid in full on 15 July 2011, the Interest Payment Date. Subsequently, a new Cash Reserve was established with a target level of 10.1 million euro, which corresponds to the balance of the Cash Reserve Account at 31 December 2018.

In order to shield the SPE from the interest rate risk due to the mismatching between the rates of the securitised loans and the yields of the bonds issued, an Interest Rate Swap agreement was stipulated by the transaction Arranger (Citibank).

Financial support provided to the entity (IFRS 12, par. 15)
During the year, no financial support was given, other than that provided in the contract.

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	Value write-downs/write-backs	Book value	Value write-downs/write-backs	Book value	Value write-downs/write-backs
A. Fully derecognised	**1,428,614**	**(1,624)**	**2,955**	**-**	**46,328**	**1,427**
Non-performing assets:						
A.1 Bad loans	1,428,614	(1,624)	2,955	-	-	1,427
Performing assets						
A.2 Leasing	-	-	-	-	46,328	-
B. Partially derecognised						
C. Not derecognised from the financial statements	**147,932**	**-**	**61,432**	**-**	**222,631**	**-**
Performing assets:						
C.1 Residential mortgage loans	147,932	-	61,432	-	193,486	-
C.2 Non-residential mortgage loans	-	-	-	-	-	-
C.3 Leasing	-	-	-	-	29,145	-

The part of the table relative to the guarantees issued and the credit facilities is omitted inasmuch as there are none.

With regard to the events that occurred in the financial period 2018, illustrated above, we mention that:

- the securities held by the Group relative to the "Exodus project operation represent the exposures posted under sub-item "A.1 Bad loans", except as indicated below;
- the value write-backs relative to the junior securities refer to the effects of the closure of the Tiepolo Finance operation.

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	Value write-downs/write-backs	Book value	Value write-downs/write-backs	Book value	Value write-downs/write-backs
A.1 BANCAJA 6 A2 EUR /36	2,882	(72)	-	-	-	-
- residential mortgages						
A.2 TDA IBERCAJA 35 TV	1,689	(41)	-	-	-	-
- residential mortgages						
A.3 PHARMA FINANCE 3 CL. A TV 28	4,486	-	-	-	-	-
- other						
A.4 PHARMA FINANCE 3 CL. B TV 28	-	-	282	-	-	-
- other						
A.5 PHARMA FINANCE 3 CL. C TV 28	-	-	4,395	-	-	-
- other						
A.6 BNT PORT 14-42 TV	-	-	-	-	35,352	-
- agricultural and animal husbandry loans						
A.7 MULTISELLER 16-36 CL. A1 2%	337	-	-	-	-	-
- bad loans						
A.8 BERENICE 17-33 CL. B 6%	-	-	974	-	-	-
- non-performing loans						
A.9 BERENICE 17-33 CL. C TV	-	-	-	-	650	-
- non-performing loans						
A.10 ALBA 10 SPV	8,401	(17)	-	-	-	-
- 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 operations amount to 59.4 million euro, of which 46.5 million is classified in the portfolio of "Financial assets posted at fair value through profit or loss c) financial assets mandatorily at fair value", 8.4 million in the portfolio of "Financial assets posted at fair value through other comprehensive income" and the remaining 4.5 million under the "Assets posted at amortised cost b) payables to customers.
The exposure relative to "BNT Port 14-42 TV", classified under the "Financial assets posted at fair value through profit or loss c) financial assets mandatorily at fair value" is referred to in the successive paragraph.

C.3 Prudential consolidation - Interests in SPEs

The vehicle companies in which the Banking Group companies have been involved in the structuring activity and in which an interest is held are illustrated below.
They are, in particular, SPEs created to carry out their own securitisation operations, as described in "Part A – Accounting policies", "3. Consolidation Area 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, we mention the stake held in the company "BNT Portfolio SPV". This is a vehicle company founded in the financial period 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 stipulated, the former Banco Popolare had subscribed the said security for a nominal value of 84.6 million, at 31 December 2018, the fair value of the security, posted under the "Financial assets posted at fair value through profit or loss c) financial assets mandatorily at fair value" is equal to 35.4 million euro net of collections.

The following table shows all the assets and liabilities of the separate capital of the SPE.

Securitisation Name / Name of the SPE	Registered office	Consolidation	Assets			Liabilities		
			Receivables	Debt securities	Other reserves	Senior	Mezzanine	Junior
Tiepolo Finance S.r.l.	Lodi	Regulatory capital (*)	-	-	-	-	-	-
BNT Portfolio SPV S.r.l.	Milan	no	205,854	-	17,796	-	-	304,000
BP Mortgages Mar 2007	Milan	Book value	162,172	-	36,108	67,854	57,910	14,562
BP Mortgages June 2007	Milan	Book value	287,240	-	44,169	157,145	64,424	16,171
ITA 8 / Italease Securitisation vehicle	Treviso	Book value (**)	14,499	-	-	-	-	4,575
ITA 11 / Italease Securitisation vehicle 2	Treviso	Book value (**)	125,297	-	-	-	-	130,592
Bpm Securitisation 2	Rome	Book value	171,804	-	20,015	106,762	6,210	50,441

(*) The consolidation of the regulatory capital of the SPE is relative only to the financial statements of the SPE and not to the separate capital of the securitisation.
(**) The consolidation is relative only to the part of the receivables and securities for which there risks and benefits are considered, as specified in the preceding paragraph "Securitised loan agreement between Banca Italease and Alba Leasing".

C.4 Prudential consolidation - SPE for non-consolidated securitisation

At 31 December 2018 the only SPE for non-consolidated securitisation transactions was Red Sea SPV S.r.l., for the "Exodus project" operation.
The following tables shows the Group's assets and liabilities towards said company.
We point out, to this regard, that the Company has no off-book 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.

Figures at 31.12.2018						
Assets accounting portfolio	Total assets (A)	Liabilities accounting portfolio	Total liabilities (B)	Net book value (C=A-B)	Maximum exposure to the risk of loss (D)	Difference between exposure to the risk of loss and the book value (E=D-C)
Item 20 c)	2,955	Item 10 b)	6,043			
Item 40	1,501,030					
Total	**1,503,985**		**6,043**	**1,497,942**	**1,497,942**	**-**

Details of financial assets in respect of the SPE can be found in the preceding paragraph "New transactions of the period" and in Part A Accounting Policies of these Notes to the financial statements.

We also mention that no financial support was provided during the period.

C.5 Prudential consolidation - Servicer 's assets – own securitisations: collections of securitised loans and redemptions of securities issued by the SPE for the securitisation

SPE	Securitisation assets (end of period figure)		Loans cashed in during the period		% 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
Tiepolo Finance			199		100.00%		100.00%			
ITA 8 / Italease Securitisation vehicle	3,450	988	312	861		100.00%		100.00%		48.00%
ITA 9 / Italease Securitisation vehicle 2			1,296	9,701		100.00%				100.00%
ITA 11 / Italease Securitisation vehicle 2	9,080	27,735	862	7,927		100.00%				68.00%
ITA 9 BEI / Erice Finance			1,669	4,607		100.00%				100.00%

In line with the provisions of Circular No. 262, the values of the preceding table are relative to the servicer activity performed within the sphere of the Company's own securitisation transactions in which the assets sold were derecognised from the balance sheet; for transactions of the former Banca Italease the values refer to the banking sub-portfolio (see the preceding paragraph on "Securitised loan agreement").

C.6 Prudential consolidation - SPE for consolidated securitisation

The table below shows the only SPE belonging to the Banking Group and a summary of the figures relating to the separate assets of the securitisation operation at the date of the closure of the same.
The securitisation transaction figures subject to accounting consolidation are given in table C.3 above.

Company name	Registered office
Tiepolo Finance S.r.l.	Lodi – Via Polenghi Lombardo n. 13, Italy

Summary of the securitised assets and the securities issued (for the single SPE that belongs to the Prudential Consolidation)

Tiepolo operation (SPE: Tiepolo Finance S.r.l.) (Operation closed during the period for early maturity of the securities)

	30/06/2018 (*)	31/12/2017
A. Securitised assets	**-**	**1,741**
1) Loans	-	1,741
- bad loans	-	1,741
- other loans	-	-
2) Securities	-	-
3) Other assets	-	-
B. Utilisation of cash from credit management	**161**	**1,062**
1) Availability in current account	-	807
2) Other loans	-	-
3) Repurchase agreements	-	-
4) Other assets (**)	161	255
C. Securities issued	**-**	**50,500**
1) "Class A" securities	-	-
2) "Class B" securities	-	-
3) "Class C" securities	-	50,500
D. Loans Received	**-**	**-**
1) Securities lending	-	-
2) Subordinated Loans	-	-
E. Other liabilities	**-**	**19,300**
1) Accrued liabilities	-	31
2) Other liabilities	-	19,269
F. Interest expenses on issued securities	**32**	**77**
G. Fees and commissions charged to the transaction	**65**	**226**
1) For servicing	16	92
2) For other services	49	134
H. Other expenses	**181**	**1,318**
1) Other interest expenses	-	11
2) Other expenses	151	14
3) Write-downs of loans	30	1,293
I. Interest generated by securitised assets	-	-
L. Other revenues	**67,437**	**885**
1) Interest income	-	-
2) Recoveries on loans	130	885
3) Out-of-period income	67,307	-

(*) The amounts refer to the closing date of the transaction; the residual assets and liabilities which were included in the separate equity on the maturity date of the securities have been recorded in the SPE's Balance Sheet.
(**) The item "Other assets" is represented by the credit for tax withholding incurred during the transaction on interest income in the current account.

D. Disposal transactions

A. Financial assets sold and not entirely derecognised

QUALITATIVE INFORMATION

At 31 December 2018, the following transfer transactions did not involve the derecognition from the balance sheet of the underlying financial assets:

- securitisation transactions of customer loan exposures (628.4 million euro);
- repurchase agreements payable on treasury securities mainly classified in the portfolio of "financial assets designated at fair value through other comprehensive income" and "Financial assets designated at amortised cost".

For repurchase agreements payables, the non-derecognition of the security of the repurchase agreement derives from the fact that the bank substantially holds the risks and benefits 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 designated at amortised cost a) payables to banks or b) payables 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 on the balance sheet if the availability of the same is consequent to reverse repurchase agreements (see the paragraph "Other information" in Part B of these Notes to the financial statements).

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, for the same, the risk of the first losses and, similarly, the benefit 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 posed on the consolidated statement; otherwise the liabilities will be posted under the securities issued by the SPE not subscribed by companies of the Group.

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: the object of securitisation transactions	of which: the object of repurchase agreements	of which non-performing	Book value	of which: the object of securitisation transactions	of which: the object of repurchase agreements
A. Financial assets held for trading		**291,801**	**-**	**17,653**	**X**	**300,301**	**-**	**17,068**
1. Debt securities		17,653	-	17,653	X	17,068	-	17,068
2. Equity instruments		274,148	-	-	X	283,233	-	-
3. Loans		-	-	-	X	-	-	-
4. Derivatives		-	-	-	X	-	-	-
B. Other financial assets mandatorily at fair value		**6,040**	**6,040**	**-**	**426**	**-**	**-**	**-**
1. Debt securities		-	-	-	-	-	-	-
2. Equity instruments		-	-	-	X	-	-	-
3. Loans		6,040	6,040	-	426	-	-	-
C. Financial assets designated at fair value		**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities		-	-	-	-	-	-	-
2. Loans		-	-	-	-	-	-	-
D. Financial assets designated at fair value through other comprehensive income		**3,484,459**	**-**	**3,484,459**	**-**	**3,431,594**	**-**	**3,431,594**
1. Debt securities		3,484,459	-	3,484,459	-	3,431,594	-	3,431,594
2. Equity instruments		-	-	-	X	-	-	-
3. Loans		-	-	-	-	-	-	-
E. Financial assets designated at amortised cost		**10,838,042**	**622,353**	**10,215,689**	**54,577**	**10,025,979**	**232,628**	**9,793,351**
1. Debt securities		10,215,689	-	10,215,689	-	9,793,351	-	9,793,351
2. Loans		622,353	622,353	-	54,577	232,628	232,628	-
Total	**31/12/2018**	**14,620,342**	**628,393**	**13,717,801**	**55,003**	**13,757,874**	**232,628**	**13,242,013**

D.2 Prudential consolidation - Partly recognised financial assets sold and associated financial liabilities: book values

At 31 December 2018 there are no partially 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 operations, inasmuch as 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
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	**6,040**	**-**	**6,040**
1. Debt securities	-	-	-
2. Loans	6,040	-	6,040
D. Financial assets designated at fair value through other comprehensive income	**-**	**-**	**-**
1. Debt securities	-	-	-
2. Equity instruments	-	-	-
3. Loans	-	-	-
E. Financial assets designated at amortised cost (fair value)	**660,124**	**-**	**660,124**
1. Debt securities	-	-	-
2. Loans	660,124	-	660,124
Total financial assets	**666,164**	**-**	**666,164**
Total associated financial liabilities	**232,628**	**-**	**X**
Net value 31/12/2018	**433,536.00**	**0.00**	**666,164.00**

B. Financial assets sold and fully derecognised with indication of continuous involvement

The Group has none of this type at the financial statement date.

D.4 Prudential consolidation - covered bond transactions

Covered bond issue programmes

QUALITATIVE INFORMATION

Strategic objectives

Covered Bond ("CB") issues are part of the Banco BPM Group's strategic plan, as an instrument for diversifying funding sources, reducing the related cost and extending the maturity of liabilities.

For the 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 CBs that can be issued under the programme was increased from the initial 5 billion to 10 billion euro in February 2011. Subsequently, the Board of Director's Meeting on 13 December 2011, approved the implementation of a CB programme concerning residential mortgages and commercial loans ("Commercial CB" or "BP CB2"), the nominal value of which was 5 billion euro. During 2018, with a view to rationalising the CB Programmes of the Banco BPM Group, the BP CB2 Programme was dismantled in advance.

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 Management Board of the former BPM Group approved a second CB issue programme ("BPM CB2") which was structured to allow only the sale of land residential mortgages for a maximum amount of 10 billion euro.

Structure of the Programmes

Banco BPM S.p.A. (i) in regard to the CB programmes of the former Banco Popolare Group, Banco BPM S.p.A. (i) is the Issuing Bank for the CB, the Originator Bank for the assets pursuant to Art. *7-bis* of Italian Law 130 of 30 April 1999, and the Lending Bank and (ii), in regard to the CB programmes of the former BPM Group, in addition to the role as the Issuing Bank, it has also taken on the roles of Originator Bank and Lending Bank, together with BPM S.p.A. and following the completion of the first disposal of assets provided by Banco BPM in the BPM CB2 Programme (in 2017) and the BPM CB1 Programme (in 2018).

Following the aforementioned merger between Banco BPM S.p.A. and BPM S.p.A., which was completed in November 2018, Banco BPM S.p.A. 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 and BP CB2 Programmes, Banco BPM provided for without-recourse transfers to the SPE BP Covered Bond S.r.l. (60% owned by Banco BPM), the related pecuniary claims deriving from (i) mortgage loans having the characteristics laid forth in art. 2, paragraph 1, letter a) of the MEF Decree (Mortgage Loans) for the BP CB1 Programme and (ii) from residential and commercial mortgage and/or land loans that possess the characteristics set out in art, 2, paragraph 1, letters (a) and (b) of the MEF Decree for the BP CB2 Programme (which was closed early in 2018).

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 the Banco BPM Group's CB programmes, the Originator Banks have 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 case, on every interests payment date, early repayment of the subordinated loan is possible if the residual principal of the loan is equal to or greater than the residual debt of the CBs outstanding and if the tests envisaged in accordance with regulations and contractual terms have been completed.

Interests at a fixed rate or equal to the average interest rate of the CB series issued are paid plus any excess spread generated by the structure.

Derivative contracts

The BPM CB2 Issue Programme has three derivative contracts called "Covered Bond Swaps" subscribed by the SPE and market counterparties. Said swaps are interest rate swaps and allow for hedging, at the consolidated level and also in the case of the issuer's default, the tax risk deriving from the misalignment between the interest flows of the portfolio of assets sold to the respective vehicles SPES and the interest flows on the CBs issued. Regarding the BP CB1 Programme, we point out that on 21 December 2018 the Covered Bond Swap signed between the SPE and Credit Suisse to hedge the Registered Covered Bond issued in 2011 was closed early. No Covered Bond Swap has been stipulated relative to the BPM CB1 Programme.

Furthermore, with reference to the BP CB1 Issue Programme, subsequent to the repurchase of the three asset portfolios, completed in April 2018, in July 2018 the three "Mortgage Pool Swap" contracts between the SPE BP Covered Bond S.r.l. and the counterparty Credit Suisse International, as well as the related back-to-back swaps between the latter and Banco BPM, were closed early. Therefore, there are no current Mortgage Pool Swap contracts in place for this programme (nor for the BPM CB1 and BPM CB2 Programmes).

Guarantees

To guarantee redemption of the CBs, should the Issuing Bank be unable to meet its payment obligations, the SPEs have issued a primary, unconditional and irrevocable guarantee on the segregated assets to the benefit of the investors subscribing the CBs. The amount covered is equal to the total of interest and principal payable to investors on the individual CB series. Legislation establishes that the integrity of the guarantee must be assured during the lifetime of the CB, and for this reason specific tests are foreseen that take into account the amount and the features of both the assets sold and of the CBs issued. 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 mandated 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 controls carried out. The control system also takes avail 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 are carried out every quarter on the portfolios of each of the issue programmes and include:

- the Nominal Value Test, which checks that the nominal value of the residual credit portfolio is greater than the nominal value of the outstanding CBs;
- 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 checks that the interest received and the interest to be received, net of the costs of the SPE, are greater than the interest to be paid to the CB holders.

When all tests have been complied with, payments can be carried out in accordance with the order indicated in the relative "waterfall" payment scheme. Pursuant to the contractual documentation of the programmes, the "Asset Coverage Test" must also be conducted, which checks whether the nominal value of the credits, weighted on the basis of any payment delays on the part of the latter and the level of over-collateralisation provided by the contracts, is greater than the nominal value of the existing CBs. Breaches in regulatory and contractual tests obligate the originator banks to integrate their portfolios.

Collection and administrative management

For the BP CB1 Programme, the collection and management of transferred receivables is carried out by Banco BPM S.p.A., which acts in the capacity of Servicer; the amounts collected are deposited in accounts held in the name of the SPE at Banco BPM S.p.A. (the Interim Account Bank) and transferred daily to the accounts of the SPE at Banco

BPM S.p.A. (the Transaction Account Bank). Banco BPM S.p.A. is also the Administrative Servicer, i.e. It provides administrative and tax services on behalf of the SPE BP Covered Bond S.r.l..

For the BPM CB1 and BPM CB2 Programmes, the collection and management of the transferred receivables was carried out in the capacity of Servicer (i) by BPM S.p.A. for the receivables disbursed by this latter and (ii) by Banco BPM S.p.A. for the receivables disbursed by the same. Due to the aforesaid merger, Banco BPM has now assumed the role of sole Servicer for all the receivables of both programmes. For the BPM CB1 programme, the sums 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

Programmes closed during the year

Commercial Bank CB2 Programme ("BP CB2")

During 2018, with a view to rationalising the CB Programmes of the Banco BPM Group, the BP CB2 Programme was dismantled in advance. In particular, in April 2018 (i) full early repayment was made on the only outstanding Series (Fourth Series), held entirely by Banco BPM, for a nominal value of 1.25 billion euro and (ii) Banco BPM repurchased the entire portfolio of assets, the amount for which was settled by offsetting the amount due by the SPE as early repayment of the subordinated loan granted by Banco BPM to the SPE. On 1 June 2018, an extraordinary Guarantor Payment Date was set on which the SPV made the final payments and, on the same date, a Termination Agreement was concluded, closing all the contracts signed and the agreements entered into within the sphere of the operation.

Existing and significant programmes during 2018

Residential CB Bank Programme ("BP CB1")

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. in previous years; 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. On 18 April 2018, Banco BPM repurchased three portfolios of mortgage loans previously sold to the SPE for a total residual debt of approximately 2.7 billion euro, settling the amount of the repurchase price of said mortgage loans by offsetting the same against the early partial repayment of the subordinated loan granted by Banco BPM to the SPE.

The total value of the receivables assigned to the SPE at 31 December 2018 is shown below:

Bank	Amount at 31/12/2018	Amount at 31/12/2017
Banco BPM	5,167,783	8,671,024

The amounts given represent performing loans and unlikely to pay, past due - non-performing, and bad loans, net of related impairment provisions, amortised cost and include mortgage accruals.

The table below shows the impaired loans:

Bank	Amount at 31/12/2018	Amount at 31/12/2017
Banco BPM	191,144	316,498

In 2018 the mortgage portfolio generated total collections of 893 million euro, of which 780 million euro in capital collections and 113 million euro in interest collections.

Securities issued by Banco BPM

As part of the BP CB1 Programme, Banco BPM issued 12th Series of CB, listed on the Luxembourg Stock Exchange, and an unlisted Registered Covered Bond; these securities were subscribed to by institutional investors or by Banco BPM.

Total securities issued by Banco BPM amounted to 14,950 million euro, of which 1,750 million euro was relative to the Fifth Series, fully redeemed at maturity on 31 December 2013, 1,250 million euro was relative to the Third Series fully redeemed at maturity on 31 March 2014, 1,250 million euro was relative to the Second Series fully redeemed at maturity on 30 September 2015, 1,550 million euro was relative to the Fourth Series fully redeemed at maturity on 31 March 2016, 1,400 million euro was relative to the First Series fully redeemed at maturity on 31 March 2017, 1,500 million euro was relative to the Eighth Series fully redeemed at maturity on 30 September 2017 and 1,000 million euro was relative to the Tenth Series fully redeemed at maturity on 31 March 2018.

Thus, at 31 December 2018, issued and outstanding securities amounted to 5,250 million euro, broken down as follows:

Date of issue	Series/Tranches	Notional	Coupon	Maturity date	Issue Price (clean price)	Moody's/ DBRS Rating
24/01/2011	Registered CB (1)	100,000	5.250%	03/04/2029	96.590	A1/A
05/04/2013	6th Series 1st tranche (2)	150,000	4.000%	31/03/2023	99.482	A1/A
08/01/2014	7th Series 1st tranche (3)	1,500,000	3M-Eur + 100 bps	31/03/2019(*)	100.000	A1/A
05/03/2015	9th Series 1st tranche (4)	1,000,000	0.75%	31/03/2022	99.917	A1/A
25/01/2018	11th Series 1st tranche (3)	1,500,000	1M-Eur + 100 bps	30/06/2020	100.000	A1/A
28/03/2018	12th Series 1st tranche (3)	1,000,000	1M-Eur + 30 bps	30/06/2021	100.000	A1/A
		5,250,000				

(1) Securities were placed in the form of private placement with market investors.
(2) Securities were subscribed to by Banca Generali S.p.A.
(3) Securities were fully subscribed to by Banco BPM and used as collateral for Eurosystem monetary policy transactions.
(4) Securities were subscribed to by institutional investors.
(*) In March 2016, the Maturity Date was extended from 31 March 2016 to 31 March 2019.

Other information

In March 2018, Banco BPM repurchased, "en bloc", receivables deriving from bad loans until 31 January 2018, while in December, it repurchased "en bloc" positions classified as bad loans at 30 November 2018.

On 2 July 2018, the SPE made an early partial repayment of the Subordinated Loan granted by Banco BPM amounting to 1.5 billion euro.

Following the repurchase of these three asset portfolios, on 3 July 2018, the three Mortgage Pool Swap contracts between the SPE and the counterparty Credit Suisse International, and the related back-to-back contracts stipulated between the latter and Banco BPM, were closed early, with the consequent update of the programme documentation.

On 21 December 2018, with the signing of the related contracts, the Covered Bond Swap entered into by the SPV and the counterparty Credit Suisse International was closed early. This hedged the Registered Covered Bond issued on 24 January 2011, with the consequent update of the programme documentation. At the unwinding date, the counterparty recognised to the SPV the amount of 27.7 million euro (equal to the market value of the derivative).

BPM Covered Bond Programme ("BPM CB1")

During the preceding financial periods BPM S.p.A. . (now Banco BPM) sold to the SPE BPM Covered Bond S.r.l. a total of seven mortgage portfolios for a total of 7.5 billion euro. In April 2018, after amendment of the contractual documentation to allow access to Banco BPM as Additional Seller and Additional Lender and to provide for new transfer criteria to also include commercial mortgage loans and disbursements to Group employees, Banco BPM and BPM sold to the SPE a portfolio of eligible assets with a total residual debt of approximately 3.9 billion euro composed of (i) eligible assets provided by Banco BPM (commercial mortgage loans and residential mortgage loans including disbursements to Group employees) resulting from the repurchase of the entire portfolio of the BP CB2 Programme and part of the portfolio of the BP CB1 Programme, as well as the repurchase of the securitisation assets

of "BPL Mortgages 7" and other eligible free assets (Banco BPM's First Portfolio), and (ii) eligible assets provided by BPM (commercial mortgage loans) resulting from the repurchase of the entire portfolio of the BPM Securitisation 3 operation and other eligible free assets (BPM's Eighth Portfolio).

The SPE paid the purchase prices of the various portfolios using the Subordinated Loan granted by the originator banks 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 receivables

The total value of the receivables assigned to the SPE at 31 December 2018 is shown below:

Bank	Amount at 31/12/2018	Amount at 31/12/2017
Banco BPM S.p.A.	6,350,619	3,345,531

The amounts given represent performing loans and unlikely to pay, past due - non-performing, and bad loans, net of related impairment provisions, amortised cost and include mortgage accruals.

The table below shows the impaired loans:

Bank	Amount at 31/12/2018	Amount at 31/12/2017
Banco BPM S.p.A.	114,797	44,998

In 2018 the mortgage portfolio generated total collections of 934 million euro, of which 840 million euro in capital collections and 94 million euro in interest collections.

Securities issued by Banco BPM

As part of the BP CB1 Programme, Banco BPM issued ten CB series, listed on the Luxembourg Stock Exchange, for a total of 10,500 million euro, originally subscribed by institutional investors or by Banco BPM itself. In 2011 the First Series was repaid for the nominal value of 1,000 million on maturity at 15 July 2011; in 2015 the Fourth Series issued in 2011 was partially reduced by 500 million euro and the Third Series was redeemed on maturity on 16 November 2015 for the nominal value of 1,100 million euro. In 2016 the Fifth Series issued in 2013 was reduced by 275 million euro, and the Second Series was redeemed on maturity on 17 October 2016 for the nominal value of 1,000 million euro. On 10 January 2018, the Fifth Series were fully redeemed in advance for the residual nominal value of 375 million euro.

Thus, at 31 December 2018, there are six Series of covered bonds outstanding, fully repurchased by Banco BPM, and the related securities used for refinancing operations with the ECB, for a total of 6,250 million euro, broken down as follows:

Date of issue	Series/Tranches	Notional	Coupon	Maturity date	Issue price (clean price)	Moody's Rating
18/07/2011	4th Series (1)	500,000	3-month Euribor + 100 bps	18/01/2019 (*)	100.00	A1
16/03/2015	6th Series (2)	750,000	3-month Euribor + 30 bps	16/03/2020	100.00	A1
19/11/2015	7th Series	900,000	3-month Euribor + 60 bps	19/11/2022	100.00	A1
07/11/2016	8th Series	1,000,000	3-month Euribor + 30 bps	07/11/2021	100.00	A1
26/04/2018	9th Series	2,500,000	3-month Euribor + 30 bps	26/04/2021	100.00	A1
23/11/2018	10th Series	600,000	3-month Euribor + 90 bps	23/11/2022	100.00	A1
Total		**6,250,000**				

(1) Nominal value of the original issue - 1,000 million euro; during 2015, the nominal value of 500 million euro was repaid
(2) 600 million euro issued on 16 March 2015, increased by (additional) tap issue of 150 million euro on 26 June 2015
(*) In 2013, the original Maturity Date was extended from 18 January 2014 to 18 January 2019

Other information
In March 2018, BPM, now Banco BPM, repurchased, "en bloc", receivables deriving from bad loans until 31 January 2018, while in December, Banco BPM repurchased "en bloc" positions classified as bad loans at 30 November 2018.

The subordinated loan granted to the SPE was repaid for 350 million euro on the payment date of 15 January 2018 and for 300 million euro on the payment date of 15 October 2018.

Significant events after the end of the period
The maturity date for the retained 4th Series was extended from 18 January 2019 to 18 January 2023.

BPM Covered Bond 2 Programme ("BPM CB2")

During previous financial periods, BPM sold a total of five residential and land mortgages to the SPE "BPM Covered Bond 2 S.r.l." for a total value of 3.96 billion euro. During the previous financial year, Banco BPM (as the Additional Seller) sold a portfolio of residential mortgages (sixth disposal of Banco BPM's "First Portfolio") to the SPE, with a residual debt of approximately 1.1 billion euro. In May 2018, with the signing of the relative contracts, the sale to the SPE. of a new portfolio of eligible assets for a total residual debt of 1.13 billion euro, comprised of residential landed and mortgage loans originated by both Banco BPM (the Second Portfolio) and BPM (the Sixth Portfolio), was completed. In addition, in September 2018, Banco BPM and BPM sold to the SPE a new portfolio of eligible residential mortgages (the "Third Portfolio" of Banco BPM and the "Eighth Portfolio" of BPM) with a total residual debt of 828 million euro.

To pay the purchase price of the new portfolio, the SPE used a subordinated loan granted by the Originating Banks. The Originator Banks, now Banco BPM, took on the role of Servicer, managing the collection of the receivables.

The total value of the receivables assigned to the SPE at 31 December 2018 is shown below:

Bank	Amount at 31/12/2018	Amount at 31/12/2017
Banco BPM S.p.A.	5,451,280	4,149,927

The amounts given represent performing loans and unlikely to pay, past due - non-performing, and bad loans, net of related impairment provisions, amortised cost and include mortgage accruals.

The table below shows the impaired loans:

Bank	Amount at 31/12/2018	Amount at 31/12/2017
Banco BPM S.p.A.	49,331	7,869

In 2018 the mortgage portfolio generated total collections of 758 million euro, of which 666 million euro in capital collections and 92 million euro in interest collections.

Securities issued by Banco BPM
As part of the BPM CB2 Programme, Banco BPM issued five CB Series, which are listed on the Luxembourg Stock Exchange, for a total nominal value of 3,750 million euro. All the securities issued by the programme were placed on the capital market.

The securities issued and outstanding at 31 December 2018 are broken down as follows:

Issue value	Series/Tranches	Notional	Coupon	Maturity date	Issue price (clean price)	Moody's Rating
14/09/2015	1st Series	1,000,000	0.875%	14/09/2022 (1)	99.872	A1
02/12/2015	2nd Series	750,000	1.500%	02/12/2025 (2)	98.946	A1
08/06/2016	3rd Series	750,000	0.625%	08/06/2023 (3)	99.761	A1
23/01/2018	4th Series	750,000	1.000%	23/01/2025 (4)	99.792	A1
25/07/2018	5th Series	500,000	1.125%	25/09/2023 (5)	99.446	A1
Total		**3,750,000**				

(1) Extendible to 14 September 2023
(2) Extendible until 2 December 2026
(3) Extendible until 8 June 2024
(4) Extendible to 23 January 2026
(5) Extendible to 25 September 2024

Other information

In March 2018, BPM, now Banco BPM, carried out an "en bloc" repurchase of receivables deriving from mortgages classified as bad loans until 31 January 2018, while in December Banco BPM carried out an "en bloc" repurchase of positions classified as bad loans at 30 November 2018.

Significant events after the end of the period

The subordinated loan granted to the SPE was repaid for 200 million euro on the Payment date of 18 January 2018, for 150 million euro on the Payment Date of 18 April 2018, for 170 million euro on the Payment Date of 18 July 2018 and for a further 170 million euro on the Payment Date of 18 October 2018.

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 - Receivables from customers", and the relative interests are posted under item 10 of the income statement "Interests and similar income". At 31 December 2018 the book value of the mortgages is (i) 5,167 million euro for the BP CB1 programme, (ii) 6,351 million euro for the BPM CB1 programme and (iii) 5,451 million for the BPM CB2 programme. Said value is specifically indicated under the "Assets to guarantee own liabilities and commitments" in the "Other information" sector in "Part B – Balance Sheet disclosure" of these Notes to the financial statements;
- the CBs issued are posted under the debt securities issued (item 10c of the Liabilities) and valued according to the fair value accounting rules hedged by the derivative stipulated by the SPE ("Covered Bond Swap"). The securities issued also include funding transactions by means of repurchase agreements, in line with the clarifications to this regard set out by the Supervisory Authority. The book value of the CBs at 31 December 2018 amounts to (i) 1,259.7 million euro relative to the BP CB1 programme and (ii) 4,213.4 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 "Hedge derivatives" of the assets and/or under item 40 "Hedge derivative" of the liabilities.

The consolidated income statement has the following components:

- interests on the loans sold (cover pool), as mentioned above, posted under the item "Interests and similar income";
- interests on the Covered Bonds issued, posted under the item "Interests and similar expenses";
- the differentials relative to the hedge derivatives (which transform the Covered Bond rate from fixed to variable) which are posted under the "Interests and similar income" or "Interests and similar expenses" according to the balance;

- the fair value delta of the hedge 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. We mention that in 2018 said model was not used for the Akros portfolio since the Group chose to apply it only to the perimeter currently subjected to the application of the internal rating system for regulatory purposes (the so-called AIRB). On the Akros perimeter, as on all the rest of the Group's portfolio not subjected to the AIRB method, the credit risk of the portfolio was measures according to the regulatory metric Supervisory Standards.
Using Credit-VaR (value at risk) metrics, the model makes it possible to define the probability distribution of losses within the loan portfolio, limited to performing loans, cash loans and endorsement credits, of resident financial and ordinary customers. 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 credit portfolio losses.
The calculation of the maximum potential loss, which can be broken down into the traditional measures of Expected Loss and Unexpected Loss (Economic Capital), is affected by concentration risk (as a result of high levels of exposure to individual counterparties – name concentration – or to types of counterparties, which are similar in terms of geographical areas and/or economic sectors, whose creditworthiness depends on one or more systematic factors – industry concentration) and systematic risk (as a result of the impact of unexpected changes in macroeconomic factors on the likelihood of insolvency of individual counterparties).
The impact of these components on credit risk depends not only on the degree of concentration of the credit portfolio, but also on the correlation matrix of probability of default, which is in turn estimated using a quantitative stress testing model (developed and updated internally), capable of linking the deterioration rates of similar counterparties that are economically and geographically similar to a set of "first-level" (international and domestic) economic and 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 2018, 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 rating systems

In order to calculate capital requirements against Credit Risk, the Banco BPM Group adopts internal estimates of PD, LDG and EAD.
The comparison between estimates and empirical data is made for all risk parameters through backtesting conducted by the Internal Validation service.
With reference to the PD models, the Banco BPM Group adopts performance measurements to check the accuracy ratio (AR) of the estimates and calibration tests ("classical" binomial tests on a multi-year and annual period) 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 to those obtained during the development phase.
In regards to the calibration, satisfactory values were found for all business models (Large Corporate, Mid Corporate Plus, Mid Corporate and Small Business), demonstrating greater prudence in the value of class PD compared to the decay rate recorded.

Overall, the model performed well for the Private customer segment. With regard to calibration, the results of the binomial tests were satisfactory.
The analysis conducted when the LGD model was extended to the BPM perimeter demonstrated that the model is substantially valid. Verification concerned the discriminatory range of the model. Recent analysis into the "Probability of Non-Performance" parameter is in line with expectations when compared with the results obtained with estimates for both the Business segment and the Private customer segment.
The analysis conducted on the first validation of the EAD model for the retail component demonstrated that the model is substantially valid. The validation framework for this parameter also includes statistical tests aimed at verifying its durability over time.
Generally, it was noted that in 2018 fine-tuning was carried out on all the models in order to overcome the aspects identified as requiring attention by the Internal Validation function when it conducted its verification activities.

1.2 MARKET RISKS

1.2.1 Interest rate risks and price risk - regulatory trading portfolio

QUALITATIVE INFORMATION

A. General features

Market risk is the risk that the Group may generate fewer revenues than expected, impairment in balance sheet items or capital losses on financial positions held, due to sharp, adverse changes in market conditions and, specifically, in interest rates, share prices, exchange rates and the associated volatilities and correlations (general risk), or due to events that may impair the issuer's repayment capacity (risk of default) or otherwise lead to changes in the solvency of the issuer (credit spread risk). Market risk occurs both in the trading book, which includes financial trading instruments and related derivative instruments, and in the banking book, which includes financial assets and liabilities other than those included in the trading book.
The organisational model adopted by the Banco BPM Group for the trading portfolios exposed to interest rate risk and price risk requires:

- the centralisation of the management of Treasury and of Proprietary Portfolio positions in the Parent Company;
- the centralisation in the subsidiary Banca Akros of the risk positions and the operating flows associated with trading of securities, currency, OTC derivatives and other financial assets.

As part of the Banco BPM Group's integration plan, Banca Akros was identified as the Group's Corporate & Investment Bank. As a result of this decision, starting from 01.10.2018, the corporate and investment banking activities carried out by Banca Aletti were centralised within Banca Akros, via the consignment of a company branch. As a result of this operation, Banca Aletti no longer has a trading portfolio. Within the same context of streamlining and standardising methods, processes and IT systems, the request submitted to the Supervisory Authority to extend the Parent Company's internal market risk model to Banca Akros - replacing the previous internal model implemented by the latter - is part of the same process.
With reference to the IMA capital requirement, the Supervisory Authority authorised the extension of the internal "Target" model for the Parent Bank's market risks to Banca Akros, starting from the Final Decision (letter dated 20/08/18, following the TRIM inspection), but with a "Limitation": this limitation consists in the application of a 30% Add-On to the capital requirement in question, with a minimum of 8 million euro, until full compliance with Obligation 18. This Finding concerns deficiencies in the internal regulatory framework, highlighted in the letter relating to the TRIM inspection, for which the Group has already produced and submitted to the Supervisory Authority (in November 2018) the Audit certification relating to the actions taken to close the Finding itself.

Parent Company's Portfolio

There are two main types of identifiable trading activities within the Parent Company:

- the investment portfolio, which represents the main source of general interest rate risk and credit spread risk, recorded in the Held-For-Trading accounting category, is largely a bond portfolio. At the end of 2018, the Parent Company's bond portfolio amounted to a nominal value of approximately 1.5 billion euro, of which approximately 70% consisted of financial securities and the remainder predominately of Italian

Government bonds and corporate 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 +31,216 euro, deriving from a prevalence of exposures on the various nodes of the Euro rate curve. This portfolio features exposure in the form of credit spread risk of approximately -336 thousand euro, considering a shock of 1 bp. Approximately 70% of this exposure derives from financial securities and the remainder predominately from Italian government bonds and corporate 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 2 million euro;

- the Treasury portfolio, which did not have any securities in position at the reference date.

The Parent Company's 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.

Banca Akros' trading portfolio, held as part of its investment bank operations

The subsidiary Banca Akros holds a trading portfolio, the main interest rate risk exposures of which concern transactions on both money markets and the associated hedged derivatives, as well as those on the markets for OTC derivatives and structured products and listed derivatives.
The transactions concern both plain vanilla instruments and structured instruments and listed and unlisted derivatives, and include trading on the secondary market in structured products issued or placed by Group banks. The destructuring of complex transactions based on the underlying allows for the centralised management of interest rate, exchange rate and price risks within the specific offices of the Bank's Global Markets Department, which use sophisticated position-keeping systems.
Specifically, the securities portfolio, net of Banco BPM issues, is approximately 300 million euro, consisting of 57% government bonds, 36% financial securities, 5% corporate securities and 2% other securities.
The exposure to credit spread risk was approximately -35,000 euro overall, considering a shock of 1 bp, deriving mainly from Financial securities.
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 18 thousand euro, assuming a parallel change in the interest rate curve of 1 bp.

The main exposures to equity risk concern transactions on both the cash and related listed or plain vanilla derivatives markets and on the markets for OTC derivatives and structured products and listed derivatives pertaining to the Equity Currency and Commodity Service.
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 transactions based on the underlying allows for the centralised management of interest rate, exchange rate and price risks within the specific offices which use sophisticated position-keeping system in both the interest rate and exchange rate/price segments. This system is also integrated with pricing and risk calculation models (Fret graphs) that have been developed internally by the Financial Engineering function and certified by the Parent Company's Risk Function. At the end of the period, the overall exposure to the rate risk of the share portfolio is equivalent to a delta equivalent position of about 8 million euro.

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.

Banca Aletti's trading portfolio, held as part of its investment bank operations

Following the transfer of the investment banking business unit to Banca Akros on 1 October, the subsidiary Banca Aletti no longer has a trading portfolio.

B. Management processes and methods for measuring interest rate risk and price risk

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 portfolio 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 given level of confidence.
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. If the latter is higher than the VaR calculated with the above decay factor, it is used for risk estimates.
The 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 the equity risk and general interest rate risk, while it is measured with the standard method for other risk factors (exchange rate risk, specific interest rate risk and commodity risk).

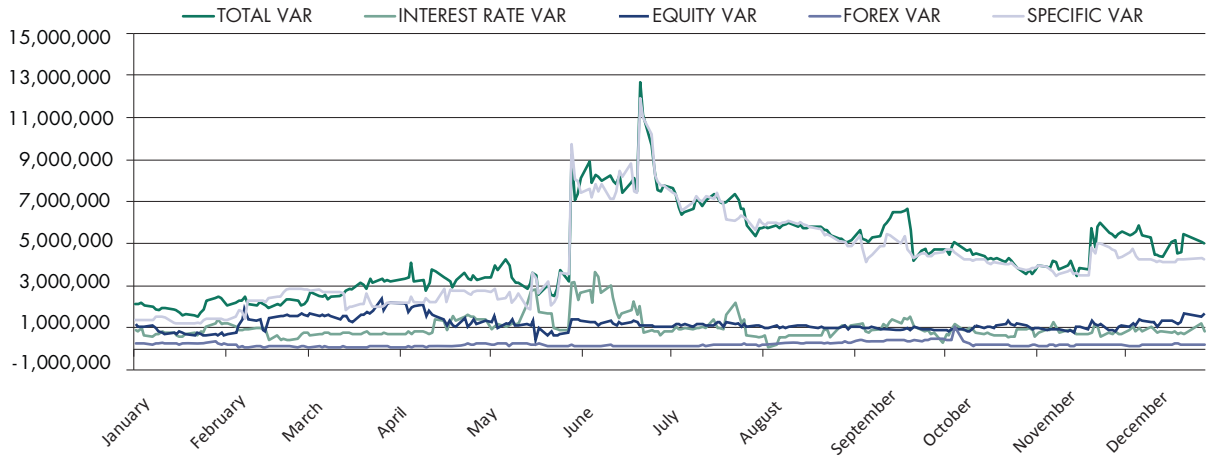
QUANTITATIVE INFORMATION

Regulatory trading portfolio: internal models and other sensitivity analysis methods

The Value at Risk (VaR) measurement considers the interest rate risk, equity risk, foreign exchange risk and credit spread risk, as well as the benefit of correlation between the risks. Correlation and dividend risks are also considered.
The performance graph and a table containing the operational VaR figures are shown below for 2018, referring to the trading book for supervisory purposes of the Banco BPM Group.

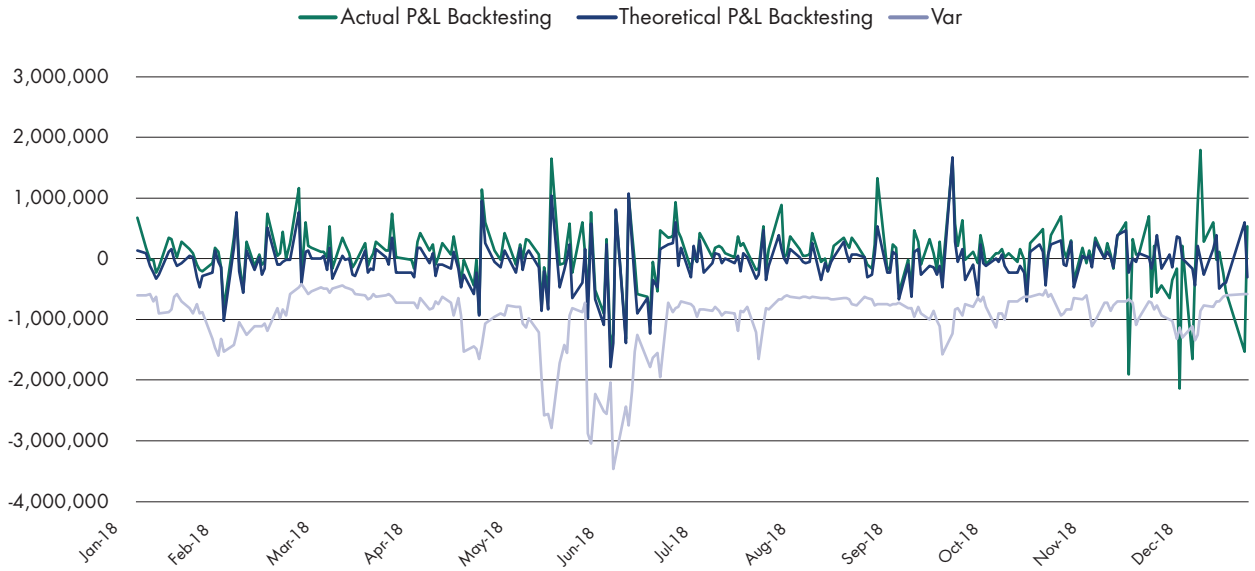
Regulatory trading portfolio ***(in millions of euro)***	**2018**			
	28 December	**average**	**maximum**	**minimum**
Interest rate risk	0.846	1.028	3.637	0.043
Exchange rate risk	0.209	0.197	1.064	0.080
Equity risk	1.671	1.162	2.351	0.399
Dividends and Correlations	0.620	0.200	0.645	0.023
Total uncorrelated	3.346			
Diversification effect	-1.432			
Total generic risk	1.914	1.540	3.245	0.954
Specific debt securities risk	4.264	4.175	11.935	1.165
Combined risk	4.986	4.551	12.650	1.562

Daily VaR and VaR by risk factor
GRUPPO BANCO BPM: Trading Portfolio

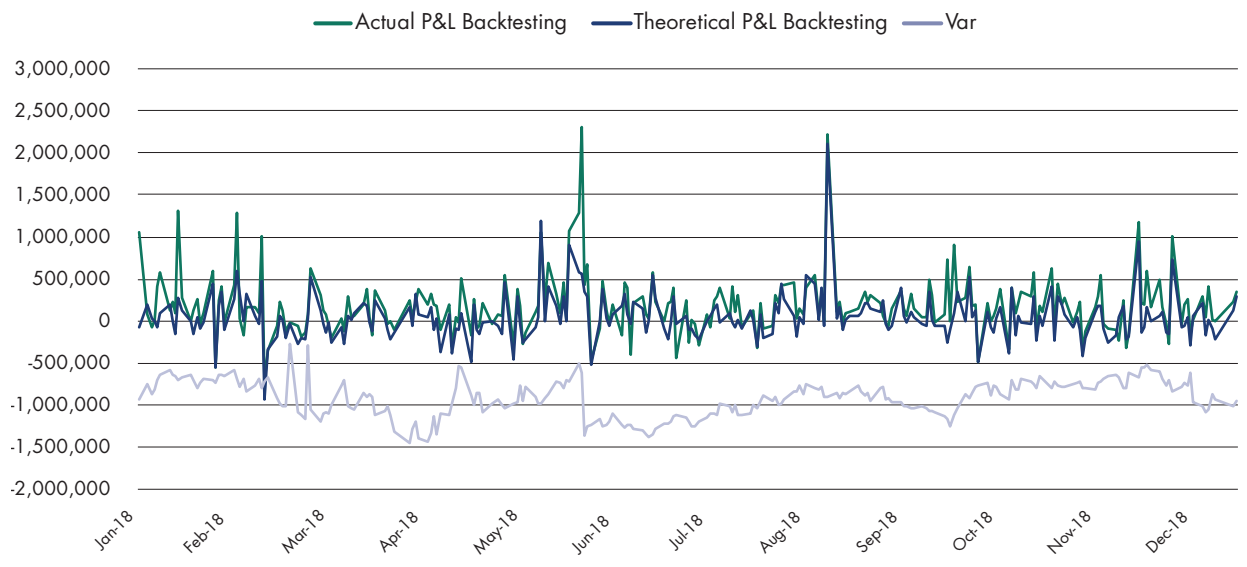


As can be seen, the relevant risk component is that relating to specific risk on debt securities, due to the presence of the positions on Italian financial and government securities. The trend of the Group's overall risks reflects the changes in these securities. More specifically, in the second half of the year, the portfolio indicated a greater level of risk, to be attributed both to exposures and to the volatility of the Italian government securities market.
Along 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 portfolio of the Banco BPM and of Banca Akros.
The graphs below show the backtesting of the VaR method, calculated on the general risk of debt securities, general 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.

Backtesting of Banco BPM



Backtesting Banca Akros



Following the introduction of the specific risk component of debt securities in the calculation of the Effective P&L as from 20 November 2018, four exceptions were recorded on the Effective Backtesting P&L of the Banco BPM trading portfolio, mainly due to the widening of the credit spread on financial issues against a short sensitivity position.
In addition, there are 2 exceptions to the Hypothetical Backtesting P&L of the Banco BPM Trading portfolio, mainly due to the increase in interest rates on the USD curve against a short sensitivity position.
Regarding Banca Akros, there is 1 exception for Effective Backtesting of the Trading Portfolio and 1 exception for Hypothetical Backtesting of the Trading Portfolio on the P&L, mainly attributable to the equity volatility component.

In the period examined, the number of exceptions (higher losses than the VaR estimate) is lower than the level of confidence used (an estimate with 99% confidence level means that an exception occurs in 1% of the residual cases in 250 business days: this result is therefore expected in 2-3 business days).

Validation activity

The 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 analysis produced to support overruns are analysed, as well as specific statistical tests (Proportion of Failures test, Time Until First Failure test, Christoffersen Interval Forecast test, Mixed Kupiec test, Conditional Coverage test) that are conducted in regard to different portfolio hierarchical levels and time horizon for Banca Aletti, Banca Akros and the parent company. 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. The results confirm the robustness of the method.
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 aspects, management procedures and methods for measuring interest rate risk and price risk

The interest rate risk relating to the banking portfolio 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 Bank'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 portfolio, 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 portfolio are respected.
In 2018, work began and was completed on extending the models, with the introduction of specific models for non-performing loans (bad loans model and past-due and UTP model) and the full integration of the feeds of the ALM system used to measure interest rate risk within the Banco BPM Group's perimeter.
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 portfolio based on the VaR (Value at Risk) method over 12 months and with a confidence interval of 99.9% (capital perspective).

In accordance with normal management practice and internal regulations, the 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 portfolio 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 portfolio: distribution of financial assets and liabilities by residual duration (per repricing date)

Currency of denomination: Euro

Type/Residual duration	Demand items	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 year to 10 years	Over 10 years	Unlimited duration
1. Cash assets	**31,006,790**	**51,969,576**	**7,169,321**	**3,263,750**	**16,745,190**	**18,926,913**	**5,062,529**	**7,063**
1.1 Debt securities	116,954	3,688,145	2,204,643	287,530	8,035,149	12,682,689	112,265	-
- with the option of early repayment	3,781	81,917	10,664	27,256	155,318	44,122	78,153	-
- other	113,173	3,606,228	2,193,979	260,274	7,879,831	12,638,567	34,112	-
1.2 Loans to banks	1,424,463	1,570,796	193,324	67,886	91,050	128,748	-	-
1.3 Loans to customers	29,465,373	46,710,635	4,771,354	2,908,334	8,618,991	6,115,476	4,950,264	7,063
- c/a	12,006,820	-	3	-	-	453,767	-	-
- other loans	17,458,553	46,710,635	4,771,351	2,908,334	8,618,991	5,661,709	4,950,264	7,063
- with the option of early repayment	3,828,002	42,030,673	3,531,458	2,230,483	7,801,301	3,455,218	4,892,128	-
- other	13,630,551	4,679,962	1,239,893	677,851	817,690	2,206,491	58,136	7,063
2. Cash liabilities	**81,195,103**	**13,455,979**	**2,195,442**	**748,000**	**30,071,914**	**3,165,812**	**372,199**	**-**
2.1. Due to customers	79,189,603	7,238,099	1,714,380	421,117	424,471	155,268	234,638	-
- c/a	75,928,778	761,369	180,984	39,350	-	-	-	-
- other payables	3,260,825	6,476,730	1,533,396	381,767	424,471	155,268	234,638	-
- with the option of early repayment	-	-	-	-	-	-	-	-
- other	3,260,825	6,476,730	1,533,396	381,767	424,471	155,268	234,638	-
2.2. Due to banks	1,816,351	1,353,543	309,019	122,015	22,525,435	989,197	2,504	-
- c/a	321,197	-	-	-	-	-	-	-
- other payables	1,495,154	1,353,543	309,019	122,015	22,525,435	989,197	2,504	-
2.3 Debt securities	189,116	4,864,337	172,043	204,868	7,122,008	2,021,347	135,057	-
- with the option of early repayment	11,428	950,941	1,049	105,002	131,414	498,678	363	-
- other	177,688	3,913,396	170,994	99,866	6,990,594	1,522,669	134,694	-
2.4 Other liabilities	33	-	-	-	-	-	-	-
- with the option of early repayment	-	-	-	-	-	-	-	-
- other	33	-	-	-	-	-	-	-
3. Financial derivatives	**2,550,187**	**14,116,110**	**700,979**	**5,439,598**	**9,567,246**	**6,492,541**	**187,223**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	2,550,187	14,116,110	700,979	5,439,598	9,567,246	6,492,541	187,223	-
- Options	-	11,975	1,301	652	4,655	1,137	5,666	-
+ Long positions	-	8,210	872	-	-	10	3,601	-
+ Short positions	-	3,765	429	652	4,655	1,127	2,065	-
- Other derivatives	2,550,187	14,104,135	699,678	5,438,946	9,562,591	6,491,404	181,557	-
+ Long positions	874,612	5,098,490	651,801	4,428,385	6,332,497	1,345,000	69,385	-
+ Short positions	1,675,575	9,005,645	47,877	1,010,561	3,230,094	5,146,404	112,172	-
4. Other off-balance sheet transactions	**71,954**	**72,355**	**-**	**-**	**401**	**-**	**-**	**-**
+ Long positions	-	71,954	-	-	401	-	-	-
+ Short positions	71,954	401	-	-	-	-	-	-

Currency of denomination: other currencies than euro

Type/Residual duration	Demand items	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 year to 10 years	Over 10 years	Unlimited duration
1. Cash assets	**747,400**	**1,096,569**	**185,653**	**535,468**	**2,113,386**	**1,952,719**	**1,475**	**-**
1.1 Debt securities	42,973	270,455	98,022	531,061	2,109,703	1,949,932	-	-
- with the option of early repayment	5,675	140,369	-	-	103,130	8,263	-	-
- other	37,298	130,086	98,022	531,061	2,006,573	1,941,669	-	-
1.2 Loans to banks	208,747	122,495	106	360	4	64	-	-
1.3 Loans to customers	495,680	703,619	87,525	4,047	3,679	2,723	1,475	-
- c/a	157,482	-	-	-	-	-	-	-
- other loans	338,198	703,619	87,525	4,047	3,679	2,723	1,475	-
- with the option of early repayment	14	2,424	955	-	-	-	-	-
- other	338,184	701,195	86,570	4,047	3,679	2,723	1,475	-
2. Cash liabilities	**841,709**	**3,928,360**	**473,940**	**50,965**	**108**	**-**	**1,475**	**-**
2.1. Due to customers	750,991	20,474	2,518	8,598	-	-	-	-
- c/a	745,222	20,474	2,518	8,598	-	-	-	-
- other payables	5,769	-	-	-	-	-	-	-
- with the option of early repayment	-	-	-	-	-	-	-	-
- other	5,769	-	-	-	-	-	-	-
2.2. Due to banks	90,718	3,907,886	471,422	42,367	108	-	1,475	-
- c/a	59,844	-	-	-	-	-	-	-
- other payables	30,874	3,907,886	471,422	42,367	108	-	1,475	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with the option of early repayment	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with the option of early repayment	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**580,786**	**-**	**-**	**532,751**	**48,035**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	580,786	-	-	532,751	48,035	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	580,786	-	-	532,751	48,035	-	-
+ Long positions	-	580,786	-	-	-	-	-	-
+ Short positions	-	-	-	-	532,751	48,035	-	-
4. Other off-balance sheet transactions	**-**	**94,223**	**981**	**-**	**16,424**	**-**	**-**	**-**
+ Long positions	-	38,409	981	-	16,424	-	-	-
+ Short positions	-	55,814	-	-	-	-	-	-

2. Banking portfolio: internal models and other sensitivity analysis methods

The Group makes use of an Asset & Liability Management procedure for the monthly measurement of "sensitivity" to changes in the interest rate structure on the expected financial margin and on the economic value of capital related to the banking portfolio.

With regards to the expected financial margin, the ALM system estimates its variation on an annual basis in the event of a deterministic shock on the interest rate curves (increase/decrease in basis points applied to all interest rate curves as an instant, single and parallel variation), as well as shocks to the adjustment of forward rates implicit in cash market rates or shocks resulting from forecasts reflecting alternative scenarios. Estimates are calculated assuming that the capital structure is unchanged in terms of the total assets and liabilities and relative their financial characteristics (rates, spreads, duration).
With regard to the economic value of capital, the same method is applied to interest rate curve changes, measuring the change in current value of all transactions and comparing these changes 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 2018 in accordance with operational risk measurements.

Risk ratios (%)	2018				2017	
	31 December	average	maximum	minimum	31 December	average
For shift of + 100 bps						
Financial margin at risk/Financial margin	20.4%	19.9%	21.7%	18.5%	17.4%	15.4%
For shift of - 100 bps (EBA floor)						
Financial margin at risk/Financial margin	-11.7%	-16.4%	-11.7%	-19.8%	-17.8%	-9.1%
For shift of + 100 bps						
Economic value at risk/ Economic value of capital	0%	-1.9%	0%	-3.7%	-1, 9%	-1, 4%
For shift of - 100 bps (EBA floor)						
Economic value at risk/Economic value of capital	-2.1%	-0.50%	1, 5%	-2.1%	1.9%	1.7%

For the correct interpretation of the above data, it must be noted that the values referring to the "average" figure of the financial period 2017 are relative only to the second half semester, due to the computerised standardisation on the target systems of the risk metrics which took place in July last year; furthermore, said data are only partially comparable with the final balance at the end of the period, with impact mainly on the metrics of the financial margin at risk in the case of a fall in market rates, subsequent to the remodelling of the floor applied, recalibrated on the basis of the provisions of the new EBA Guidelines EBA (EBA/GL/2018/02), equal to -100 bp on the overnight node of the curve and in linear growth up to 0 bp at the 20-year node as of September 2018.

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, L&R and HTM using a method which involves calculating the VaR spread to take into consideration the Migration component and Incremental Default Risk (IDR) to capture the Default component.

In May 2018, there was a significant increase in the credit spread on the Italian government securities market, which caused a marked increase in the risk levels at Group level which gradually decreased in the last months of the year.

The Banco BPM Group's debt securities portfolio at 28 December 2018 amounted to 29 million euro, of which 16 million euro is represented by Italian government bonds.

1.2.3 Exchange rate risk

QUALITATIVE INFORMATION

A. General aspects, management processes and methods for measuring exchange rate risk

Exchange rate risk management is centralised within the Treasury for the Parent Bank's operations and with the Forex & Commodities Unit for Banca Akros. The total exposure for the Banco BPM Treasury, adding all the exchange

rate exposures against the euro, was approximately 4 million euro; for Banca Akros, the total exposure was approximately 2 million euro.
Regarding the methods for measuring and controlling the exchange rate risk generated by the trading portfolio, please refer to the method described in the "Interest rate risks and price risk - regulatory trading portfolio" section. The methods adopted, as in the case of other risks not included in the validated internal model, will not be applied for the purposes of calculating capital requirements.

B. Exchange rate risk hedging

Exposures to exchange rate risk are monitored daily and are hedged in such a way as to comply with the risk limits for each function.

QUANTITATIVE INFORMATION

1. Distribution by currency of denomination of assets and liabilities and of derivatives

Items	Currencies					
	USD	JPY	GBP	CHF	AUD	Other
A. Financial assets	**7,569,599**	**49,786**	**58,487**	**161,171**	**119,999**	**133,030**
A.1 Debt securities	5,875,569	-	5	-	103,225	5
A.2 Equity instruments	301,216	37,099	26,594	17,128	5,202	42,360
A.3 Loans to banks	173,566	6,561	7,510	123,677	3,965	69,600
A.4 Loans to customers	1,219,248	6,126	24,378	20,323	7,607	21,065
A.5 Other financial assets	-	-	-	43	-	-
B. Other assets	**84,187**	**5,607**	**16,444**	**53,177**	**5,016**	**12,885**
C. Financial liabilities	**5,157,481**	**8,050**	**66,331**	**20,329**	**4,819**	**42,893**
C.1. Due to banks	4,479,974	679	30,616	157	1,260	1,306
C.2. Due to customers	677,507	7,371	35,715	19,537	3,559	40,887
C.3 Debt securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	635	-	700
D. Other liabilities	**94,311**	**368**	**4,933**	**1,261**	**57**	**8,378**
E. Financial derivatives						
- Options						
+ Long positions	156,756	8,334	16,284	887	495	-
+ Short positions	203,208	6,930	12,041	-	-	2,202
- Other derivatives						
+ Long positions	10,588,558	512,947	211,071	80,867	34,988	116,555
+ Short positions	12,811,500	527,918	210,840	236,443	148,077	130,173
Total assets	**18,399,100**	**576,674**	**302,286**	**296,102**	**160,498**	**262,470**
Total liabilities	**18,266,500**	**543,266**	**294,145**	**258,033**	**152,953**	**183,646**
Imbalance (+/-)	**132,600**	**33,408**	**8,141**	**38,069**	**7,545**	**78,824**

2. Internal models and other sensitivity analysis methods

The exchange risk generated by the trading portfolio and the banking portfolio is monitored by an internal VaR model, described in the section "Interest rate risk and price risk - regulatory trading portfolio", where the values of said indicator are shown.

1.3 DERIVATIVE INSTRUMENTS AND HEDGING POLICIES

Derivative instruments

The Banco BPM Group has put specific and robust processes in place for validating and controlling pricing models and related market parameters for transactions in derivative financial instruments.

Validation and control process of Market Parameters

The Banco BPM Group has set a Fair Value Policy in place that outlines the accounting rules for the valuation of market parameters. To comply with this Policy, a rigorous recording, validation and control process for market parameters is used to measure the market value and to estimate the risk for positions in derivatives. This process is carried out by the Parent Company's Risk Department and specifically includes:

- the constant updating of the Parameters Manual that contains all the main parameters used and their most important characteristics, with the definition of their source;
- the continuous update of the parameter control methods;
- the daily validation and control of the quoted/listed parameters received automatically from external infoproviders;
- the daily validation and control of illiquid parameters, from an accounting and operating viewpoint.

In order to support control activities, the Group has established an advanced application system (fuelled by the front office system and by alternative and highly specialised infoproviders, for benchmarking purposes) in order to monitor the trend of the parameters over time, with statistical analysis of deviations and operational warnings.

Validation process of pricing models for OTC derivatives

The 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.
So as to guarantee precise and thorough governance of the adoption process of the new pricing models—whether these be market-based or developed internally—a validation process is in place which involves:

- the validation of the models carried out by the Market Risk Unit of the Risk Department;
- the validation of the models via rigorous consistency and robustness tests, which are also conducted with the advice of academics;
- the official validation of the new pricing models by the Parent Group'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 the current prudential policy pursued by the Group establishes that the stipulation of financial instruments with innovative characteristics is permitted after the reliability and accuracy of the related pricing models have been carefully verified.

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 the Banco BPM Group, manages the market risk that derives from its overall transactions in derivative financial instruments.

Aggregate ***(fair value stated in thousands of euro)***	**Number of contracts/lots (in units)**	**Fair Value**	**Positive Fair Value**	**Negative Fair Value**
Total	**245,314**	**(4,460,903)**	**1,843,016**	**(6,303,919)**
of which: Listed/Quoted Derivatives	232,220	(79,841)	124,405	(204,246)
of which: Certificates valued using internal models developed by the financial engineering department of Banca Akros	141	(4,309,014)	-	(4,309,014)
of which: OTC derivatives valued using the proprietary models of the Front Office system	6,038	(164,839)	1,172,744	(1,337,583)
of which: OTC derivatives valued using internal models developed by the financial engineering department of Banca Akros	6,909	92,791	544,242	(451,451)
of which: OTC derivatives valued using external contributors	6	-	1,625	(1,625)

1.3.1 Trading derivative instruments

A. FINANCIAL DERIVATIVES

A.1 Trading financial derivatives: year-end notional values

Underlying assets/Derivative types	**Total 31/12/2018**			
	Over the counter			**Organised markets**
	Central counterparties	**Without central counterparties**		
		With offsetting arrangements	**Without offsetting arrangements**	
1. Debt securities and interest rates	**35,315,089**	**45,205,273**	**12,967,287**	**946,500**
a) Options	-	17,226,827	2,882,314	175,000
b) Swaps	35,315,089	27,978,446	7,167,497	-
c) Forwards	-	-	-	-
d) Futures	-	-	2,917,476	771,500
e) Others	-	-	-	-
2. Equity instruments and equity indices	**-**	**9,065,241**	**1,662,187**	**739,902**
a) Options	-	9,065,241	1,447,505	720,375
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	214,682	19,527
e) Others	-	-	-	-
3. Currencies and gold	**-**	**23,236,442**	**1,208,907**	**-**
a) Options	-	890,402	235,723	-
b) Swaps	-	3,693	41,968	-
c) Forwards	-	22,342,347	931,216	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
4. Commodities	**-**	**33,350**	**5,804**	**-**
5. Other	**-**	**-**	**-**	**-**
Total	**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 31/12/2018			
	Over the counter			Organised markets
	Central counterparties	Without central counterparties		
		With offsetting arrangements	Without offsetting arrangements	
1. Positive fair value				
a) Options	-	396,183	54,267	43,079
b) Interest rate swaps	235,973	842,859	159,033	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	316,289	8,063	-
f) Futures	-	-	-	-
g) Others	-	3,299	132	-
Total	**235,973**	**1,558,630**	**221,495**	**43,079**
2. Negative fair value				
a) Options	-	468,957	970,149	38,359
b) Interest rate swaps	345,469	989,374	249	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	266,619	9,599	-
f) Futures	-	-	-	-
g) Others	-	2,947	176	-
Total	**345,469**	**1,727,897**	**980,173**	**38,359**

A.3 OTC Trading financial derivatives: notional values, gross positive fair value and negative for counterparties

Underlying assets	Central counterparties	Banks	Other financial companies	Other parties
Contracts that do not fall within offsetting arrangements				
1) Debt securities and interest rates				
- notional value	X	647,566	3,356,414	8,963,307
- positive fair value	X	109	9,925	160,291
- negative fair value	X	11	20	3,914
2) Equity instruments and equity indices				
- notional value	X	-	398,642	1,263,545
- positive fair value	X	-	21,541	19,916
- negative fair value	X	-	5,036	956,526
3) Currencies and gold				
- notional value	X	547,641	32,079	629,187
- positive fair value	X	5,864	42	3,792
- negative fair value	X	2,443	113	12,061
4) Commodities				
- notional value	X	-	-	5,804
- positive fair value	X	-	-	15
- negative fair value	X	-	-	49
5) Others				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts that fall within offsetting arrangements				
1) Debt securities and interest rates				
- notional value	35,315,089	28,365,148	16,199,947	640,177
- positive fair value	235,973	613,458	346,971	12,122
- negative fair value	345,469	752,356	290,034	23,067
2) Equity instruments and equity indices				
- notional value	-	4,889,926	4,175,315	-
- positive fair value	-	115,728	144,809	-
- negative fair value	-	114,230	273,177	-
3) Currencies and gold				
- notional value	-	19,969,556	2,803,013	463,874
- positive fair value	-	285,364	34,246	2,629
- negative fair value	-	233,704	29,607	8,738
4) Commodities				
- notional value	-	1,091	25,389	6,870
- positive fair value	-	73	3,230	-
- negative fair value	-	75	905	2,004
5) Others				
- 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	More than 1 year and up to 5 years	Over 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	31,854,487	44,173,626	17,459,535	93,487,648
A.2 Financial derivatives on equity securities and equity indices	3,260,044	6,156,335	1,311,049	10,727,428
A.3 Financial derivatives on currencies and gold	24,151,897	293,452	-	24,445,349
A.4 Financial derivatives on commodities	39,154	-	-	39,154
A.5 Other financial derivatives	-	-	-	-
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 the 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 Group 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.
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 exposures, they are calculated using an EPE (expected positive exposure) methodology (analytical or simplified) or with standardised supervisory measures.
The indirect membership (through Clearing Brokers) of a Clearing House for operations in OTC derivatives enabled the following objectives to be achieved:

- the mitigation of counterparty risk through netting mechanisms for the portion of interest rate swaps transferred to LCH and for credit default swaps with ICE Clear Europe;
- the reduction of credit facilities to market counterparties;
- the reduction of capital requirements;
- compliance with the European Directive - European Market Infrastructure Regulation (EMIR);
- mitigation of operating risk.

In accordance with the Basel III 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 established 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	Derivatives held for trading	
	on a single subject	on several subjects (basket)
1. Protection bought		
a) Credit default products	125,000	-
b) Credit spread products	-	-
c) Total rate of return swaps	-	-
d) Others	-	-
Total 31/12/2018	**125,000**	**-**
2. Protection sold		
a) Credit default products	-	-
b) Credit spread products	-	-
c) Total rate of return swaps	-	-
d) Others	-	-
Total 31/12/2018	**-**	**-**

B.2 Trading credit derivatives: gross positive and negative fair value - breakdown by products

Derivative types	Total 31/12/2018	Total 31/12/2017
1. Positive fair value		
a) Credit default products	857	-
b) Credit spread products	-	-
c) Total rate of return swaps	-	-
d) Others	-	-
Total	**857**	**-**
2. Negative fair value		
a) Credit default products	-	-
b) Credit spread products	-	-
c) Total rate of return swaps	-	-
d) Others	-	-
Total	**-**	**-**

B.3 OTC Trading credit derivatives: notional values, gross (positive and negative) fair value for counterparties

	Central counterparties	Banks	Other financial companies	Other parties
Contracts that do not fall within offsetting 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 that fall within offsetting arrangements				
1) Protection bought				
– notional value	125,000	-	-	-
– positive fair value	857	-	-	-
– negative fair value	-	-	-	-
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	More than 1 year and up to 5 years	Over 5 years	Total
1 Protection sold	-	-	-	-
2 Protection bought	-	125,000	-	125,000
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 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 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 with hedges are mainly demand items, bond issues, mortgages 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 designated at fair value" of "Part B – Balance sheet disclosure" of these notes to the consolidated financial statements.

The price risk of the component represented by the portfolio of alternative assets is monitored daily and is not hedged.

B. Cash flow hedges

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

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 such changes, while considering the aim pursued by the company 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 almost completely neutralise 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 offsetting is recognised by charging the changes in value referring both to the hedged element (referring to the changes generated by the underlying risk factor), as well as to the hedging instrument to the income statement, in item "90. Fair value adjustments in hedge accounting". 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 original measurement approach of the class to which it 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 through profit and loss 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 Hedging derivatives: year-end notional values

Underlying assets/Derivative types	Total 31/12/2018			
	Over the counter			Organised markets
	Central counterparties	Without central counterparties		
		With offsetting arrangements	Without offsetting arrangements	
1. Debt securities and interest rates	**11,163,082**	**8,541,210**	**1,100,000**	**-**
a) Options	-	5,177	-	-
b) Swaps	11,163,082	8,536,033	1,100,000	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
2. Equity instruments and equity indices	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
3. Currencies and gold	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**
5. Other	**-**	**-**	**-**	**-**
Total	**11,163,082**	**8,541,210**	**1,100,000**	**-**

A.2 Hedging derivatives: gross positive and negative fair value - breakdown by products

Derivative types	Positive and negative fair value				Change in value used to calculate hedge effectiveness
	Total 31/12/2018				
	Over the counter			Organised markets	Total 31/12/2018
	Central counterparties	Over the counter			
		With offsetting arrangements	Without offsetting arrangements		
Positive fair value					
a) Options	-	-	-	-	-
b) Interest rate swaps	31,521	15	1,958	-	-
c) Cross currency swaps	-	-	-	-	-
d) Equity swaps	-	-	-	-	-
e) Forwards	-	-	-	-	-
f) Futures	-	-	-	-	-
g) Others	-	-	-	-	-
Total	**31,521**	**15**	**1,958**	**-**	**-**
Negative fair value					
a) Options	-	-	-	-	-
b) Interest rate swaps	89,590	538,481	-	-	-
c) Cross currency swaps	-	-	-	-	-
d) Equity swaps	-	-	-	-	-
e) Forwards	-	-	-	-	-
f) Futures	-	-	-	-	-
g) Others	-	-	-	-	-
Total	**89,590**	**538,481**	**-**	**-**	**-**

A.3 OTC hedging derivatives: notional values, gross positive and negative fair value for counterparties

Underlying assets	Central counterparties	Banks	Other financial companies	Other parties
Contracts that do not fall within offsetting arrangements				
1) Debt securities and interest rates				
- notional value	X	1,100,000	-	-
- positive fair value	X	1,958	-	-
- negative fair value	X	-	-	-
2) Equity instruments and equity 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) Others				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts that fall within offsetting arrangements				
1) Debt securities and interest rates				
- notional value	11,163,082	7,814,006	727,204	-
- positive fair value	31,521	1	14	-
- negative fair value	89,590	398,876	139,605	-
2) Equity instruments and equity 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) Others	-	-	-	-
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Residual life of OTC hedging derivatives: notional values

Underlying/Residual life	Up to 1 year	More than 1 year and up to 5 years	Over 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	2,965,552	11,018,273	6,820,468	20,804,293
A.2 Financial derivatives on equity securities and equity indices	-	-	-	-
A.3 Financial derivatives on currencies and gold	-	-	-	-
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31/12/2018	**2,965,552**	**11,018,273**	**6,820,468**	**20,804,293**

B. HEDGING CREDIT DERIVATIVES

B.1 Hedging credit derivatives: year-end notional values

This case is not present for the Group; thus the relevant table has been omitted.

B.2 Hedging credit 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 hedging credit derivatives: notional values, gross positive and negative fair value for counterparties

This case is not present for the Group; thus the relevant table has been omitted.

B.4 Residual life of OTC hedging credit 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

	Specific hedges: book value	Specific hedges			Generic 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 designated at fair value through other comprehensive income – hedge of:	**4,984,747**	**305,205**	**-**	**-**	**-**
1.1 Debt securities and interest rates	4,984,747	305,205	-	-	X
1.2 Equity instruments and equity indices	-	-	-	-	X
1.3 Currencies and gold	-	-	-	-	X
1.4 Loans and receivables	-	-	-	-	X
1.5 Other	-	-	-	-	X
2. Financial assets designated at amortised cost - hedge of:	**2,810,959**	**22,790**	**-**	**-**	**34,732**
1.1 Debt securities and interest rates	2,810,959	22,790	-	-	X
1.2 Equity instruments and equity indices	-	-	-	-	X
1.3 Currencies and gold	-	-	-	-	X
1.4 Loans and receivables	-	-	-	-	X
1.5 Other	-	-	-	-	X
Total 31/12/2018	**-**	**-**	**-**	**-**	**34,732**
B. Liabilities					
1. Financial liabilities designated at amortised cost - hedge of:	**5,641,979**	**26,008**	**-**	**-**	**32,340**
1.1 Debt securities and interest rates	5,641,979	26,008	-	-	X
1.2 Currencies and gold	-	-	-	-	X
1.3 Other	-	-	-	-	X
Total 31/12/2018	**5,641,979**	**26,008**	**-**	**-**	**32,340**

D.2 Cash flow hedges and foreign investment hedges

	Change 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	**-**	**7,034**	**-**
1.1 Debt securities and interest rates	-	7,034	-
1.2 Equity instruments and equity indices	-	-	-
1.3 Currencies and gold	-	-	-
1.4 Loans and receivables	-	-	-
1.5 Other	-	-	-
2. Liabilities	**-**	**-**	**-**
1.1 Debt securities and interest rates	-	-	-
1.2 Currencies and gold	-	-	-
1.3 Other	-	-	-
Total (A) 31/12/2018	**-**	**(7,034)**	**-**
B. Foreign investment hedges	**X**	**1,051**	**-**
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					Foreign investment hedging reserve				
	Debt securities and interest rates	Equity instruments and equity indices	Currencies and gold	Receivables	Other	Debt securities and interest rates	Equity instruments and equity indices	Currencies and gold	Receivables	Other
Opening balance	**(8,182)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Fair value changes (effective portion)	1,714	-	-	-	-	-	-	-	-	-
Reversals to income statement	-	-	-	-	-	-	-	-	-	-
of which: future transactions no longer expected	-	-	-	-	-	X	X	X	X	X
Other changes	(566)	-	-	-	-	-	-	-	-	-
of which: transfers at the initial book value of hedged instruments	-	-	-	-	-	X	X	X	X	X
Closing balance	**(7,034)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

	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	-	-	-	-
Reversals 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 counterparties

	Central counterparties	Banks	Other financial companies	Other parties
A. Financial derivatives				
1) Debt securities and interest rates				
- notional value	46,478,172	37,279,228	16,927,151	640,177
- net positive fair value	-	103,775	114,669	11,571
- net negative fair value	167,564	639,594	197,323	22,516
2) Equity instruments and equity indices				
- notional value	-	4,859,776	4,205,465	-
- net positive fair value	-	37,489	25,321	-
- net negative fair value	-	35,991	153,689	-
3) Currencies and gold				
- notional value	-	19,935,419	2,803,013	1,057,612
- net positive fair value	-	96,971	21,997	956
- net negative fair value	-	45,312	17,358	7,065
4) Commodities				
- notional value	-	1,091	25,390	6,870
- net positive fair value	-	-	2,325	-
- net negative fair value	-	2	-	2,004
5) Others				
- notional value	-	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	-	-	-
B. Credit derivatives				
1) Protection bought				
- notional value	125,000	-	-	-
- net positive fair value	857	-	-	-
- net negative fair value	-	-	-	-
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 methods for measuring liquidity risk

Liquidity risk is the risk that the Group is not able to meet its payment commitments and that this is certain or envisaged with reasonable certainty. Liquidity risk is usually broken down into two types of risk: liquidity and funding risk, namely the risk that the Group is unable, in the short term (liquidity) and in the long term (funding) to meet its payment commitments and its obligations in an efficient manner due to the inability to raise funds without prejudicing its core business activities and/or its financial situation. Market liquidity risk, namely the risk that the Group is not able to liquidate an asset without incurring losses on the capital account due to the poor depth of the reference market and/or due to the timing with which the transaction must be performed.
In the 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 within the Internal Liquidity Adequacy Assessment Process (ILAAP), which is the process used by the Group to identify, measure, monitor, mitigate and report on the Group's liquidity risk profile. Within this process, the Group proceeds with an annual self-assessment of the adequacy of the overall framework for the management and measurement of liquidity risk, which also includes governance, methodologies, IT systems, measurement instruments 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 daily (short-term liquidity) and monthly (structural liquidity). The objective is to monitor changes in the risk profile, verifying its adequacy with respect to the Risk Appetite Framework and the operating limits envisaged. Stress testing is conducted on a quarterly basis, in order to test the Group's ability to resist unfavourable scenarios and the liquidity estimates that may be generated with countermeasures (the so-called action plan, an integral part of the Liquidity Contingency Plan) that may be adopted in the event of a stress scenario.
In particular, the Group uses a monitoring system that includes short-term (time horizon from infra-day up to twelve months) and long-term (more than twelve months) liquidity indicators. To that end, both regulatory metrics (LCR, NSFR, ALMM) and metrics developed internally and which include the use of models for estimating behavioural and/or optional parameters are used.
In 2018, 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

Line items/time bands	Demand items	From 1 days 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 1 year to 5 years	Over 5 years	Unlimited duration
Cash assets	**30,232,130**	**203,356**	**575,841**	**1,320,672**	**3,324,750**	**5,466,828**	**7,892,925**	**41,495,800**	**45,759,029**	**758,818**
A.1 Government Securities	89,077	-	-	-	152,021	39,977	1,204,489	9,027,257	12,766,112	-
A.2 Other debt securities	44,826	-	5,874	28,180	22,810	355,729	88,315	1,954,239	2,276,869	511
A.3 UCIT units	389,637	-	-	-	-	-	-	-	-	-
A.4 Loans	29,708,590	203,356	569,967	1,292,492	3,149,919	5,071,122	6,600,121	30,514,304	30,716,048	758,307
- Banks	1,383,211	32,182	367,236	112,853	58,476	231,036	184,654	374,051	128,722	563,859
- Customers	28,325,379	171,174	202,731	1,179,639	3,091,443	4,840,086	6,415,467	30,140,253	30,587,326	194,448
Cash liabilities	**80,447,045**	**3,208,767**	**815,113**	**2,034,667**	**4,051,015**	**2,699,392**	**1,591,933**	**36,737,173**	**3,802,411**	**104,900**
B.1 Deposits and current accounts	78,824,235	369,075	34,951	221,965	855,734	478,787	406,468	57,312	-	-
- Banks	819,097	-	-	-	29,010	8,007	12,014	-	-	-
- Customers	78,005,138	369,075	34,951	221,965	826,724	470,780	394,454	57,312	-	-
B.2 Debt securities	191,448	1,669	9,801	410,846	1,298,373	411,263	810,968	12,871,487	2,148,483	104,900
B.3 Other liabilities	1,431,362	2,838,023	770,361	1,401,856	1,896,908	1,809,342	374,497	23,808,374	1,653,928	-
"Off-balance sheet" items										
C.1 Financial derivatives with exchange of capital										
- Long positions	118	1,235,897	1,313,437	1,806,721	3,931,398	1,833,397	2,877,637	62,974	7,108	-
- Short positions	-	615,886	240,018	1,537,332	2,958,191	1,966,362	3,096,647	251,127	5,386	-
C.2 Financial derivatives without exchange of capital										
- Long positions	1,494,861	-	-	-	9,798	-	-	191,689	11,027	-
- Short positions	2,416,300	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans receivable										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- Long positions	-	71,954	-	-	-	-	-	401	-	-
- Short positions	71,954	-	-	-	401	-	-	-	-	-
C.5 Financial guarantees given	86,074	258	591	3,786	40,015	76,709	105,233	247,987	318,342	-
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	857	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

2. Distribution of financial assets and liabilities by residual duration of the contracts. Currency of denomination: other currencies

Line items/time bands	Demand items	From 1 days 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 1 year to 5 years	Over 5 years	Unlimited duration
Cash assets	**871,887**	**31,835**	**137,862**	**132,697**	**177,735**	**170,824**	**581,977**	**3,479,847**	**2,360,943**	**878**
A.1 Government Securities	18,411	-	-	-	-	87,338	489,083	1,445,441	1,899,567	-
A.2 Other debt securities	31,535	-	4,376	79	2,620	11,790	60,499	1,766,588	340,373	-
A.3 UCIT units	102,788	-	-	-	-	-	-	-	-	-
A.4 Loans	719,153	31,835	133,486	132,618	175,115	71,696	32,395	267,818	121,003	878
- Banks	250,397	3,936	79,892	21,086	17,587	106	361	-	64	-
- Customers	468,756	27,899	53,594	111,532	157,528	71,590	32,034	267,818	120,939	878
Cash liabilities	**841,420**	**126,938**	**972,638**	**1,265,480**	**1,563,674**	**474,040**	**51,212**	**108**	**2,753**	**-**
B.1 Deposits and current accounts	804,928	126,938	17,607	28,470	4,177	4,583	10,155	-	-	-
- Banks	59,856	126,760	16,614	10,507	2,687	2,019	1,351	-	-	-
- Customers	745,072	178	993	17,963	1,490	2,564	8,804	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	36,492	-	955,031	1,237,010	1,559,497	469,457	41,057	108	2,753	-
"Off-balance sheet" items										
C.1 Financial derivatives with exchange of capital										
- Long positions	438	1,153,253	338,677	1,740,730	3,231,131	2,050,559	3,112,154	88,776	-	-
- Short positions	554	1,764,575	1,410,385	1,994,447	4,203,766	1,888,014	2,951,747	60,344	13	-
C.2 Financial derivatives without exchange of capital										
- Long positions	136,111	-	-	-	-	-	-	-	-	-
- Short positions	199,914	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans receivable										
- Long positions	-	3,464	-	-	-	-	-	-	-	-
- Short positions	-	3,464	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- Long positions	-	-	-	17,741	17,205	981	-	16,424	-	-
- Short positions	-	52,351	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	704	-	-	-	422	-	-	-	-	-
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 in place as at 31 December 2018 are described below.

Self-securitisation transactions

SPE	Originator	Securities date of issuance	Transaction	Securitisation type
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 mortgage loans
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 leasing contracts
ProFamily Securitisation S.r.l.	ProFamily S.p.A.	November 2015	ProFamily Securitisation	Performing consumer loans

Transactions closed during the year

BPM Securitisation 3 S.r.l. (CMBS 2014)

In March 2018, the "BPM Securitisation 3" (CMBS 2014) securitisation transaction was dissolved with the signing of the related contracts. In particular, BPM repurchased the entire residual portfolio of mortgage loans underlying this transaction, and on the extraordinary repayment date of 8 March 2018, the SPE made the early repayment of the securities still outstanding and fully subscribed by BPM.

After the securitisation transaction was closed, on 28 June 2018, Banco BPM acquired 100% of the share capital of the SPE, with effect from 10 July 2018, and the Shareholders' Meeting of BPM Securitisation 3 S.r.l. held on the 31 July 2018 approved the early dissolution and put the company into liquidation with legal effect from 7 August 2018. The Shareholders' Meeting held on 20 December 2018 approved the final liquidation financial statements as at 13 December 2018, together with the relative distribution plan. The Company was removed from the Business Register on 21 January 2019.

Existing and significant self-securitisation transactions during 2018

Securitisation of mortgages, land and buildings, and 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, land and buildings, and 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. In February 2016, as part of the restructuring of the transaction, the former Banco Popolare (i) sold a further portfolio of loans granted to SMEs, consisting partly of performing loans resulting from the dissolution of the BPL Mortgages 6 transaction, to the amount of 2,574 million euro and (ii) repurchased the loans initially sold to the SPE which were classified as "non performing". In order to finance the purchase of the next portfolio, on 26 February 2016, the SPE issued a Second Series of asset-backed securities with three classes.
In March 2018, as part of the further restructuring of the transaction, (i) the SPE transferred non-performing loans to Banco BPM, as well as those loans that were eligible for Banco BPM's CB programmes for a total amount of 530 million euro and (ii) the sale by Banco BPM ("Third Sale") was completed following the amendment of existing contractual documentation, including by BPM ("First Sale") as the Additional Seller, of an additional portfolio of loans consisting partly of performing credits resulting from the dissolution of the "BPM Securitisation 3" transaction and partly of additional mortgage, land and buildings, and agricultural loans and other loans granted to small and medium-sized enterprises, for an overall residual debt of 3.7 billion euro.

In order to finance the purchase of loans, on 12 April 2018, the SPE increased the nominal value of the First Series asset-backed Securities; on the same date, after having subscribed to the Increase Notes, in order to rebalance the holding of the Senior, Mezzanine and Junior Securities with respect to the percentages of the composition of the total portfolio originated by each bank, Banco BPM and BPM transferred part of the First Series and Second Series Securities to each other.
Senior and Mezzanine Securities are listed on the Irish Stock Exchange. Senior securities 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.

Loan book

Bank	Amount 31/12/2018	Amount 31/12/2017
Banco BPM S.p.A.	3,831,554	2,017,322

The amounts given represent performing loans and unlikely to pay, past due - non-performing, and bad loans, net of related impairment provisions, amortised cost and include mortgage accruals.

Characteristics of issues

Classes	Type	Issue amount	Amount 31/12/2018	Interest rate	Maturity date	Rating Moody's/DBRS (7)
A1	Senior (1)	3,918,187	2,006,354	3-month Euribor + 0.3%	November 2054	A2/A
B1	Mezzanine (2)	325,700	325,700	3-month Euribor + 0.8%	November 2054	Baa1/BBB high
C1	Junior (3)	737,403	737,403	Additional Return	November 2054	unrated
A2	Senior (4)	1,936,000	433,482	3-month Euribor + 0.3%	November 2054	A2/A
B2	Mezzanine (5)	1,000	1,000	3-month Euribor + 0.8%	November 2054	Baa1/BBB high
C2	Junior (6)	448,072	448,072	Additional Return	November 2054	unrated
	Total	**7,366,362**	**3,952,011**			

(1) Class A1 Senior Securities issued on 30 June 2014 for the amount of 1,077.4 million euro, listed on the Irish Stock Exchange and fully subscribed by Banco BPM. On the Increase Date of 12 April 2018, the nominal value increased by 2,840.787 million euro, subscribed by Banco BPM for 1,121.216 million euro and by BPM for 1,719.571 million euro; on the same date, BPM transferred 526.16 million euro to Banco BPM.
(2) Class B1 Mezzanine Securities issued on 30 June 2014 to the amount of 269.3 million euro, listed on the Irish Stock Exchange and fully subscribed by Banco BPM. On the Increase Date of 12 April 2018, the nominal increased by 56.4 million euro, entirely subscribed by BPM; on the same date, Banco BPM transferred 76 million euro to BPM.
(3) Class C1 Junior Securities issued on 30 June 2014 to the amount of 448.898 million euro, unlisted and subscribed by Banco BPM. On the Increase Date of 12 April, the nominal value increased by 288.505 million euro, fully subscribed by BPM; on the same date, Banco BPM transferred 192.316 million euro to BPM.
(4) Class A2 Senior Securities issued on 26 February 2018, listed on the Irish Stock Exchange and fully subscribed by Banco BPM. On the Increase Date of 12 April 2018, Banco BPM transferred 257.845 million euro to BPM.
(5) Class B2 Mezzanine Securities issued on 26 February 2018, listed on the Irish Stock Exchange and fully subscribed by the Banco BPM.
(6) Class C2 Junior Securities issued on 26 February 2016, unlisted and subscribed to by Banco BPM.
(7) Rating as at 31 December 2018.

Significant events during 2018
On the Increase Date of 12 April 2018, the DRBS rating agency downgraded the ratings of A1 and A2 Senior Securities from AA (high) to A and that of B1 Mezzanine and B2 Securities from A (high) to BBB (high), while Moody's confirmed its existing ratings.
In December, Banco BPM reacquired a loan book made up of positions classified as bad loans on 30 November 2018.

Ancillary financial transactions
The transaction structure entails the establishment of a Cash Reserve of 80.8 million euro set up, on the initial date of issue of the securities, mainly through the disbursement by Banco BPM, formerly Banco Popolare, of a subordinated loan for a total amount of 76.9 million euro. 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, bringing the balance of the Cash Reserve Account to the new level of 257.8 million euro.

Securitisation of residential mortgage and land loans – 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 transferred an initial portfolio of residential mortgage and land loans to the SPE BPL Mortgages S.r.l. to the amount of 2,505.2 million euro and on 21 December 2012 the SPE issued two classes of bonds. On 9 March 2013, the Originator Banks sold a second portfolio of residential mortgages to the amount of 1,088 million euro, financed on 28 March 2013 ("Notes Increase Date") by increasing the principal amount of the partly paid securities already issued by the Company in December 2012. As part of the transaction restructuring, in October 2016 the former Banco Popolare transferred a further portfolio of loans deriving from residential mortgage and land loans to the SPE BPL Mortgages S.r.l., to the amount of 1,079 million euro and, at the same time, repurchased the loans initially transferred to the SPE that were classified as non-performing and those that were eligible for the BP CB1 programme. On 28 October 2016, the restructuring of the transaction was finalised with the issue of a Second Series of asset-backed securities by the SPE. Senior Securities are listed on the Irish Stock Exchange and 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.

Loan book

Bank	Amount 31/12/2018	Amount 31/12/2017
Banco BPM S.p.A.	2,142,594	2,407,511

The amounts given represent performing loans and unlikely to pay, past due - non-performing, and bad loans, net of related impairment provisions, amortised cost and include mortgage accruals.

Characteristics of issues

Classes	Type	Issue amount	Amount 31/12/2018	Interest rate	Maturity date	Rating Moody's/DBRS (4)
A1	Senior (1)	2,440,400	819,516	1-month Euribor + 0.3%	October 2058	A1/A high
B1	Junior (2)	1,148,455	392,765	Additional Return	October 2058	unrated
A2	Senior (3)	995,100	711,527	1-month Euribor + 0.25%	October 2058	A1/A high
	Total	**4,583,955**	**1,923,808**			

(1) Security issued on 21 December 2012 for a nominal value of 1,701.3 million euro, increased by a nominal value of 739.1 million euro on 28 March 2013, listed on the Irish Stock Exchange and fully subscribed by Banco BPM.
(2) Junior security issued on 21 December 2012 with a nominal value of 800.7 million euro, increased by 347.8 million euro on 28 March 2013, unlisted and subscribed by Banco BPM.
(3) Security issued on 28 October 2016, listed on the Irish Stock Exchange and fully subscribed by Banco BPM.
(4) Rating as at 31 December 2018.

Significant events during 2018

In March 2018, Banco BPM repurchased a portfolio of receivables deriving from bad loans until 31 January 2018, while in December it repurchased positions classified as bad loans as at 30 November 2018.

Ancillary financial transactions

The structure of the transaction provides for the creation of a Cash Reserve of 64 million euro, consisting mainly of the disbursement by the Originator Banks, on 21 December 2012, of a subordinated loan for the total amount of 60 million euro.

ITA 11

In January 2009, Italease Network (merged into Banca Italease), Mercantile Leasing (merged into Banca Italease) and Banca Italease (now Banco BPM) sold a portfolio of loans deriving from leasing contracts to the SPE Italfinance Securitisation Vehicle 2 S.r.l. for the amount of 1,375 million euro.
On 21 January 2009, the SPE issued rated senior securities to the amount of 1,031.6 million euro and unrated junior securities of 343.9 million euro; both series were subscribed to by the banks that originated the loans. The senior securities were repaid in full in April 2013. As at 31 December 2018, Banco BPM held the junior securities

for a nominal value of 130.5 million euro, of which 35.6 million pertaining to Alba Leasing under the "Securitised loans agreement".
As part of the transaction, the Originator Banks (merged into Banco BPM) took on the role of Servicer for the management of the loans.

Consumer credit securitisation – ProFamily Securitisation (November 2015)

The securitisation transaction was originated by ProFamily S.p.A. (a company of the former BPM Group) and took place via a transfer without recourse of a portfolio of performing consumer loans totalling 712.6 million euro, to ProFamily Securitisation S.r.l., a SPE set up for this purpose, on 3 November 2015, which originated from targeted loans and personal loans (excluding "salary backed loans"). On 27 November, 2015, the SPE issued two classes of bonds. The transaction entailed a revolving structure for the first 18 months and, in accordance with the terms of the Framework Sale Agreement, during the entire revolving period, which came to an end in May 2017, additions to the portfolio of performing loans were regularly made, which the SPE financed entirely from collections, in order to leave the initial total amount unchanged.
The Notes issued by the SPE were fully subscribed by ProFamily S.p.A. and the Senior Security was transferred by the latter via a Pledge Agreement over Securities, to the former Parent Company Banca Popolare di Milano S.c.a.r.l., now Banco BPM, which therefore may hold Senior Securities (listed on the Luxembourg Stock Exchange) and use them as collateral for Eurosystem monetary policy transactions.

As part of the transaction, the Originator, ProFamily S.p.A., took on the role of Servicer, managing the collection of receivables, and the Parent Group, Banco BPM S.p.A., took on the role of Cash Manager.

Loan book

Bank	Amount 31/12/2018	Amount 31/12/2017
ProFamily S.p.A.	354,187	542,169

The amounts given represent performing loans and unlikely to pay, past due - non-performing, and bad loans, net of related impairment provisions, amortised cost and include mortgage accruals.

Characteristics of issues

Classes	Type	Issue amount	Amount 31/12/2018	Interest rate	Maturity date	Rating Moody's/DBRS (3)
A	Senior (1)	584,300	231,410	1-month Euribor + 1.0 %	21.12.2039	Aa3/AAA
J	Junior (2)	140,040	140,040	1-Month Euribor + 2.0% plus Additional Return	21.12.2039	unrated
	Total	**724,340**	**576,470**			

(1) Securities issued on 27 November 2015 for a nominal value of 584.3 million euro and transferred to Banca Popolare di Milano S.p.A.
(2) Junior security issued on 27 November 2015 with a nominal value of 104.0 million euro, unlisted and subscribed by ProFamily S.p.A.
(3) Rating as at 31 December 2018

Ancillary financial transactions

The structure of the transaction provides for the creation of a Cash Reserve that can be used on each payment to meet the company's expenses, agent commissions and interest on Senior Securities whenever there are insufficient funds. The Cash Reserve on the date of issue was 11.7 million euro. The contractual information entails the partial repayment of the Cash Reserve on the condition that the amount of Senior Securities is at least 50% of the nominal value issued. As at 31 December 2018, the Cash Reserve was 9.8 million euro or 4% of the Senior Securities, as provided for by the contract.

1.5 BANKING GROUP - OPERATIONAL RISKS

QUALITATIVE INFORMATION

A. General aspects, management processes and methods for measuring operational risk

Nature of the risk

Operational risk is defined as the risk of incurring losses arising from inadequacy or malfunction of procedures, human resources and internal systems or from external events. This type of risk includes losses arising from fraud, human error, interruption of operating activity, system unavailability, contractual default and natural disasters. The operational risk also includes the legal risk, but excludes strategic and reputational risk.

Source of risk

The main sources of operational risk are the low reliability of operational processes—in terms of effectiveness/efficiency—internal and external fraud, 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, the use of a limited number of suppliers, changes in strategies, incorrect personnel management and training policies and social and environmental impacts.

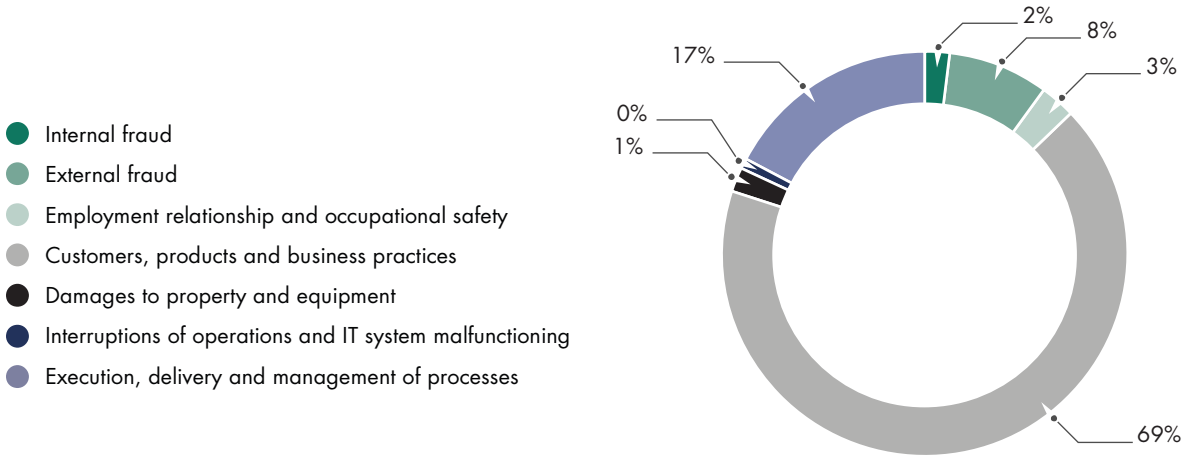
Risk management model and organisational structure

The Banco BPM Group was authorised by the European Supervisors to use 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 Managementt), the TSA (Traditional Standardised Approach) on the scope of the former Banca Popolare di Milano Group (the segments of the former Parent Company BPM S.c.a r.l. and former BPM S.p.A. (segments of the former BPM of the Parent Group, BPM S.p.A., ProFamily and Banca Akros) and the Basic Indicator Approach (BIA) for the other residual companies that comprise the 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 SpA into Banco BPM (a merger which took place in November 2017), the ECB prudently defined the adoption of a floor on the business segments to be merged, equal to the individual capital requirement of BPM SpA as at 31 December 2017. 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 a specific Group Regulation 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 operating risk and envisages the deduction of provisions transferred to the income statement to the extent of the expected loss.
The 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.

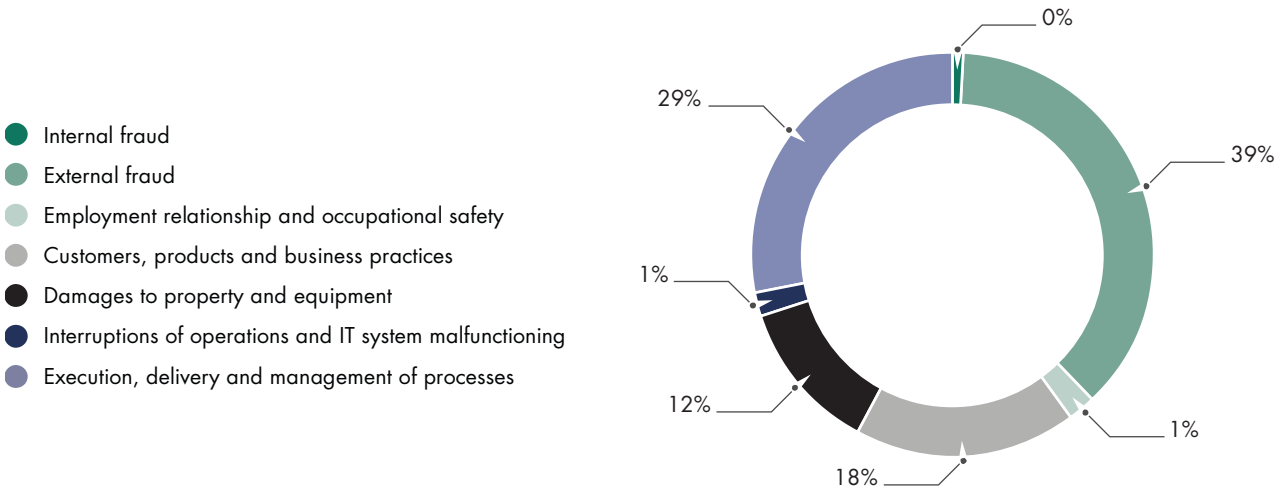
QUANTITATIVE INFORMATION

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 2009 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.

Composition by impact



Composition 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 clients 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 due to shortcomings in the finalisation of transactions or in the management of processes, as well as losses due to relations with commercial counterparties, sellers and suppliers;
- external crimes, with losses due to fraud, undue appropriation or infringement of the law by parties outside the bank.

Validation activity

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 validated model (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 “Shares”.

In relation to risks for the segment in question, the proportion of the companies in question on total consolidated assets is not very significant.

Section 4 - Risks of other companies

There are no significant additional risks reported for the remaining companies included in the scope of consolidation that are not part of either the Banking Group or the insurance companies. In regards to the Group's real estate companies, including those acquired as a result of credit restructuring, it should be noted that the book value at which the real estate companies are recorded is consistent with the values inferable from specific appraisals and valuations.
The risk of loss of the real estate assets is nonetheless covered by specific capital requirement—in the context of credit risk—which the Group calculates in agreement with the supervisory methods. Furthermore, Risk Management periodically requires the verification, using internal management methods, of the consistency of the regulatory capital requirement for real estate risk.

PART F – INFORMATION ON CONSOLIDATED SHAREHOLDERS' EQUITY

Section 1 - Consolidated equity

A. QUALITATIVE INFORMATION

The Group's shareholders' equity consists of the sum of the balances of the following balance sheet liability items:

- Equity net of repurchased treasury shares
- Share premium reserve
- Reserves
- Valuation reserves
- Equity instruments
- Treasury shares
- Result for the year.

B. QUANTITATIVE INFORMATION

Consolidated equity at 31 December 2018 amounted to 10,305.1 million (of which 10,259.5 million for the Group and 45.6 million for minority interests), showing a net decrease of 1,658.4 million compared to the 11,963.5 recorded for consolidated equity at 31 December 2017 (of which 11,900.2 for the Group and 63.3 for minority interests).

B.1 Consolidated 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	-	6,019	(5,028)	7,163,927
2. Share premium reserve	-	-	266	(266)	-
3. Reserves	3,560,703	-	51,892	(43,513)	3,569,082
4. Equity instruments	-	-	-	-	-
5. (Treasury shares)	(12,610)	-	-	-	(12,610)
6. Valuation reserves:	(346,660)	-	320	70	(346,270)
- Equity securities designated at fair value through other comprehensive income	(166,473)	-	-	-	(166,473)
- Hedges on equity securities designated at fair value through other comprehensive income	-	-	-	-	-
- Financial assets (other than equity securities) designated at fair value through other comprehensive income	(131,470)	-	-	-	(131,470)
- Property, plant and equipment	-	-	378	-	378
- Intangible assets	-	-	-	-	-
- Foreign investment hedges	1,051	-	-	-	1,051
- Cash flow hedges	(7,034)	-	-	-	(7,034)
- Hedging instruments [non-designated items]	-	-	-	-	-
- Exchange rate differences	20,999	-	-	-	20,999
- Non-current assets and disposal groups held for sale	-	-	-	-	-
- Financial liabilities designated at fair value through profit or loss (changes to its own credit risk)	9,875	-	-	-	9,875
- Actuarial gains/(losses) on defined benefit pension plans	(73,963)	-	(58)	-	(74,021)
- Share of valuation reserves related to investments in associates carried at equity	(1,959)	-	-	70	(1,889)
- Special revaluation laws	2,314	-	-	-	2,314
7. Income (loss) (+/-)attributable to the Group and minority interests	(75,883)	-	(7,910)	14,738	(69,055)
Total	**10,288,486**	**-**	**50,587**	**(33,999)**	**10,305,074**

B.2 Valuation reserves for financial assets designated 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	27,245	(158,715)	-	-	-	-	-	-	27,245	(158,715)
2. Equity instruments	27,812	(194,285)	-	-	-	-	-	-	27,812	(194,285)
3. Loans	-	-	-	-	-	-	-	-	-	-
Total 31/12/2018	**55,057**	**(353,000)**	**-**	**-**	**-**	**-**	**-**	**-**	**55,057**	**(353,000)**
Total 31/12/2017 (*)	**330,340**	**(32,466)**	**-**	**-**	**-**	**-**	**-**	**-**	**330,340**	**(32,466)**

(*) Values determined in accordance with accounting standard IAS 39.

B.3 Valuation reserves for financial assets designated at fair value through other comprehensive income: annual changes

	Debt securities	Equity instruments	Loans
1. Opening balance	**164,635**	**64,856**	**-**
2. Positive changes	**20,875**	**2,445**	**-**
2.1 Fair value increases	16,430	2,445	-
2.2 Credit risk writedowns	1,617	X	-
2.3 Reclassification to income statement of negative reserves from disposal	616	X	-
2.4 Transfers to other shareholders' equity components (equity securities)	-	-	-
2.5 Other changes	2,212	-	-
3. Negative changes	**(316,980)**	**(233,774)**	**-**
3.1 Fair value decreases	(210,886)	(232,570)	-
3.2 Credit risk writebacks	(11)	-	-
3.3 Reclassification to income statement of positive reserves: from disposal	(103,366)	X	-
3.4 Transfers to other shareholders' equity components (equity securities)	-	(1,192)	-
3.5 Other changes	(2,717)	(12)	-
4. Closing balance	**(131,470)**	**(166,473)**	**-**

B.4 Valuation reserves for defined benefit plans: annual changes

	31/12/2018
1. Opening balance	**(79,453)**
2. Positive changes	**16,961**
2.1 Gains from changes in financial hypotheses	11,268
2.2 Other actuarial gains	3,201
2.3 Other changes	2,492
3. Negative changes	**(11,529)**
3.1 Losses from changes in financial hypotheses	(47)
3.2 Other actuarial losses	(6,976)
3.3 Other changes	(4,506)
4. Closing balance	**(74,021)**

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)".

PART G - BUSINESS COMBINATIONS REGARDING COMPANIES OR DIVISIONS

Section 1 - Operations 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 the Banco BPM Group certain infragroup operations were carried out, described below.

These operations do not fall within the scope of application of IFRS 3 and, on the basis of the provisions found in Bank of Italy Circular 262/2005, are conventionally illustrated in this section. In the absence of a relevant accounting standard, "under common control" operations 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.

Incorporation of Banca Popolare di Milano S.p.A. into the parent company Banco BPM

As described in more detail in the section dedicated to significant events during the year, found in the Report on Operations, in November the merger by incorporation into the parent company Banco BPM was completed.
This operation, which took effect for accounting and tax purposes as of 1 January 2018, occurred in the simplified form established for fully held companies.

Reorganisation of the Group's Private Banking and Corporate & Investment Banking activities

On 1 April the demerger to Banca Aletti of the Banca Akros Private Banking business unit was completed, in particular with reference to contractual relationships involving administered and managed savings.
In September, the deed to transfer the Banca Aletti Corporate & Investment Banking business unit to Banca Akros was signed. The demerger was completed on 1 October 2018.

As an effect of these operations, Private Banking activities are centralised within Banca Aletti and Corporate & Investment Banking activities within Banca Akros.

Section 2 - Operations 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)

Incorporation of SGS BP and BP Property Management into the parent company Banco BPM

On 17 January 2019 the deed for the merger by incorporation was signed, merging into Banco BPM the subsidiaries Società Gestione Servizi BP S.C.p.a. and Property Management S.C.r.l. The merger takes effect for statutory purposes as of 11 February 2019, while the accounting and tax effects apply as of 1 January 2019.
These operations were carried out using the simplified procedure pursuant to article 2505 of the Italian Civil Code, which governs the mergers of companies fully held by the incorporating party.
For more details, please see Part A - Accounting Policies, Section 4 - Subsequent events after the reporting date in these Consolidated Notes.

Section 3 - Retrospective adjustments

It was not necessary to make any retrospective adjustments.

PART H - TRANSACTIONS WITH RELATED PARTIES

1. Information on fees paid to directors and executives with strategic responsibilities

This information refers to those with the power and responsibility, directly or indirectly, to plan, direct and supervise the activities of the companies in the Group.

The table below reports fees paid to directors, statutory auditors and executives with strategic responsibilities (general managers and other executives with the aforementioned characteristics).
As a whole, these include 217 positions assigned to 161 people (of which 21 executives).

(thousands of euro)	2018
Total gross payments	**20,234**
of which:	
Non-executive Directors and Statutory Auditors	4,733
Non-employee executive Directors	5,038
Employees	10,463
Short-term benefits (e.g. automobile, housing, health care) (*)	**182**
Benefits subsequent to the employment relationship (e.g. pension fund, supplemental social security system) (*)	**213**
Indemnity for conclusion of the employment relationship (e.g. severance indemnity, other indemnity)	**653**

(*) The value shows 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 Consolidated Notes;

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) participative relations 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 Article 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 subsidiary companies and those 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 2018 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	-	5,087	-	-	863	5,950	0.13%
Due from banks	-	-	-	-	96,430	96,430	2.30%
Loans to customers	-	2,175,325	-	7,735	175,475	2,358,535	2.30%
Other assets	-	5,563	-	-	1	5,564	0.04%
Due to banks	-	-	-	-	286,804	286,804	0.91%
Due to customers	-	356,920	-	20,914	476,447	854,281	0.95%
Debt securities issued	-	-	-	1,958	2,531	4,489	0.03%
Financial liabilities held for trading	-	-	-	-	1,200	1,200	0.02%
Other liabilities	-	2,740	-	327	482	3,549	0.06%
Guarantees given and commitments	-	857,819	-	2,999	234,587	1,095,405	1.93%

(1) Funds or other authorised parties who act as a Shareholder and who possess a shareholding greater 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	-	20,237		38	131	20,406	0.89%
Net fee and commission income	-	138,676	-	18	1,500	140,194	7.58%
Administrative expenses/recoveries of expenses	-	1,400	-	(16,310)	(125)	(15,035)	0.51%
Other costs/revenues	-	1,879	-	(4)	(7,384)	(5,509)	0.43%

(1) Funds or other authorised parties who act as a Shareholder and who possess a shareholding greater 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)	733	2,150	-

Other information

In regard to paragraph 8 of Art. 5 "Disclosures to the public on related party transactions" of the CONSOB (The Italian Securities and Exchange Commission) 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 2018, as well as those that are less important yet particularly significant.

Implementation of the 2016-2019 Strategic Plan: Demerger of Banca Akros Private Banking business unit in favour of Banca Aletti and demerger of Banca Aletti Corporate & Investment Banking Business Unit in favour of Banca Akros

On 1 April 2018, the demerger of the Banca Akros Private Banking Business Unit to Banca Aletti was completed.
As a result of the demerger, Banca Akros transferred the business unit to Banca Aletti, comprising all the assets, resources and contractual relationships held by the Private Banking Department of Banca Akros.
In particular, the following were assigned to the beneficiary:

i) contractual relationships for the provision of investment services and activities and ancillary services (assets under administration) with customers in the Private Banking Department and related existing documentation;
ii) contractual management relationships for investment portfolios (asset management) with customers in the Private Banking Department and related existing documentation;
iii) current account contractual relationships and related assets and liabilities with customers in the Private Banking Department and existing related documentation;
iv) on the Effective Date, employment relationships with employees who operate within the Business Unit with all rights, including the employees severance fund (TFR), resulting from the employment relationship, within the limits provided for by law and by collective labour agreements, and, correspondingly, the amount of the relative Valuation reserves recognised in the financial statements of the demerged company to take account of actuarial gains (losses) relating to defined-benefit pension plans;
v) agency contracts with financial consultants authorised to make off-site offers who, on the Effective Date, operate within the business unit with all rights, including any pension funds, resulting from the respective contracts and from the applicable laws and collective agreements;
vi) the branch dedicated to private banking activities located in Rome with the relative leasing and ancillary contracts;
vii) all other contracts which are outstanding as at the Effective Date, relating to the Business Unit, including, by way of example, the distribution agreements of UCITs managed by third parties;
viii) furniture, fittings and equipment, including IT, tangible and intangible, for the functional use of the Business Unit;
ix) receivables from and payables due to banks (interbank);
x) sureties, guarantees, obligations and memorandum accounts of the Business Unit.

The demerger led to a 3.9 million euro reduction in Banca Akros' shareholders' equity through the reduction in reserves and a corresponding increase in Banca Aletti's shareholders' equity through an increase in reserves.

Differences in the amount of balance sheet assets and liabilities involved in the demerger between the reference date used to draft the demerger plan and the effective date of the demerger were settled by means of a monetary adjustment.
On 1 October 2018, the demerger of the Banca Aletti Corporate & Investment Banking business unit to Banca Akros was completed.
As a result of the demerger, Banca Aletti transferred the business unit to Banca Akros, comprising all the assets, resources and contractual relationships to perform Banca Aletti's corporate and investment banking business.
In particular, the following were assigned to the beneficiary:

i. financial assets held for trading, existing and being settled, within the own portfolio including, by way of example, bonds, share-based securities, units of UCITs, and positions receivable relative to credit and financial derivatives, both listed and OTC;
ii. the stake equal to 25% of the share capital of HI-MTF SIM S.p.A. (tax ID no. 05755500963), which performs business closely correlated to the business unit transferred;
iii. financial liabilities held for trading, existing and being settled, within the own portfolio including, by way of example, all certificates issued as well as positions payable in credit and financial derivatives, both listed and OTC;
iv. assets and liabilities relative to relationships with credit and non-credit institutions, by way of example, repurchase agreements, receivables and payables for securities lending and receivables and payables deriving from "marginisation" of guarantees, when envisaged, associated with the stated financial instruments;
v. amounts due to and from banks;
vi. relationships with custodian banks, brokers, counterparties, corporate and institutional customers and suppliers of services needed to place, trade and broker financial instruments both on own account and for third parties, also as the parent company's delegated entity;
vii. programs involving offers to the public and listing of certificates;
viii. on the Effective Date, employment relationships with employees who operate within the business unit with all rights, including the employees severance fund (TFR), resulting from the employment relationship, within the limits provided for by law and by collective labour agreements, and, correspondingly, the amount of the relative Valuation reserves recognised in the financial statements of the Demerged Company to take account of actuarial gains (losses) relating to defined-benefit pension plans;
ix. debit and credit items relative to personnel;
x. deferred tax assets and liabilities relative to the items involved in the demerger;
xi. furniture and furnishings for the functional use of the business unit;
xii. any guarantees pertaining to the business unit.

The demerger led to a 500 million euro reduction in Banca Aletti's shareholders' equity through a reduction in reserves and a corresponding increase in Banca Akros' shareholders' equity through an increase in reserves.
Differences in the amount of balance sheet assets and liabilities involved in the demerger between the reference date used to draft the demerger plan and the effective date of the demerger were settled by means of a monetary adjustment.

Issue of Banco BPM bond loans subscribed by Banca Aletti S.p.A. and Banca Akros S.p.A., with the use of liquidity deriving from funding activities through the issue of Certificates —definition of ceilings and characteristics

The operation in question regards the issue of Banco BPM bonds, underwritten by Banca Aletti S.p.A. and Banca Akros S.p.A., using liquidity resulting from funding collected from the issuing of certificates.
For the Banco BPM Group, this transaction is part of a strategy to diversify sources of funding and to stabilise the liquidity profile, which makes it possible to meet customer requirements by extending the range of products.
On 19 December 2017, the Board of Directors approved the operation in question for the period from January - December 2018, through the establishment of an annual ceiling of 600 million for the issuing of Banco BPM bond loans and 18 million relative to the flow of commissions deriving from placement of certificates issued by Banca Aletti.
Subsequently, on 17 July 2018 the Board of Directors, amending and replacing the above resolution of 19 December 2017, approved, taking into account the new corporate structure deriving from the implementation of the business plan which involved, among other things, centralising Banca Aletti S.p.A. corporate and investment banking within Banca Akros S.p.A., a new annual ceiling for the period between 17 July - December 2018 of 350

million, for the issuing of Banco BPM bond loans and 7.3 million relative to the flow of commissions deriving from placement of certificates issued by Banca Akros.
Finally, on 18 December 2018, the Board of Directors approved the renewal of the operation in question for the period from January - December 2019, through the establishment of a new annual ceiling of 1 billion for the issuing of Banco BPM bond loans and 22.5 million relative to the flow of commissions deriving from placement of certificates issued by Banca Akros.

Banco BPM Business Plan. Approval of the merger plan by incorporation of the Banca Popolare di Milano S.p.A.

On 27 March 2018, the Board of Directors resolved to begin operations aimed at merging by incorporation BPM into the Parent Company by applying the simplified merger procedure, pursuant to art. 2505 of the Italian Civil Code, without the determination of an exchange rate and without the preparation of the explanatory report by the Board of Directors.
The merger transaction is part of the streamlining initiatives of the corporate and organisational structure provided for in the 2016/2019 Strategic Plan of the Banco BPM Group. This is the logical continuation of the actions already taken as part of the integration process between the two former Groups.
The proposal to merge BPM into the Parent Group aims to achieve the full benefits of the actions described above and is an important turning point for establishing the full identity of the new Group, allowing the full exploitation of its strong competitive position, characterised by a national market share of more than 8%, with over 4 million customers and a leadership position in the richest and most entrepreneurial regions in Italy. The transaction also contributes to achieving greater synergies compared to those originally planned, fostering better operating efficiency due to the simplification of the Group's governance and corporate structure, the more timely and effective implementation of commercial strategies and the optimisation of its physical presence across Italy.
The merger took effect, pursuant to article 2504 - *bis* Civil Code - following registration of the merger deed with the Companies Register and after authorisation by the supervisory authorities - on 26 November 2018. The transactions of the company being merged are entered into the financial statements of the absorbing company as from the first day of the current financial year in which the legal effects are completed, specifically 1 January 2018. Tax effects apply from the same date.
The merger had no impact on the consolidated ratios, since it is the merger of a bank wholly owned by the Parent Group.

Approval of the merger by incorporation of Società Gestione Servizi S.C.P.A. and BP Property Management S.c.a.r.l. into Banco BPM.

On 9 May 2018, the Board of Directors resolved to begin operations aimed at merging by incorporation Società Gestione Servizi BP and BP Property Management into the Parent Company, by applying the simplified merger procedure, pursuant to Art. 2505 of the Italian Civil Code, without the determination of an exchange rate and without the preparation of the explanatory report by the Board of Directors.
The merger transaction is part of the streamlining initiatives of the corporate and organisational structure and meets the need to simplify and streamline its structure, optimise and make the most of its resources and reduce costs.
Specifically, the merger operations in question should lead to following:

- greater efficiency in management processes;
- the reduction in activities outsourced by the Parent Company to its subsidiaries to only activities and functions that are objectively indispensable;
- the reduction in the complexity of processes and, consequently, of operating risks;
- additional cost synergies.

The merger took effect, pursuant to article 2504 - *bis* Civil Code - following registration of the merger deed with the relevant Companies Registers and after authorisation by the supervisory authorities - on 11 February 2019. The transactions of the companies being merged will be entered into the financial statements of the absorbing company as from the first day of the current financial year in which the legal effects are completed, specifically 1 January 2019. Tax effects will apply from the same date.
The merger will have no impact on the consolidated ratios, since it is the merger of companies wholly owned by the Group or for which the Parent Company has signed option contracts for the repurchase of the equity investment.

Restructuring of the consumer credit sector

On 29 November 2018, the Banco BPM Board of Directors approved an operation to restructure the consumer credit sector which involves, among other things, the sale of the subsidiary ProFamily to the associated company Agos Ducato, through the completion of a demerger of ProFamily's non-captive assets in favour of a newly established company, which will remain 100% under the control of Banco BPM.

Alba Leasing S.p.A. – revision of credit lines

This transaction, approved by the Board of Directors on 23 January 2018, concerns (i) the confirmation of the reliability ceiling for direct risks of 1 billion euro and (ii) a reduction in total credit lines granted by the Banco BPM Group to Alba Leasing S.p.A. from 923.3 million euro to 898.3 million euro, combined with indirect risks of 3.0 million euro.

ProFamily S.p.A. – revision of credit lines

The transaction, approved by the Board of Directors on 27 February 2018, concerns the revision and restructuring of credit lines available from the Banco BPM Group for ProFamily, which increased from 1.3 billion euro to 1.6 billion euro (plus 100 million euro for outstanding risks).

Credit Agricole - Agos Ducato risk group

The transaction, approved by the Board of Directors on 19 June 2018 with regard to the Credit Agricole Group, concerns:

(i) the restructuring of the credit ceiling available from the Banco BPM Group for a total of 2.2 billion euro for direct risks (together with a credit ceiling of 800 million euro for outstanding risks);
(ii) an increase from 30 million euro to 50 million euro in the credit line for the purchase of bonds for the banking book granted;
(iii) an increase from 1,521.7 million to 1,525.5 million in total credit lines;
(iv) an increase from 1,993.3 million euro to 2,017.1 million euro in the total credit lines (combined with indirect risks of 1 million euro and outstanding risks of 750 million euro).

Centralisation of support activities for the execution of financial instrument orders issued by customers of Banco BPM S.p.A., BPM S.p.A. and Banca Aletti S.p.A. within Banca Akros S.p.A., effective as of 1 September 2018

On 3 August 2018, the Board of Directors approved externalisation within the subsidiary Banca Akros S.p.A. of support activities for the execution of financial instrument orders issued by customers of Banco BPM S.p.A., Banca Aletti S.p.A.
The centralisation makes it possible to rationalise technical assistance processes provided to the Group's commercial networks, while concentrating the needed professional skills within a single contact point within Banca Akros S.p.A., which will also be entrusted with functional activities with regards to managing funding, and the transmission and execution of financial instrument orders given by Group customers. Banca Akros S.p.A. will provide the service to Banco BPM S.p.A., Banca Aletti S.p.A. and BPM S.p.A. guaranteeing homogeneity at the Group level in terms of operating methods, service levels and assistance to commercial networks.
These activities were centralised as of 1 October 2018, at the same time as the Banca Aletti business unit was demerged to Banca Akros. Additionally, as of 26 November the service is no longer provided for BPM S.p.A, following its merger into Banco BPM S.p.A.

Banca Aletti & C. S.p.A. and Banca Akros S.p.A.: proposal to reallocate the credit lines granted to Banca Aletti and Banca Akros, following the division of the Group's Private & Investment Banking activities among the two subsidiaries and the issuing of a preventive opinion from the parent company regarding the credit lines and relative ceilings granted to Banco BPM by Banca Aletti and Banca Akros

On 25 September 2018, the Board of Directors approved:

- revision of the credit lines in favour of Banca Aletti and Banca Akros, with a total decrease of the amounts available from 8,732 million to 8,604 million;

- confirmation of the reliability ceiling for direct risks of a total of 9 billion in favour of Banca Aletti and Banca Akros, with the new maturity date revised to 30 September 2019.

Additionally, it expressed its opinion in favour of:

- reducing the total credit lines granted to Banco BPM by Banca Aletti from 12,580 million to 1,010 million, with a new reliability ceiling for direct risks of 1.5 billion;
- increasing the credit lines granted to Banco BPM by Banca Akros from 239.9 million to 11,800 million, with a new reliability ceiling for direct risks of 12.3 million.

Dismantling of the BPM 3 securitisation transaction and the restructuring of the BPL7 securitisation transaction

This transaction, approved by the Board of Directors on 7 February 2018, consists in the dismantling of the "SEC3" transaction and restructuring of the "BPL7" transaction. Specifically, it was agreed to proceed with:

i. the dismantling of the SEC3 transaction through the relegation by the SPE to BPM of the entire SEC3 portfolio and the subsequent early repayment of the securities, without prejudice to the resolutions concerning BPM;
ii. any change in the BPL7 transaction contractual documentation to allow, as part of this transaction, the sale of an additional portfolio of loans granted to small and medium-sized enterprises by Banco BPM and BPM, without prejudice to resolutions concerning the latter, with total residual debt of approximately 4.6 billion euro and an increase in outstanding securities or the issue of new classes of asset-backed securities, as described above;
iii. the relegation of the non-performing loans in the BPL7 portfolio by SPV to Banco BPM;
iv. the relegation of loans in the BPL7 portfolio eligible for Banco BPM's CB programmes by SPV to Banco BPM;
v. the signing of all useful and/or necessary and/or appropriate contractual documentation relating to or in any way connected with the performance by Banco BPM of these functions and the performance of the aforesaid transactions and indicated in the attached documentation as Contracts for Dismantling and Contracts for Restructuring.

In March, Banco BPM and BPM Spa transferred to the vehicle company a portfolio of loans granted to SMEs for a total residual debt of 3.7 billion an to finance the purchase of this portfolio, on 12 April 2018 the vehicle company increased the notes issued in 2014 for a total amount of around 3.2 billion, of which 1.1 pertaining to Banco BPM and around 2.1 to BPM S.p.A.
On 31 March 2018, the total amount of the portfolio transferred as part of the BPL 7 transaction was equal to around 5.1 billion.

On 28 May 2018, the Central Bank of Ireland made senior bonds issued as part of the transaction eligible for Eurosystem monetary policy transactions.
On 27 March 2018, as part of the cited securitisation restructuring and with the aim of finalising the transaction, the Board of Directors approved the granting of the following credit lines (i) the granting of new banking book lines by Banco BPM S.p.A. totalling 6.3 billion (ii) the granting of a new banking book line by BPM S.p.A. for 3.5 billion.
On the "increase date" of 12 April 2018, BPM S.p.A. issued a subordinate loan to the vehicle company, aimed at increasing the cash reserve for the transaction by around 91 million.

Covered Bond Issue Programme of the Banco BPM Group and relative issue proposals

On 27 February 2018, the Board of Directors agreed on the proposals described below in order to define the streamlining process for the Group's four covered bond programmes, with a view to reducing costs, increasing available collateral and issuing CBs as provided for in the 2018 funding plan. More specifically, the individual proposals relate to the following:

- the full early repayment of the retained Fourth Series issued under the BP CB2 programme, the repurchase of the entire asset portfolio of the BP CB2 programme and the termination of the BP CB2 programme;
- the repurchase from BP Covered Bond s.r.l. of the three asset portfolios of the BP programme; subject to the conclusion of legal assessments, the closing of the asset swaps named in the BP CB1 programme documentation, Mortgage Pool Swap, the mutual termination of the related ISDA Master Agreements and guarantee documents;

- access by Banco BPM to the BPM CB1 Programme as a new Originating Bank and lender to carry out the roles of additional seller and additional lender once the relative loan has been approved; the authorisation for BPM S.p.A. to approve the Amendments to the Documents for the sale of the BPM CB1 programme to include commercial and residential mortgage loans granted to Group employees; the sale to BPM Covered Bond S.r.l. of the First Portfolio of Banco BPM for a maximum amount of 4 billion euro of commercial and residential mortgage loans granted to Group employees; the authorisation for BPM S.p.A. to sell the Eighth Portfolio for a maximum of 500 million euro;
- the extension of the maturity date of the retained Tenth Series for the BP CB programme for a maximum of 4 years;
- the renewal of BPM CB1programme and subsequent updates, the issue of the Ninth Series or subsequent retained Series at variable rates up to a maximum of 3.5 billion euro with a maximum maturity of four years and a maximum coupon equal to Euribor + 100 basis points;
- the authorisation for BPM S.p.a. to approve the repurchase *en bloc* of all the positions classified as bad loans as at 31 January 2018, relating to the BPM CB1 and BPM CB2 issue programmes;
- as part of the BPM CB2 programme, Tap Series 4, i.e. the issue of one or more new series, in both cases, up to a maximum of 350 million euro, at a fixed rate, with a maximum maturity of 15 years and a spread not exceeding 70 basis points above the mid-swap reference rate;
- the sale by Banco BPM to the SPE BPM Covered Bond 2 S.r.l. of the Second Portfolio of eligible residential mortgage loans, up to a maximum of 1.5 billion euro; the authorisation for BPM S.p.A. to sell the Seventh Portfolio up to a maximum of 1 billion euro; the issue, within the current year, of the New 2018 Series, both as individual issues and through the issue of more series of covered bonds for a total maximum nominal amount of 2 billion euro, at a fixed rate, with a maximum maturity of 15 years and a maximum spread on the swap rate of 70 basis points for maturities of up to 7 years and 100 basis points on other maturities.

In relation to that which was resolved:

- the retained Tenth Series for the BP CB programme was fully repaid at maturity on 31 March 2018;
- in April, the Fourth Series of the BP CB2 programme was repaid, the mortgage loan portfolio was subsequently repurchased, and the documentation closing the programme was signed on 1 June;
- on 18 April 2018, Banco BPM repurchased three portfolios of mortgage loans previously sold to the SPE BP Covered Bond for a total residual debt of approximately 2.7 billion euro, settling the amount for the repurchase price of these mortgage loans by offsetting it against the early partial repayment of the subordinated loan granted by Banco BPM to the SPE;
- Regarding the BPM CB1 Programme previously subject to the amendment of the contractual documentation, on 19 April 2018, Banco BPM and BPM S.p.A. transferred to the SPE BPM Covered Bond S.r.l. a portfolio of eligible assets with a total residual debt of approximately 3.9 billion euro, financed by the SPE through the use of a subordinated loan granted by the Originating Banks, with the signing of the relative contracts;
- on 26 April 2018, Banco BPM issued the Ninth Series of BPM CB1 (fully subscribed by Banco BPM and used as collateral for refinancing transactions with the ECB) for a nominal value of 2.5 billion euro, a variable rate coupon equal to the 3-month Euribor plus 30 bps, maturing on 26 April 2021;
- in March 2018, BPM S.p.A. repurchased *en bloc* the positions classified as bad loans until 31 January 2018 in the BPM CB1 and BPM CB2 Programmes;
- on 29 May 2018, with the signing of the relative contracts, the sale to the SPE, BPM Covered Bond 2 S.r.l. of a new portfolio of eligible assets for a total residual debt of 1.1 billion euro, comprised of residential landed and mortgage loans originated by both Banco BPM and BPM S.p.A. was completed. To pay the purchase price for the new portfolio, the SPE used a subordinated loan granted by the Originating Banks.

On 27 March 2018, in the context of the cited operations to transfer portfolios of loans to BPM Covered Bond S.r.l. and BPM Covered Bond 2 S.r.l., the Board of Directors approved the granting of credit lines in favour of the vehicle companies BPM Covered Bond S.r.l. and BPM Covered Bond 2 S.r.l., with (i) the disbursement by Banco BPM to BPM Covered Bond S.r.l. of a 4.1 billion loan (ii) disbursement by Banco BPM to BPM Covered Bond 2 S.r.l. of a 1.2 billion loan.

Disposal of a new portfolio of loans within the BPM CB2 Issue Programme

On 6 September 2018, the Board of Directors approved:

- the sale by Banco BPM to the vehicle company BPM Covered Bond 2 S.r.l. of a third portfolio of suitable residential mortgages, up to a maximum of 500 million, and the signing of the documents necessary to complete the sale;
- the use by Banco BPM of a subordinate credit line relative to the available ceiling approved by the Board of Directors on 27 March 2018 to finance the entire purchase of the third portfolio by the vehicle company BPM Covered Bond 2 S.r.l.;
- the go ahead to allow BPM S.p.A. to sell to BPM Covered Bond 2 S.r.l. the eighth portfolio, up to a maximum of 350 million, and the use of a subordinate credit line relative to the available ceiling approved by the relative Board of Directors on 5 April 2018, to finance the entire purchase of the seventh portfolio by the vehicle company BPM Covered Bond 2 S.r.l.

Executing this decision, on 28 September Banco BPM and BPM Covered Bond s.r.l. signed the documentation to sell the portfolio of mortgages with a price of 490.0 million. This price was paid through the provision by Banco BPM of a subordinate credit line of equal amount. On the same date, BPM S.p.A. transferred the seventh portfolio to the vehicle company in the amount of 337.5 million. This purchase was also financed through the provision of a subordinate credit line of equal amount by BPM S.p.A.

Upcoming initiatives in the Covered Bond Loan issue programmes

On 18 December 2018, the Board of Directors approved (i) the repurchase by Banco BPM of three portfolios of non-performing loans in the context of the three CB programmes (BPM CB1, BPM CB2, and BP CB (ii) the extension of the maturity of the Fourth Series issued within the BPM CB1 programme ("Fourth Series BPM CB1"), up to a maximum of 4 years, the extension of the maturity of the Seventh Series of the BP CB programme ("Seventh Series BP CB"), up to a maximum of 4 years and the amendment of the final terms of this latter series, so as to allow for, if necessary, the exercising of the right to early repayment, even partial, at any time and not exclusively on an interest payment due date (iii) the annual renewal of the prospectuses for each CB programme, as well as the publication of any
supplements which may be necessary at a given time, including documents ancillary to said updates.
In execution of this resolution, on 27 December Banco BPM repurchased three portfolios of non-performing loans in the context of the three CB programmes, BPM CB 1, BPM CB 2 and BP CB, in the respective amounts of 14.0 million, 4.4 million and 13.3 million.

Proposals for early closure of the BPM 2 securitisation transaction and the restructuring of the BPL5 securitisation transaction

On 18 December 2018, the Board of Directors approved: (i) dismantling of the SEC2 transaction through the return by the vehicle company *BPM securitisation 2 S.r.l.* to Banco BPM of the entire SEC2 portfolio and the subsequent early repayment of the securities; (ii) any amendment to the BPL5 contractual documentation useful to allow, within the context of said transaction, the sale of an additional portfolio of personal loans granted by Banco BPM with a total residual debt of around 2 billion, the updating of the BPL5 documentation to the new Securitisation Regulation rules and an increase in existing securities or the issuing of new classes of asset-backed securities; (iii) the return by the vehicle company BPL Mortgages S.r.l. to Banco BPM of non-performing loans in the BPL5 portfolio; (iv) the return by the vehicle company BPL Mortgages S.r.l. to Banco BPM of loans included in the BPL5 portfolio with characteristics making them suitable for the BPM Covered Bond 2 programme; (v) the granting of new credit lines within the context of the restructuring of BPL5; (vi) the signing of all contractual documentation useful to and/or expedient relative to or in any case connected to the execution of these functions by Banco BPM and the execution of the above transactions and indicated in the annexed documentation, as Dismantling Contracts and Restructuring Contracts.

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 Report on Pay 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 "Pay 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 (Issuer Regulations).
The remuneration policies (Policy) 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 pay 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 pay system of Group employees includes a variable component linked to annual incentive systems (bonus). The receipt of a bonus is subject to the activation of an incentive system by the Group company in which the employee works and meeting all predefined access conditions in full (access gateways).
The bonus for key personnel (or parties whose professional activity has or may have a significant impact on the Group's risk profile, identified based on Delegated Regulation (EU) 604/2014) is broken down into:

- an up-front portion, equal to 60% of the bonus;
- three annual instalments of equal amounts, totalling 40% of the bonus, deferred over the three-year period subsequent to the year in which the up-front portion is accrued.

When the bonus recognised exceeds 300 thousand euro, the portion subject to the deferral period is equal to 60% of the bonus, paid in five annual instalments of equal amounts, deferred over the five-year period subsequent to the year in which the up-front portion is accrued.
Half of the up-front portion and half of the deferred instalments of the bonus are paid in Banco BPM ordinary shares.
In addition, in line with national banking system practices and in keeping with the spirit of provisions in force, if the bonus 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[1] and personnel actually affected[2] by a ratio between variable and fixed remuneration of more than 100%, to whom, therefore, the regulations regarding the deferral and allocation of shares continue to apply in full.
Starting from 2017, a three-year long-term incentive (LTI) system was introduced in the Group (the LTI bonus) 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 bonus is also subject to meeting all predefined access conditions in full (access gateways).
The LTI bonus is paid entirely in Banco BPM ordinary shares (performance shares) and is broken down into:

- an up-front portion equal to 40% of the LTI bonus;
- 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.

[1] Top identified staff - for 2018 - were the following: The CEO, General Manager, Co-General Managers and Managers in the first line of management of the Parent Co, the CEO, General Manager, Co-General Manager and Deputy General Manager (when present) of Aletti & C. Banca d'Investimento Mobiliare, Banca Akros, ProFamily and Società Gestione Servizi BP.
[2] *Ex ante*.

In both systems (with annual and three-year intervals) there is a retention period (selling restriction) on the shares accrued 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 accrued. The award of shares to the respective recipients (and therefore their effective possession) occurs at the end of the retention period.
Both up-front and deferred shares are subject to malus and claw-back mechanisms, as set forth in the Policy.
The Three-Year Plan—approved by the Ordinary Shareholders' Meeting of Banco BPM on 8 April 2017—which calls for the valuation of this variable component of the pay of the executive members of the Board of Directors and employees and collaborators of the Banco BPM Banking Group in the category of top Group managers, to be paid through the free assignment of ordinary shares of Banco BPM S.p.A. under the 2017-2019 long-term incentive system.
On 7 April 2017, the Ordinary Shareholders' Meeting of Banco BPM approved, pursuant to Art. 114-bis of the CFL and Art 84-bis of the Issuers' Regulations, the compensation plans based on shares of Banco BPM, as defined in the respective Disclosure Documents prepared for this reason by the Board of Directors on 27 February 2018, on the basis of the Policy—an Annual Plan that calls for the valuation of a share of the variable component of the pay of the Group's key personnel, to be paid through the free assignment of ordinary shares of Banco BPM S.p.A. under the 2018 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 7 April 2018 approved:

- 2018 remuneration and incentive policies,
- the maximum limit of 2:1 for the ratio between the variable and the fixed component of the remuneration for selected figures considered strategic,
- the criteria for calculating the compensation to be granted in the event of early termination of employment or early cessation of service, including the limits set on such compensation.

For detailed information please refer to the following documents: the 2018 Report on Pay, the Disclosure Document on the 2018 Annual Plan and the Disclosure Document on the Three-year 2017-2019 Plan, available on www.bancobpm.it (Corporate Governance — Remuneration Policies section).

1.2 Share-based compensation plans of previous years

On 27 February 2018, the Banco BPM Board of Directors approved the opening of the access gateways for the 2017 Incentive System, as well as:

- the implementation of the 2017 Plan already approved by the Ordinary Shareholders' Meeting of Banco BPM on 8 April 2017, for a total value of 2.84 million euro (estimated total amount that can be disbursed);
- access to the deferred bonuses attributable to previous years, relative to the 2014 (3rd deferred share), 2015 (2nd deferred share) and 2016 (1st 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.

With regard to 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 deferred share of the bonus will mature in 2019 and will be subject to a one-year retention period.
In relation to the equity instalments attributable to previous years, the number of ordinary shares of the former Banca Popolare di Milano S.c. a r.l. recognised was converted into Banco BPM S.p.A. shares - due to the merger with the former Banco Popolare Soc. Coop. - on the basis of the value established for the share swap equal to 1 Banco BPM S.p.A. share for every 6.386 shares of the former Banca Popolare di Milano S.c. a r.l.; also, the ordinary shares of the former Banco Popolare Soc. Coop recognised were converted into Banco BPM S.p.A. shares - due to the merger with Banca Popolare di Milano S.c. a r.l. - on the basis of the value established for the share swap equal to one Banco BPM S.p.A. share for every share of the former Banco Popolare Soc. Coop.
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 disclosure documents drawn up in accordance with art.84-bis of the Issuers' Regulations, deposited at the registered office of Borsa Italiana S.p.A. and also available to the general public on Banco BPM S.p.A.'s website. www.bancobpm.it (for 2017: Corporate Governance — Remuneration Policies section; for previous years: Corporate Governance — Historic Documentation — Shareholders' Meetings section).

1.3 Severance payments

For some parties categorised as key personnel, in specific cases of termination of the employment relationship, they are entitled to agree - in accordance with the methods defined in the Policy - on "golden parachutes" to the maximum extent of two years of gross fixed annual pay up to the maximum limit of 2.4 million euro (employee gross amount).
Without prejudice to the exceptions set forth in the Bank of Italy Supervisory Instructions, the disbursement takes place in concurrent compliance with the following criteria:

- one up-front instalment equal to 60%, and three annual instalments of equal amounts, totalling 40%, for parties for whom the amount of the golden parachute is less than or equal to 600 thousand euro;
- one up-front instalment equal to 40%, and five annual instalments of equal amounts, totalling 60%, for parties for whom the amount exceeds 600 thousand euro;
- 50% of each instalment in cash and 50% in Banco BPM S.p.A. ordinary shares.

There is a retention period on matured shares 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 deferred remuneration is accrued.
Both the up-front share and the deferred shares are subject to malus and claw-back mechanisms, as set forth in the remuneration policies in force.

The incentive plans for the most important personnel described above, which establish the payment based on shares of the Parent Company, 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 contra-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 "Administrative expenses: Personnel expenses" as a balancing entry of an increase in the liability balance sheet item "Provisions for risks and charges", in that the incentive plans for the most important personnel establish payment based on the shares of the Parent Company, which will be regulated by the individual subsidiaries and, therefore, are considered cash-settled transactions.

B. QUANTITATIVE INFORMATION

1. Annual changes

On 7 November 2017, the share warehouse was set up–through the repurchase of shares resulting from exercising the right of withdrawal connected with the merger between Banco Popolare - Soc. Coop. and Banca Popolare di Milano S.c. a r.l.–with 4,627,460 ordinary shares of Banco BPM S.p.A.
On 20 November 2017 – in implementation of the remuneration and incentive policies of the former BPM Group – 19 beneficiaries received over 135,206 Banco BPM S.p.A. ordinary shares, in relation to the portions accrued in 2015 and 2016, with regard to the 2014 Incentive System and to a golden parachute recognised in 2015.
The share warehouse balance at 1 January 2018 consisted of 4,492,254 ordinary shares of Banco BPM S.p.A.
In 2018 – in implementation of the remuneration and incentive policies of the former BPM Group and the former Banco Popoare Group – 77 beneficiaries received a total of 487,744 Banco BPM S.p.A. Ordinary shares of which: (i) 17 beneficiaries received 20,195 shares of the 2014 bonus Incentive System of the former BPM Group in relation to the second deferred share, which matured in 2017; (ii) 20 beneficiaries received 280,939 of the 2015 bonus Incentive System of the former BPM Group in relation to the up-front share and the first deferred share, which matured respectively in 2016 and 2017; (iii) 55 beneficiaries received 181,096 shares of the 2015 bonus Incentive System of the former Banco Popolare Group, in relation to the up-front share, matured in 2016; (iv) 5,514 shares were paid in a golden parachute package in 2015 by the former BPM Group in relation to the second deferred share, matured in 2017.
The share warehouse balance at 31 December 2018 consisted of 4,004,510 ordinary shares of Banco BPM S.p.A.

2. Other information

Regarding the 2018 Incentive System for key personnel, if the access gateways relating to the 2018 performance year are surpassed, a share-based payment component totalling 4.2 million (employee gross amount) will be resolved[3], of which 2.3 million will be allocated up-front.
Meeting the conditions of the access gates will also lead to the accrual of deferred shares relating to previous years for a total of 1.9 million.

Regarding the long-term 2017-2019 Incentive System, international accounting standards were adopted, which require the vesting period of rights to be taken into account; therefore, an amount of 941 thousand euro was set aside, corresponding to one third of the up-front portion of the LTI bonus that could reach maturity in 2020.
With regard to golden parachute packages paid, in 2018 the shares that reached maturity were valued at a total value of 45 thousand euro.

[3] Estimated total amount that can be issued.

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 highlighted too.

Due to the business combination between the Banco Popolare Group and the BPM Group in 2017, it was necessary to partially modify the operating segments previously identified by Banco Popolare (defined as the buyer from the accounting perspective). Subsequently, during the current financial year, further changes were introduced in order to fully implement the Group's business model, as set out in the 2017-2019 Strategic Plan. In particular, a new structure for the Commercial Network was defined. The changes in question were also made as a result of the extraordinary transactions, which profoundly changed the presence of the Banco BPM Group in asset management (disposal of Aletti Gestielle SGR at the end of December 2017) and in bancassurance and which gave a specialist connotation to Banca Akros S.p.A. and Banca Aletti S.p.A.. Therefore, compared to the structure of the Segment Reporting in 2017:

- the Commercial Network has been redefined into the new Retail, Corporate, Institutional and Private business lines (the latter was included in the Private & Investment Banking business line in 2017);
- the Private & Investment Banking business line, present during the previous financial year, was split into the Private segment (now concentrated in Banca Aletti) and the Investment Banking segment (represented by Banca Aletti's Investment Banking division and Banca Akros);
- the Strategic Partnership component (Agos Ducato S.p.A., Vera Vita S.p.A., Vera Assicurazioni S.p.A., Bipiemme Vita S.p.A., Factorit S.p.A., Alba Leasing S.p.A., SelmaBipiemme Leasing S.p.A. and Anima Holding S.p.A.) was separated from the Equity Investments segment, which in 2017 was located within the Corporate Centre;
- as a result of the aforementioned extraordinary transactions, concerning the Wealth Management sector, the latter was excluded from this Segment Reporting.

For 2018, the operating segments taken as a reference to provide the disclosure in question are as follows:

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

Lastly, note that the justification for identifying leasing 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 within Banco BPM) and the subsidiary Release.

Additionally, the introduction of IFRS 9 as of 1 January 2018, replacing accounting standard IAS 39, was particularly significant. The impacts of this accounting standard were implemented in the individual business lines, together with PPA (Purchase Price Allocation), which had already been completed the previous year.

Consequently, in order to take into account the new structure of the operating segments and other reclassifications (mainly relative to the application of IFRS 5 to components associated with Aletti Gestielle SGR), the figures relative to financial year 2017 were restated.
Finally, in order to ensure comparability between final figures and the ones of the same period of the previous year, a version of Segment Reporting was prepared without the reclassification between interest margin and net adjustments on loans, due to application of accounting standard IFRS 9.

Segment results – income statement figures

2018	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leasing	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 on 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 on loans to customers	(1,941,116)	(1,252,319)	(544,721)	(22,596)	(300)	265	-	(92,710)	(28,735)
Net adjustments on 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
Result for the year without impairment of client relationships before 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 table shows the breakdown of commission income by type of service provided and defined with an operating outlook, and IFRS 8 operating segment, in line with the disclosure requirements introduced by IFRS 15.

Service type/amounts	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leasing	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, trading securities, currencies and acceptance of orders	111,490	61,705	336	1,413	6,213	53,824	-	-	(12,001)
- managements 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, portfolio 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	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**

2017 (*)	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leasing	Corporate Centre
Interest margin	2,113,447	1,063,812	446,905	62,034	(4,686)	120,192	(15,020)	36,313	403,897
Profits (losses) on investments in associates and companies subject to joint control carried at equity	166,036	-	-	-	-	-	164,428	-	1,608
Financial margin	**2,279,483**	**1,063,812**	**446,905**	**62,034**	**(4,686)**	**120,192**	**149,408**	**36,313**	**405,505**
Net fee and commission income	1,950,410	1,596,855	192,342	32,911	77,320	30,492	-	6	20,484
Other net operating income	98,817	3,640	815	2,287	(2,768)	567	-	21,452	72,824
Net financial result	155,049	15,816	10,065	89	18	(1,901)	10,992	-	119,970
Other operating income	**2,204,276**	**1,616,311**	**203,222**	**35,287**	**74,570**	**29,158**	**10,992**	**21,458**	**213,278**
Operating income	**4,483,759**	**2,680,123**	**650,127**	**97,321**	**69,884**	**149,350**	**160,400**	**57,771**	**618,783**
Personnel expenses	(1,784,854)	(1,170,887)	(51,835)	(7,701)	(50,114)	(34,496)	(1,844)	(7,739)	(460,238)
Other administrative expenses	(872,355)	(999,988)	(80,175)	(29,160)	(23,907)	(47,918)	(662)	(38,815)	348,270
Net value adjustments on property, plant and equipment and intangible assets	(266,915)	-	-	-	-	(7,179)	-	(24,204)	(235,532)
Operating expenses	**(2,924,124)**	**(2,170,875)**	**(132,010)**	**(36,861)**	**(74,021)**	**(89,593)**	**(2,506)**	**(70,758)**	**(347,500)**
Profit (loss) from operations	**1,559,635**	**509,248**	**518,117**	**60,460**	**(4,137)**	**59,757**	**157,894**	**(12,987)**	**271,283**
Net adjustments on loans to customers	(1,660,963)	(1,033,338)	(485,488)	8,642	86	2,566	-	(103,016)	(50,415)
Net adjustments on securities and other financial assets	(140,217)	-	-	-	-	1,178	-	-	(141,395)
Net provisions for risks and charges	(13,757)	(14,908)	(3,357)	(20)	(2,004)	700	-	(46)	5,878
Profits (Losses) on disposal of investments in associates and companies subject to joint control and other investments	25,698	-	-	-	-	(1)	-	1,825	23,874
Profit (loss) before tax from continuing operations	**(229,604)**	**(538,998)**	**29,272**	**69,082**	**(6,055)**	**64,200**	**157,894**	**(114,224)**	**109,225**
Taxes on income from continuing operations	92,789	148,225	(8,050)	(18,998)	1,665	(26,434)	5,325	20,157	(29,101)
Charges related to the banking system, net of taxes	(77,264)	(54,756)	(5,086)	(6,192)	(823)	(2,550)	-	-	(7,857)
Profit (loss) from discontinued operations	762,262	-	-	-	-	-	-	-	762,262
Income (loss) attributable to minority interests	9,658	-	-	-	-	-	-	11,505	(1,847)
Net income (loss) for the period excluding badwill and impairment on goodwill and client relationship	**557,841**	**(445,529)**	**16,136**	**43,892**	**(5,213)**	**35,216**	**163,219**	**(82,562)**	**832,682**
Impairment of goodwill and client relationships net of taxes	(1,017,616)	-	-	-	-	-	-	-	(1,017,616)
Merger difference (Badwill)	3,076,137	-	-	-	-	-	-	-	3,076,137
Parent Company's net income (loss)	**2,616,362**	**(445,529)**	**16,136**	**43,892**	**(5,213)**	**35,216**	**163,219**	**(82,562)**	**2,891,203**

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

Segment results – balance sheet figures

31/12/2018	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leasing	Corporate Center
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

31/12/2017 (*)	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leasing	Corporate Center
Loans to customers	108,176,382	57,946,312	26,676,180	5,423,612	219,600	1,556,011	-	3,244,333	13,110,334

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

31/12/2018	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leasing	Corporate Center
Direct funding	105,219,691	67,696,786	9,045,237	7,474,794	2,438,999	826,764	-	5,369	17,731,742

31/12/2017 (*)	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leasing	Corporate Center
Direct funding	107,509,849	70,167,867	8,341,857	8,881,274	2,894,188	1,638,772	-	9,047	15,576,844

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

31/12/2018	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leasing	Corporate Center
Equity investments	1,434,163	-	-	-	-	-	1,416,024	-	18,139

31/12/2017 (*)	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leasing	Corporate Center
Equity investments	1,349,191	-	-	-	-	-	1,331,320	-	17,871

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

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%.

OTHER INFORMATION

Disclosure regarding public disbursements pursuant to article 1, paragraph 125 of Law 124 of 4 August 2017 ("Annual market and competition law").

It should be noted that Law 124 of 4 August 2017 "Annual market and competition law" (hereafter, also Law 124/2017) introduced in article 1, paragraphs 125 to 129, certain measures aimed at ensuring transparency in the public disbursement system.
In particular, this law establishes, among other things, that companies must include in the notes to financial statements at 31 December 2018, and in the consolidated notes, if applicable, information about "subsidies, contributions, paid positions and in any case economic advantages of any type" (hereafter, for the sake of brevity, "public disbursements") received from public administrations and the other entities indicated under article 1, paragraph 125 of the law in question. Non-compliance with this obligation requires restitution of the amounts received to the disbursing entities.
In order to avoid an excessive amount of insignificant information, it establishes that the requirements for disclosure does not exist when the amount of the public disbursements received is less than the threshold of 10,000 euro.

Despite the clarifications provided by the Council of State in their opinion of 1 June 2018, no. 1149, the law in question poses certain interpretive and application questions, with particular reference to the objective scope of application, for which reference to the indications issued by trade associations was also made (Assonime). In particular, taking into account the criteria which inspired the law and guidelines issued, the following cases are likely not to fall under the disclosure requirements:

- fees for business services in the context of exercising professional services or supplies or other tasks falling within the typical operations of the company's business. These, in fact, are amounts received which do not fall within the area of public subsidies/grants;
- tax subsidies accessible to all companies meeting certain conditions, on the basis of pre-established general criteria, which are also the subject of specific declarations;
- the disbursement to the bank's own customers of subsidised loans, as this involves the disbursement of others' funds (e.g. contribution of interest payments by the public administration) and not the bank's own funds, which serves as an intermediary.

In addition, it should be specified that as of August 2017 the National Register of State Aid has been active within the Ministry of Economic Development's General Directorate for Business Incentives, which involves publication of all government aid and de minimis aid provided to any company, on the part of the entities granting or managing the aid in question. For individual aid in favour of the companies within the Banco BPM Group, please refer to the section "Transparency Register", which can be publicly accessed.

That being established, in compliance with that stated in article 1, paragraph 125 of Law 124 of 4 August 2017, below there are the amounts received by the parent company and its subsidiaries during 2018, 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 2018 *(figures in euro)*
Banco BPM	Aid for personnel training (*)	FBA (Bank and Insurance Fund)	4,874,000
	Aid for personnel training (*)	FONDIR	73,900
Terme Ioniche S.r.l.	Agricultural aid (**)	Disbursed by the European Union through AGEA (Agency for Agricultural Aid), as the paying body	43,289
	Agricultural aid (**)	Disbursed by the European Union through ARCEA (Agency of the Region of Calabria for Agricultural Aid), as the paying body	13,947
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	94,829

(*) Aid for personnel training requested in 2016 and paid in May 2018. To that end, we note that the contributions listed in the national government registry refer to contributions for which the grant date is October 2017, relative to which no disbursements were made in 2018.
(**) 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 2018, whether the benefit was disbursed in one tranche or in several tranches.

APPENDIX - DISCLOSURE ON THE FIRST ADOPTION OF THE ACCOUNTING STANDARDS IFRS 9 - FINANCIAL INSTRUMENTS AND IFRS 15 - REVENUE FROM CONTRACTS WITH CUSTOMERS

Introduction

Regulation (EU) no. 2067 of 22 November 2016 endorsed the new international accounting standard IFRS 9 "Financial Instruments", which is mandatory as of 1 January 2018 and governs the steps of classification and measurement, impairment and hedge accounting related to financial Instruments, replacing the accounting standard IAS 39 "Financial Instruments: Recognition and Measurement".

Regulation no. 1905 of 22 September 2016 endorsed the accounting standard IFRS 15 "Revenue from Contracts with Customers" with mandatory application from 1 January 2018. This introduced a single reference framework for recognising revenues originating from contracts with customers and replaces the accounting standards IAS 18 "Revenues" and IAS 11 "Construction Contracts" and their relative interpretations (IFRIC 13, IFRIC 15, IFRIC 18, SIC 31).

Regarding the presentation of the effects of the first time adoption of the new accounting standards (hereinafter also referred to as FTA - First Time Adoption), it should be noted that in the first financial statements of application, the Banco BPM Group did not restate the comparison figures, but rather made use of the option provided for in the transitional provisions. The adoption of the new accounting standards, therefore, resulted in an adjustment to opening shareholders' equity on 1 January 2018, which showed an overall reduction of 1,071.4 million euro.
The table below shows the balance sheet which was prepared in compliance with the fifth update of the Bank of Italy Circular no. 262:

- balances at 31 December 2017 reclassified on the basis of the new standards and accounting for the new classification criteria for IFRS 9;
- the impacts related to the adoption of IFRS 9 deriving from the new measurement criteria and the IFRS 15 standard;
- the balances at 1 January 2018 restated following the adoption of the above-mentioned standards.

For further details on how the balances at 31 December 2017 and the impact of FTA are presented, please refer to the paragraphs below.

Asset items (thousands of euro)	**31/12/2017 IAS 39 balances Reclassifications**	**Impact of IFRS 9**	**01/01/2018 IFRS 9**	**Impact of IFRS 15**	**01/01/2018 IFRS 9 + IFRS 15**
10. Cash and cash equivalents	976,686	-	976,686		976,686
20. Financial assets designated at fair value through profit and loss	6,192,182	(18,908)	6,173,274		6,173,274
a) financial assets held for trading	4,894,433	-	4,894,433		4,894,433
b) financial assets designated at fair value	-	-	-		-
c) other financial assets mandatorily at fair value	1,297,749	(18,908)	1,278,841		1,278,841
30. Financial assets designated at fair value through other comprehensive income	16,698,472	51,600	16,750,072		16,750,072
40. Financial assets designated at amortised cost	124,080,610	(1,318,220)	122,762,390		122,762,390
a) due from banks	5,168,138	(2,987)	5,165,151		5,165,151
b) loans to customers	118,912,472	(1,315,233)	117,597,239		117,597,239
50. Hedging derivatives	243,810	-	243,810		243,810
60. Fair value change of financial assets in macro fair value hedge portfolios (+/-)	54,531	-	54,531		54,531
70. Equity investments	1,349,191	(92,348)	1,256,843		1,256,843
80. Technical reserves of reinsurers	-	-	-		-
90. Property, plant and equipment	2,735,182	-	2,735,182		2,735,182
100. Intangible assets	1,297,160	-	1,297,160		1,297,160
of which:	-	-	-		-
- goodwill	76,389	-	76,389		76,389
110. Tax assets	4,520,189	371,598	4,891,787	5,610	4,897,397
a) current	319,462	-	319,462		319,462
b) deferred	4,200,727	371,598	4,572,325	5,610	4,577,935
120. Non-current assets and asset disposal groups held for sale	106,121	-	106,121		106,121
130. Other assets	2,952,631	-	2,952,631		2,952,631
Total assets	**161,206,765**	**(1,006,278)**	**160,200,487**	**5,610**	**160,206,097**

Liability and shareholders' equity items (*in thousands of euro*)	**31/12/2017 IAS 39 balances Reclassifications**	**Impact of IFRS 9**	**01/01/2018 IFRS 9**	**Impact of IFRS 15**	**01/01/2018 IFRS 9 + IFRS 15**
10. Financial liabilities designated at amortised cost	131,455,963	15,254	131,471,217		131,471,217
a) due to banks	27,199,304	-	27,199,304		27,199,304
b) due to customers	87,848,146	-	87,848,146		87,848,146
c) debt securities issued	16,408,513	15,254	16,423,767		16,423,767
20. Financial liabilities held for trading	7,942,063	(3,618)	7,938,445		7,938,445
30. Financial liabilities designated at fair value	3,253,190	-	3,253,190		3,253,190
40. Hedging derivatives	765,903	-	765,903		765,903
50. Fair value change of financial liabilities in macro fair value hedge portfolios (+/-)	8,535	-	8,535		8,535
60. Tax liabilities	669,494	22,229	691,723	-	691,723
a) current	14,493	-	14,493		14,493
b) deferred	655,001	22,229	677,230		677,230
70. Liabilities associated with asset disposal groups held for sale	35	-	35		35
80. Other liabilities	3,567,581	-	3,567,581		3,567,581
90. Employee termination indemnities	408,160	-	408,160		408,160
100. Provisions for risks and charges:	1,172,301	16,451	1,188,752	20,400	1,209,152
a) commitments and guarantees given	119,472	16,451	135,923		135,923
b) retirement benefits and similar commitments	166,847	-	166,847		166,847
c) other provisions for risks and charges	885,982	-	885,982	20,400	906,382
110. Technical reserves	-	-	-		-
120. Valuation reserves	251,706	(78,229)	173,477		173,477
130. Redeemable shares	-	-	-		-
140. Equity instruments	-	-	-		-
150. Reserves	1,946,308	(972,622)	973,686	(14,790)	958,896
160. Share premium reserve	-	-	-		-
170. Share capital	7,100,000	-	7,100,000		7,100,000
180. Treasury shares (-)	(14,146)	-	(14,146)		(14,146)
190. Non-controlling interests (+/-)	63,310	(5,743)	57,567		57,567
200. Income (Loss) for the period (+/-)	2,616,362	-	2,616,362		2,616,362
Total liabilities and shareholders' equity	**161,206,765**	**(1,006,278)**	**160,200,487**	**5,610**	**160,206,097**

DISCLOSURE ON THE FIRST ADOPTION OF THE IFRS 9 ACCOUNTING STANDARDS FOR FINANCIAL INSTRUMENTS

As of 1 January 2018, the Banco BPM Group has reclassified and measured its financial assets and liabilities in accordance with the new IFRS 9 standard and the fifth update of the Bank of Italy Circular no. 262, without prejudice to the treatment of impacts caused by changes to its own credit risk on financial liabilities designated at fair value, for which the Group had implemented early adoption since 2017.

As noted in the introduction, with reference to the way in which the effects of the first time adoption of the accounting standard (hereinafter also referred to as FTA - First Time Adoption) are represented, the Banco BPM Group did not restate the comparison figures, but rather made use of the option provided for in the transitional provisions (IFRS 9, paragraph 7.2.15). The adoption of IFRS 9 has therefore resulted in an adjustment to the opening shareholders' equity on 1 January 2018.
In order to allow for an assessment of the effects brought about by the adoption of the new accounting rules, this section provides an illustration of the main regulatory requirements set forth by the IFRS 9 standard and the related choices made by the Group, the effects on the book value of shareholders' equity and on the own funds of the Banco BPM Group. It also provides:

- reconciliation between the latest approved financial statements (IAS 39) and the first IFRS 9 financial statements, prepared in accordance with Bank of Italy Circular no. 262 (5th update);
- detailed information, in keeping with the disclosure requirements of the IFRS 7 accounting standard regarding the first time adoption of IFRS 9: reconciliation schedules between the balances of the former IAS 39 as at 31 December 2017 and those recalculated based on the new IFRS 9 standard, by individual accounting category and by individual type of financial instrument, reconciliation schedules between the adjusting entries of IAS 39/IAS 37 and the adjusting entries of IFRS 9;
- credit quality at 1 January 2018 for all financial assets subject to the IFRS 9 impairment model.

Lastly, this section describes how the Banco BPM Group has decided to present the equity balances of the previous year/period for comparative purposes.

Explanation of regulatory requirements and the Group's main choices

Governance

Please note that the first time adoption of the new accounting standard IFRS 9 required significant implementations—in terms of processes, procedures, methodologies and IT systems, which were governed by the establishment, as of 2016—of a specific project led by the Administration and Budget Function Head, with the support of the Special Projects and Monitoring Function and the active involvement of representatives from the Risk, Loans, Commercial, Organisation, IT, Finance, Planning & Control, Audit and NPL Unit, Audit and Internal Validation functions.
The main decisions for the project were made by a Steering Committee (consisting of the Managing Director, the General Manager, the Joint General Managers, the Project Manager and the Head of the Special Projects and Monitoring Function), and brought to the attention of the Board of Directors.
The results of the activities performed were periodically brought to the attention of the Operating Committee, comprised of all of the function heads involved directly and indirectly in the implementation of the new rules.
The models for calculating expected losses, relating to both performing and non-performing exposures, were validated by the Internal Validation function, a function independent of business structures and the structures responsible for developing and implementing the model.
Considering the significance of the impacts, with particular reference to calculating the expected losses on both performing and non-performing loans, please note that the valuation models, the parameters used and the relative assumptions were submitted for approval by the competent corporate bodies.
To ensure the correct classification of financial instruments and their measurement and impairment, the Group's administrative and accounting processes were adapted to reflect the main activities required by the new IFRS 9 standard (with particular reference to the SPPI test and the new impairment model) and related controls.
During the first half of 2018, the data and information produced by the new systems and processes underwent intense verification, including by the internal control bodies and the independent auditors, after which the calculation

methods, processes, procedures and, lastly, IT systems were adapted as required. Therefore, the aforementioned activities made it possible to calculate the final impact on the balance sheet of the application of the new accounting principle IFRS 9 during the second quarter of 2018, for the purposes of the Consolidated Interim Report as at 30 June 2018.

The main requirements of IFRS 9 and the relative choices made by the Group, with reference to hedge accounting, the requirements for the classification and measurement of financial instruments and the impairment method, are given below.

Hedge Accounting

In regard to hedge accounting, the new rules introduced by IFRS 9 aim to ensure greater alignment between the accounting representation of the hedges and the underlying management logic (risk management). However, these rules do not concern the macro hedging model for which an ad hoc and separate project has been implemented with respect to IFRS 9, which currently has not led to any accounting standard.
At first time adoption, the Group decided to opt-out to avail itself of the possibility of continuing to manage hedging transactions in accordance with the hedge accounting rules provided for by IAS 39 which are currently endorsed (in the carve-out version). This choice may undergo a new evaluation by the Group, also in the light of the evolution of the "macro hedging" project.

Classification and measurement requirements for financial assets and financial liabilities in accordance with IFRS 9

The IFRS 9 accounting standard states that the classification of financial assets depends on the combination of the following two drivers:

- The entity's business model: which reflects the objectives that company management intends to pursue by holding financial assets. More specifically:
  - Hold to Collect (HTC), when the objective is to collect contractual cash flows, maintaining the financial instrument until maturity;
  - Hold to Collect and Sell (HTC&S), when the financial assets are held with a view to collecting contractual cash flows for the duration of the asset, as well as collecting the proceeds from its sale;
  - Other, when the objectives are different from those described in the points above, for example, which are attributable to the desire to collect cash flows through trade (Sell).
- Contractual characteristics of the cash flows: depending on whether the cash flows are based exclusively on principle and interest (Solely Payments of Principal and Interest, or SPPI) or if, otherwise, they also depend on other variables (for example: profit sharing, such as dividends, or repayment of the invested capital depending on the issuer's financial performance, etc.). The checks carried out to ascertain the contractual characteristics of cash flows are referred to as test SPPI or SPPI test.

The following accounting categories can be identified on the basis of the combinations between the business model and the contractual characteristics of the cash flows:

- financial assets designated at amortised cost: these include debt instruments (loans and securities) with a Hold to Collect business model, the contractual terms of which are represented solely by the payment of principle and interest (SPPI test passed);
- financial assets designated at fair value through other comprehensive income, with recycling in the income statement of the components of measurement and realisation: these include debt instruments (loans and securities) with a Hold to Collect and Sell business model, the contractual terms of which are represented solely by the payment of principal and interest (SPPI test passed);
- financial assets designated at fair value through profit and loss: these include all trading assets, including non-hedging derivative instruments and, regardless of the business model, those assets that must be measured at fair value as the cash flows do not represent only the payment of principal and interest (failure to pass the SPPI test). All equity instruments are therefore included, unless the entity chooses the irrevocable option of classifying them in the category of financial assets designated at fair value through other comprehensive income, without any recycling in the income statement of the components of valuation and realisation (with the exception of dividends which continue to be recognised in the income statement).

In addition to the categories illustrated above, the accounting category of financial assets designated at fair value through profit or loss is also an option; this option is irrevocable and is allowed only to eliminate or significantly reduce an inconsistency in valuation or recognition that would otherwise result from the valuation of the assets or liabilities or from the recognition of the related gains and losses on different bases (accounting mismatch).
Regarding the new classification rules based on the characteristics of cash flows, IFRS 9 eliminates the rules for separating embedded derivatives from financial assets not designated at fair value through profit and loss.

Given the above, during the transition to IFRS 9, the Banco BPM Group defined the classification of financial instruments according to the new accounting categories provided for by IFRS 9 - taking into account the business model at 1 January 2018 and the characteristics of the contractual cash flows of the instrument at the date of its origin - and conducted a new measurement of the same on the basis of the respective valuation criteria.

The definition of the business model, which was conducted at both Group and legal entity level, took into consideration all relevant information, including historical data relating to past sales, methods for measuring and reporting the performance of financial assets, methods for managing and measuring risks that may affect the performance of financial assets, and remuneration policies for top management. Thus, specific guidelines were prepared in order to define the Group's business model and any changes to the same. In regard to the portfolio of financial assets designated at amortised cost, considering that the objective of the business model is the collection of the related cash flows, the criteria for the eligibility of sales in the event of the occurrence of specific circumstances (such as, a significant increase in credit risk or near-maturity sales) or in relation to their insignificance in terms of amount or frequency, have been defined.
With regard to the SPPI test, the Group's methodological approach was defined and target models were implemented, in terms of procedures and processes, for carrying out the test for all financial assets, whether represented by debt securities or by loans. As part of this methodological approach, a specific procedure was defined to ascertain whether the Benchmark Cash Flow Test had been passed, which is necessary when financial instruments have a modified time value of money, represented, for example, by a mismatch between the frequency of setting the interest rate for the payment of the respective instalment (fixing) and the reference rate (tenor).
Below is the analysis that was conducted with special internally developed tool, based on a checklist of indicators designed to ascertain whether the SPPI test will be passed, rather than on the basis of information from external providers.

For the portfolio of debt securities outstanding as at 31 December 2017 held with a Hold to Collect business model, rather than Hold to Collect and Sell business model, the SPPI test was carried out to verify the possibility of classifying the securities in question in the accounting categories of "Financial assets designated at amortised cost" and "Financial assets designated at fair value through other comprehensive income". The analysis illustrated that a limited percentage of debt instruments, both in number and in value, represented by structured or asset-backed securities were not exceeded; these instruments were therefore classified in the accounting category of "other financial assets mandatorily at fair value through profit and loss".
With regard to financial instruments represented by loans, the approach adopted for the analysis varied depending on whether they referred to standard products classified as such on the basis of catalogues or product information sheets, common to the retail, small business and mid-corporate areas, rather than tailor made disbursements[1]. For the first type of financial instruments, the analysis focused on an examination of the sheets describing the products currently for sale. For the second type of financial instruments, the analysis focused on the precise examination of the individual loan agreements. The analysis conducted led to specific types of standard products being identified (regarding a marginal number of financial instruments with respect to the Group's total exposure), as well as several tailor made contracts which, due to specific contractual clauses, would not pass the test.
The assets represented by UCIT units have been classified under "other financial assets mandatorily at fair value", also on the basis of the clarifications provided by the IFRIC, which will be described in greater detail below.
For equity securities held with the intention of making a strategic investment and not held for trading and not qualifying as investments in subsidiaries, associates and entities under joint control, the option to designate instruments at fair value through other comprehensive income may be used.

[1] The scope of tailor made products—subject to analysis for the purposes of the SPPI test—includes all the exposures overseen by specialised Group structures that can be traced back to personalised disbursements on the basis of the specific financial needs of typically corporate customers and to exposures subject to restructuring, the specific features of which required the intervention of the aforementioned specialised structures.

With reference to financial liabilities, the new accounting standard IFRS 9 confirms the classification and measurement rules provided for by IAS 39, on the basis of which they are subject to measurement at amortised cost, with the exception of financial liabilities held for trading, including derivative liabilities, and financial liabilities for which the option to designate at fair value through profit and loss is used. In relation to the last type of liability, the IFRS 9 standard states that the fair value changes associated with its creditworthiness must be recognised as a balancing entry to a specific shareholders' equity reserve, rather than in the income statement as required by the IAS 39 standard, unless this treatment will create or amplify an accounting mismatch in the income statement. In the latter case, the entire fair value change of the liability must be recognised in the income statement.
In this regard, it should be noted that the Banco BPM Group has exercised the right to adopt changes in the accounting treatment of its creditworthiness for financial liabilities designated at fair value in advance, since its 2017 financial statements. Considering that the IFRS 9 standard substantially adopted the classification and measurement criteria of IAS 39, during the transition to the new standard, the Banco BPM Group reallocated to the new accounting items, verifying the need to revoke this designation for liabilities designated at fair value as at 31 December 2017, since there was no problem of accounting mismatch with the management hedge derivative that had motivated the original designation at fair value, since it had expired in the interim.

For details on the allocation of financial instruments to the new IFRS 9 accounting categories, please refer to be to tables 4, 5 and 6 below.

IFRS 9 impairment methodology based on expected credit losses (ECL)

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 new impairment model based on expected losses (ECL – Expected Credit Losses). The new approach aims to ensure a more timely recognition of losses than the previous IAS 39 model, according to which losses should only be recognised if there is objective evidence that took place after the initial recognition of the asset (the incurred losses model).
Specifically, the impairment model introduced by the IFRS 9 accounting standard 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% likelihood 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.

In order to implement the above requirements:

- the reference framework was defined to ascertain whether or not there has been a significant deterioration in credit risk (the Framework Stage Assignment) and performing exposures were consequently classified from Stage 1 to Stage 2;
- models have been developed – including forward-looking information – to be used both for the purposes of stage assignment (lifetime PD) and for the calculation of the expected credit loss at one year and lifetime.

<u>Framework stage assignment</u>
In order to allocate exposures to the various stages, the Banco BPM Group has classified them as follows:

- performing loans in Stages 1 and 2;

- non-performing loans in Stage 3. The analysis has led to the conclusion that the relative scope is in line with that of non-performing loans, determined according to the definitions contained within current supervisory provisions[2] (bad loans, unlikely to pay, past due), since they are deemed consistent with the 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.

In regard to performing loans, the significant deterioration in creditworthiness was defined at the single relationship level 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 will be made on the basis of quantitative and qualitative criteria. For the staging of debt securities that are characterised by more than one purchase transaction for the same ISIN, the Group has decided to use the First In-First Out (FIFO) method to calculate the original creditworthiness of the quantities subject to valuation.

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, the Group has identified the following criteria:

- relative quantitative criteria, based on statistical observations, considered an indication of a significant increase in credit risk over time;
- absolute qualitative criteria, represented by the identification of trigger events or the exceeding of absolute thresholds as part of the credit monitoring process. Specifically, these criteria were selected with reference to the indicators contained in the watch list for identifying anomalous loans, which are deemed to represent a deterioration in creditworthiness. This includes all exposures affected by forbearance measures which have this attribute still active, regardless of whether the current probation period is regular or not;
- backstop indicators, i.e. factors of credit delinquency, the existence of which gives rise to the presumption that there has been a significant increase in credit risk, unless there is evidence to the contrary. Presumably, except in exceptional cases attributable to specific types of counterparties, such as Public Administrations, the Group believes that the credit risk of the exposure should be considered significantly increased if past due/delinquent for more than 30 days, without prejudice to the application of the thresholds of significance provided for by supervisory regulations.

With particular reference to the quantitative criterion applicable to credit exposures to customers, the Banco BPM Group has chosen to take the change between the lifetime probability of default (LPD) at the date of origin of the financial instrument and the same probability measured at the reporting date as a reference, considering the residual duration of the transaction. The development of the model has 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.

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. The determination of these thresholds involved various stages of estimation based on the Banco BPM Group's historical observations. Specifically, the development process was based on the following stages:

- the identification of a percentile of the distribution of "PD ratios" (the ratio between the lifetime probability of default at the reporting date and the same probability measured at the date of origin of the financial instrument with the same residual term), which represents the starting point of the subsequent optimisation phase;
- the threshold optimisation process that assesses the model's ability to maximise the percentage of steps from stage 2 to stage 3 and limit returns from stage 2 to stage 1.

For the portfolios of loans to banking counterparties and debt securities that do not have an investment grade rating, as better specified in the next paragraph, the relative quantitative criterion is based on a change in the probability of default at twelve months, rather than over the residual lifetime of the instrument. This simplified approach, taking

[2] 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).

account of the type of counterparty/issuer, is justified by the insignificance of the difference in impact compared to the more complex model used on the portfolio of exposures represented by loans to customers.

Debt securities with an investment grade rating at the reporting date, which are mainly attributable to government securities, are classified as Stage 1 because the Banco BPM Group has made use of the Low Credit Risk Exemption for this category and this category only. This exemption represents the convenient expedient of not conducting the test related to the significant deterioration of credit risk with exposures whose credit risk is considered low.

With reference to the functioning of the model, the Banco BPM Group has decided to adopt a symmetrical reclassification model from Stage 2 to Stage 1. In cases where the conditions triggering the significant deterioration in credit risk cease to exist at a later valuation date, the financial instrument returns to being measured based on the expected loss over twelve months. It should also be noted that in the event of a return 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 therefore depend on the automatic application of the framework stage assignment that was illustrated previously.

Expected Credit Loss – Stage 1 and Stage 2

With reference to the Expected Credit Loss (ECL) calculation model for measuring the impairment of instruments classified under Stages 1 and 2, it should be noted that its development was based on the new internal model for measuring credit risk, which was approved by the Supervisory Authority in February 2018, with its extension to credit exposures acquired by the former BPM Group as part of the business combination from which Banco BPM originated.

Based on this model, with specific adjustments, new IFRS 9 compliant risk parameters have been developed, in terms of:

- one-year and lifetime probability of default (PD): 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);
- Loss Given Default (LGD): the percentage of loss in the event of default on the basis of historical experience over a given observation period;
- Exposure at Default (EaD): the amount of exposure at the time of default.

In defining the scope of the model, with respect to the regulatory parameters, we have taken into account:

- the conditions of the current economic cycle (Point-in-Time risk measures);
- forecast information regarding the future trends in market factors (forward-looking risk measures) on which the expected lifetime loss depends. This forecast information refers to a defined time period (typically the expected duration of the credit exposure under assessment).

Additionally, factors that are only relevant for regulatory purposes (such as the down turn component considered in the regulatory LGD calculation to account for the adverse economic cycle) were removed, while the risk parameters over the entire lifetime of the instrument were considered.

As noted, the definition of default adopted is in line with that used for regulatory purposes.

In addition, in compliance with the requirements of the standard, according to which the estimate of the ECL must be the result of weighting a series of possible forward-looking scenarios (unbiased and probability weighted), the Group has developed a methodology for generating multiple macroeconomic scenarios with the associated probability of their occurrence. More specifically, in addition to the most likely (50%) baseline scenario, alternative scenarios were developed to be better (positive with 20% probability and very positive with 5% probability) and worse (severe with 20% probability and very severe with 5% probability).

More detailed information on the way in which the Group has determined the aforementioned IFRS 9 compliant risk parameters is provided below.

Estimating the PD parameter

As illustrated above, the probability of default must be estimated not only in the twelve months following the reporting date, but also in future years in order to allow lifetime provisions to be calculated.

For the Group, the PD curves were constructed by multiplying the migration matrices of the various risk segments defined by the internal rating models (Large Corporate, Mid Corporate, Mid Corporate Plus, Small Business, Private) which are conditioned on the economic cycle. 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 migration matrices for the first three years following the reporting date, obtained on the basis of PiT migration matrices conditioned on the basis of selected macroeconomic scenarios, 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 sectoral clusters (e.g. industry, 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 were 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.

Estimating the LGD parameter

In addition to the removal of adjustments used for regulatory purposes (indirect costs and down turn factor), from a forward-looking perspective, the estimate of this parameter takes into account the impact of the economic cycle on both the value associated with real estate guarantees through the property price index (thus changing the ratio between the residual debt and the value of the guarantee) and the component represented by the probability of bad loans via a specific scaling factor obtained by simulating the default cycles with the migration matrices between statuses.

EAD Estimation

To calculate the parameter in question, the exposure considered 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 (guarantees and commitments to disburse funds, whether irrevocable or revocable), the EAD is equal to the nominal value weighted by a specific credit conversion factor (CCF).

Expected Credit Loss – Stage 3

With reference to non-performing loans, corresponding to assets classified in Stage 3, although substantially in line with the scope of non-performing loans based on the previous IAS 39 standard, a specific methodology was developed to include forward-looking elements related to sales scenarios, in addition to the scenario that provides for the recovery of cash flows through internal management (the multi-scenario approach). As expressly provided for by the ITG[3] 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 on this subject: 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).

The Group set objectives to achieve in terms of reducing the incidence of bad loans and total impaired loans compared to the total amount of loans to customers when defining its NPL Strategy. The achievement of these objectives presupposes that the amount of impaired loans may be reduced as a result of recovery activity. Given that the recovery forecasts through management within the Group would not have guaranteed the achievement of objectives, the Group has planned, as part of its NPL Strategy, to dispose of a total nominal amount of 8.5 billion euro in outstanding bad loans as at 1 January 2018. In light of the above, it was deemed that the conditions existed for considering the sales scenario approved and made public in determining the new valuation of bad loans at the date of transition to the new IFRS 9 standard.

[3] 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.

Given the above, a new valuation model has been developed on the basis of which two different estimates of the cash flows that the Group expects to receive are associated for each bad loan:

- the first is determined assuming recovery from the debtor based on internal activity, in line with the valuations conducted pursuant to the IAS 39 accounting standard (workout scenario);
- the second is calculated assuming recovery by assigning the receivable (sale scenario).

Taking into account that at first time adoption, as well as when fully operational, the loans likely to be sold cannot be individually identified, the model provides that each loan is associated with a probability of sale.
The forecasts for expected losses are therefore equal to the weighted average of the estimate of the recoverable cash flows in the two scenarios (work out and sale), based on the probability of their occurrence. 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 probability assigned to the various clusters was guided by the amount of the level of target disposals approved by the Board of Directors and, as noted, equal to a nominal amount of 8.5 billion euro between 2018-2020. 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 8.5 billion euro. More specifically, the probabilities assigned to the various clusters range from a minimum value of 2%—assigned to the cluster that the Group deems less convenient and therefore less likely to sell—up to a maximum value of 85%, which is assigned to the cluster that the Group deems more likely to sell. In this regard, please note that, at first time adoption, this last cluster was populated with the exposures that the Group deemed most likely to be included in the portfolio of disposals relating to the Exodus project, which was completed in June 2018, as illustrated in the significant events of the Report on Operations (5.1 billion euro in expected transfer value corresponding to a population of exposures that amounts to a nominal value of 6 billion euro).
The valuation method 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.

The effects of first time adoption (FTA) of IFRS 9

Impacts of IFRS 9 on the book value of shareholders' equity at 1 January 2018

With the adoption of IFRS 9, the consolidated shareholders' equity of the Banco BPM Group decreased by 1,056.6 million euro net of tax effects, falling from 11,963.5 million euro to 10,906.9 million euro. Specifically, this reduction is due to the following:

- -1,245.8 million euro due to the increase in adjusting entries because of the adoption of the new impairment model for impaired loans (bad loans);
- -90.1 million euro due to the increase in adjusting entries after the adoption of the new impairment model for non-performing loans and debt securities (classified under Stage 1 and Stage 2);
- -16.5 million euro due to the increase in liability provisions linked to the valuation of guarantees given and commitments to disburse funds, whether irrevocable or revocable;
- + 38.8 million euro following the adoption of the new rules for the classification and measurement of financial assets and liabilities, excluding the impact originating from the new model for calculating expected losses, as described above;
- -92.3 million euro due to the reduction in the value of investments in associates and companies subject to joint control that were measured with the equity approach, following the overall negative impact on shareholders' equity recorded by the same associates on the first time adoption of IFRS 9[4];
- +349.3 million euro due to the recognition of higher deferred tax assets relating to tax losses being processed as a result of the reduction in the book value of shareholders' equity described above[5].

[4] These impacts are attributable to the equity investments held in Agos Ducato S.p.A., Alba Leasing S.p.A., SelmaBipiemme Leasing S.p.A. And Factorit S.p.A.. Conversely, the equity investments held in Vera Vita S.p.A. and Vera Assicurazioni S.p.A were not affected, as these companies continue to apply the IAS 39 accounting standard, having opted for the deferral approach pending the entry into force of the new international accounting standard for insurance contracts (IFRS 17). In this regard, note that insurance companies have the right to postpone (however, no later than 2021) the entry into force of the IFRS 9 standard (the deferral approach) or to suspend the increased volatility introduced by the new standard to individual securities in shareholders' equity (the overlay approach).

The effects noted previously resulted in a reduction of 78.2 million euro in valuation reserves and 978.4 million euro in other equity reserves.

These impacts are highlighted in even greater detail in the following reconciliation schedule between shareholders' equity at 31 December 2017, determined in compliance with the former IAS 39 accounting standard, and shareholders' equity restated at 1 January 2018 due to the adoption of the new accounting standard.

Table 1: Reconciliation schedule between shareholders' equity at 31 December 2017 (IAS 39) and shareholders' equity at 1 January 2018 (IFRS 9)

Amounts in thousands of euro -		of which IFRS 9 FTA impact on item "120. Valuation reserves"	of which IFRS 9 FTA impact on item "150. Reserves"
A Shareholders' equity consolidated as at 31 December 2017 (former IAS 39)	**11,963,540**		
of which: Group shareholders' equity	11,900,230		
of which: minority interests in shareholders' equity	63,310		
B Impact of IFRS 9 measurement of expected credit losses (ECL) on impaired financial assets (Stage 3)	**(1,245,844)**	**-**	**(1,245,844)**
Fin. assets designated at amortised cost - Loans to customers	(1,245,844)		(1,245,844)
C Impact of IFRS 9 for the measurement of expected credit losses (ECL) on non-impaired financial assets (Stage 1 and Stage 2)	**(90,089)**	**7,137**	**(97,226)**
Fin. assets designated at amortised cost - Loans to customers	(73,898)		(73,898)
Fin. assets designated at amortised cost - Loans to banks	(2,716)		(2,716)
Fin. assets designated at amortised cost - Debt securities	(13,475)		(13,475)
Fin. assets designated at fair value through other comprehensive income	-	7,137	(7,137)
D Impact of IFRS 9 for measuring expected credit losses (ECL) on off-balance sheet exposures	**(16,451)**	**-**	**(16,451)**
Guarantees and commitments	(16,451)		(16,451)
E Impact of IFRS 9 classification & measurement (excluding ECL measurement)	**38,769**	**(80,210)**	**118,979**
Fin. assets designated at FV through IS - debt securities	(12,237)	(6,823)	(5,414)
Fin. assets Desig. at FV through IS - equity instruments and UCIT	-	(128,042)	128,042
Assets designated at FV through IS - Loans to customers	(6,671)		(6,671)
Fin. assets designated at fair value through OCI - debt securities	51,600	51,859	(259)
Assets designated at amortised cost - Debt securities	17,713	17,504	209
Financial liabilities designated at fair value	(15,254)	(14,708)	(546)
Financial liabilities held for trading	3,618		3,618
F Impact of IFRS 9 on investments in associates (equity method)	**(92,348)**	**-**	**(92,348)**
Investments in associates	(92,348)		(92,348)
G=B+C +D+E+F Total impact of IFRS 9 on consolidated shareholders' equity at 1 January 2018 (before tax)	**(1,405,963)**	**(73,073)**	**(1,332,890)**
H Tax impact as at 1 January 2018	**349,369**	**(5,156)**	**354,525**
I=G+H Total impact of IFRS 9 on consolidated shareholders' equity at 1 January 2018 (after tax)	**(1,056,594)**	**(78,229)**	**(978,365)**
of which: impact of IFRS 9 on group shareholders' equity	(1,050,851)	(78,229)	(972,622)
of which: impact of IFRS 9 on minority interests in shareholders' equity	(5,743)		(5,743)
A+I Consolidated shareholders' equity at 1 January 2018 (IFRS 9)	**10,906,946**		
of which: Group shareholders' equity	10,849,379		
of which: minority interests in shareholders' equity	57,567		

Key:
FV: Fair Value
IS: Income statement
OCI: Other Comprehensive Income

[5] Specifically, this relates to the taxation recorded by the FTA, in compliance with the regulations in force at the time of first time adoption of the IFRS 9 accounting standard - the Decree issued by the Ministry of the Economy and Finance on 10 January 2018 - which established that the negative equity impact caused by the adoption of the new IFRS 9 impairment model can be deducted from the taxable income for IRES and IRAP for 2018. Given the aforementioned legislation, taking into account the forecast of a tax loss for 2018 for most Group companies, the tax assets recorded by the FTA are almost exclusively attributable to IRES taxation. For the purposes of this tax, IRES tax losses can be carried forward without any time limit. For further details on the taxation recorded by the FTA and on the evolution of the tax regulations that took place after the effects of the FTA were determined, please refer to the following paragraph "Effects of the first time adoption of IFRS 9 – Recognition of deferred tax assets (DTA)".

In this regard, please note that the adoption of the new IFRS 9 measurement and impairment rules has, at times, led to the need to make a mere reclassification between valuation reserves (item 120) and other retained earnings (item 150), with an overall zero impact on the total Group shareholders' equity. Indeed, valuation reserves decreased by 114.6 million euro overall, yet were offset by a corresponding increase in profit reserves.
More specifically:

- the adoption of the new impairment rules for debt securities classified as "financial assets designated at fair value through other comprehensive income" led to a negative effect on profit reserves that amounted to 7.1 million euro (4.8 million euro after tax), offsetting a corresponding increase in valuation reserves;
- the reclassification of debt securities previously classified as financial assets available for sale to the new category of "other financial assets mandatorily at fair value" led to the crediting of profit reserves amounting to 6.8 million euro (4.6 million euro after tax), offsetting the debit of a corresponding amount to valuation reserves;
- the reclassification of UCIT units and equity instruments previously classified as financial assets available for sale to the new category of "other financial assets mandatorily at fair value" led to the crediting of profit reserves amounting to 128.0 million euro (115.0 million euro after tax) offsetting the debit of a corresponding amount to valuation reserves;
- the reclassification of debt securities previously classified as financial assets designated at fair value through profit and loss to the new category of financial assets designated at fair value through other comprehensive income led to the reallocation of the positive effects (0.3 million euro) to valuation reserves, offsetting the charge to the profit reserve (0.2 million euro after tax).

Impact of IFRS 9 on own funds as at 1 January 2018

At the level of the capital ratios, the impacts at 1 January 2018 illustrated in the previous paragraph led to a reduction of 182 bps in the CET 1 ratio fully phased, which fell from 11.92%—the value before the first time adoption of the new accounting standard—to 10.10%.
These impacts do not account for the option exercised by the Group for the full adoption of the transitional rules introduced by the new article 473-bis of EU Regulation no. 575/2013, which phases in the impact on equity resulting from the adoption of the new impairment model introduced by the new accounting standard. These aforementioned transitional rules provide for the option of including within Common Equity Tier 1 a transitional positive component for a percentage of the increase made in provisions for expected losses on loans due to application of accounting standard IFRS 9. For off-balance sheet exposures represented by guarantees and commitments, for which—at 31 December 2017—there were adjusting entries in accordance with the IAS 37 standard, the amount to be included in CET1 is not limited to the increase in the adjusting entries, but rather is equal to the absolute value of the adjusting entries for IFRS 9 expected losses[6].

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 the IFRS 9 accounting standard. The expected negative impact deriving from the adoption of the new impairment model to own funds is consequently reduced to 5% of the impact that will be recorded on the book value of shareholders' equity as of 1 January 2018;
- 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 the IFRS 9 accounting standard will be fully reflected in the calculation of own funds.
In addition to the possibility of phasing in the impact deriving from the first time adoption of the accounting standard on 1 January 2018, the transitional regulation provides for the possibility of phasing in any impacts that the

[6] In this regard, please refer to the EBA Q&A no. 2018/3923 of 25 May 2018.

adoption of the new impairment model will produce in the first few years following the first time adoption of the new accounting standard, albeit limited to those arising from the measurement of performing financial assets.

Taking into account the transitional regulations and the treatment of the adjusting entries relating to off-balance sheet exposures, as illustrated above, the impact of the first time adoption of IFRS 9 on CET1 for the entire 2018 financial year was up by 5 bps.

Consolidated balance sheet - reconciliation between the balances at 31 December 2017 (IAS 39) and at 01 January 2018 (IFRS 9)

The following table shows the balance sheet format prepared in accordance with the items established by the fifth update of Circular no. 262. Specifically, the above schedule provides a reconciliation between the balances as at 31 December 2017, which were calculated on the basis of IAS 39, and those restated on 1 January 2018, on the basis of the IFRS 9 standard, with separate reporting:

- the reclassified IAS 39 balances in relation to the new classification criteria introduced by IFRS 9 ("31/12/2017 Reclassified IAS 39 balances" column), without the adoption of the new valuation criteria associated with the new accounting categories (different basis of measurement of value and relative impairment);
- the impacts deriving from the new measurement criteria ("Measurement Impact" column) and the new impairment model ("ECL Impact" - Expected Credit Losses column).

In order to come to a better understanding of the transition between the accounting categories of IAS 39 and IFRS 9 financial assets and liabilities, the balances resulting from the financial statements published at 31 December 2017 were reclassified based on the new frameworks of Circular no. 262, in accordance with certain conventional criteria that are described below:

- item "20. Financial assets designated at fair value through profit and loss: a) financial assets held for trading" corresponds to item "20. Financial assets held for trading" in the financial statements published on 31 December 2017;
- item "20. Financial assets designated at fair value through profit and loss: b) financial assets designated at fair value" corresponds to item "30. Financial assets designated at fair value" in the financial statements published on 31 December 2017;
- in item "30. Financial assets designated at fair value through other comprehensive income", the balance of item "40. Financial assets available for sale" was reclassified in the financial statements published on 31 December 2017;
- item "40. financial assets designated at amortised cost" includes the balances of items "50. Investments held to maturity", "60. Due from banks". "70. Loans to customers" shown in the financial statements published as at 31 December 2017;
- for the remaining items, the balances shown correspond to those originally published, although the numbering of the financial statement items differs due to the changes introduced in the IFRS 9 compliant financial statements.

Therefore, the "31/12/2017 IAS 39 balances" column provides the balances at 31 December 2017 (IAS 39) based on the conventional criteria described previously; the "Reclassifications" column gives the differences between the IAS 39 balances restated on the basis of the aforementioned conventional criteria and the same balances restated on the basis of the new classification criteria introduced by the new IFRS 9 standard, guided by the business model and by the characteristics of the cash flows.
In this regard, please note that the reclassification of liabilities from item "80. Other liabilities" to item "100. Provisions for risks and charges" refers to the adjusting entries on guarantees and commitments to be transferred back to the provisions for risks and charges, based on the new provisions introduced by the fifth update of Circular no. 262.

For further details of the transition between the old and new portfolios of financial assets and liabilities, please refer to the following section.

Table 2: reconciliation schedule between total assets at 31 December 2017 (IAS 39) and total assets at 1 January 2018 (IFRS 9)

Asset items (*thousands of euro*)	31/12/2017 IAS 39 balances	Reclassifications	31/12/2017 IAS 39 balances Reclassifications (a)	Measurement Impact (b)	ECL Impact (c)	01/01/2018	Impact of IFRS 9 (b+c)
10. Cash and cash equivalents	976,686		976,686			976,686	-
20. Financial assets designated at fair value through profit and loss	4,940,776	1,251,406	6,192,182	(18,908)	-	6,173,274	(18,908)
a) financial assets held for trading	4,911,824	(17,391)	4,894,433			4,894,433	-
b) financial assets designated at fair value	28,952	(28,952)	-			-	-
c) other financial assets mandatorily at fair value	-	1,297,749	1,297,749	(18,908)		1,278,841	(18,908)
30. Financial assets designated at fair value through other comprehensive income	17,128,622	(430,150)	16,698,472	51,600		16,750,072	51,600
40. Financial assets designated at amortised cost	124,901,866	(821,256)	124,080,610	17,713	(1,335,933)	122,762,390	(1,318,220)
a) due from banks	5,164,715	3,423	5,168,138		(2,987)	5,165,151	(2,987)
b) loans to customers	119,737,151	(824,679)	118,912,472	17,713	(1,332,946)	117,597,239	(1,315,233)
50. Hedging derivatives	243,810		243,810			243,810	-
60. Fair value change of financial assets in macro fair value hedge portfolios (+/-)	54,531		54,531			54,531	-
70. Equity investments	1,349,191		1,349,191	(92,348)		1,256,843	(92,348)
80. Technical reserves of reinsurers	-		-			-	-
90. Property, plant and equipment	2,735,182		2,735,182			2,735,182	-
100. Intangible assets	1,297,160		1,297,160			1,297,160	-
of which:	-		-			-	-
- goodwill	76,389		76,389			76,389	-
110. Tax assets	4,520,189	-	4,520,189	923	370,675	4,891,787	371,598
a) current	319,462		319,462			319,462	-
b) deferred	4,200,727		4,200,727	923	370,675	4,572,325	371,598
120. Non-current assets and asset disposal groups held for sale	106,121		106,121			106,121	-
130. Other assets	2,952,631		2,952,631			2,952,631	-
Total assets	**161,206,765**	**-**	**161,206,765**	**(41,020)**	**(965,258)**	**160,200,487**	**(1,006,278)**

a) Balances as at 31 December 2017 on the basis of the IAS 39 standard, classified according to the new criteria for IFRS 9 financial assets and liabilities

b) IFRS 9 FTA impacts arising from the new measurement criteria for items related to financial assets and financial liabilities (excluding ECL), including indirect consequences resulting from the restatement of the equity of investments in associates and companies subject to joint control under IFRS 9

c) FTA impacts of IFRS 9 arising from the new Expected Credit Losses (ECL) model

Table 3: Reconciliation schedule between total liabilities and shareholders' equity at 31 December 2017 (IAS 39) and total liabilities and shareholders' equity at 1 January 2018 (IFRS 9)

Liability and shareholders' equity items (*in thousands of euro*)	31/12/2017 IAS 39 balances	Reclassifications	31/12/2017 IAS 39 balances Reclassifications (a)	Measurement Impact (b)	ECL Impact (c)	01/01/2018	Impact of IFRS 9 (b+c)
10. Financial liabilities designated at amortised cost	131,295,593	160,370	131,455,963	15,254	-	131,471,217	15,254
a) due to banks	27,199,304		27,199,304			27,199,304	-
b) due to customers	87,848,146		87,848,146			87,848,146	-
c) debt securities issued	16,248,143	160,370	16,408,513	15,254		16,423,767	15,254
20. Financial liabilities held for trading	7,942,063		7,942,063	(3,618)		7,938,445	(3,618)
30. Financial liabilities designated at fair value	3,413,560	(160,370)	3,253,190			3,253,190	-
40. Hedging derivatives	765,903		765,903			765,903	-
50. Fair value change of financial liabilities in macro fair value hedge portfolios (+/-)	8,535		8,535			8,535	-
60. Tax liabilities	669,494	-	669,494	21,037	1,192	691,723	22,229
a) current	14,493		14,493			14,493	-
b) deferred	655,001		655,001	21,037	1,192	677,230	22,229
70. Liabilities associated with asset disposal groups held for sale	35		35			35	-
80. Other liabilities	3,687,053	(119,472)	3,567,581			3,567,581	-
90. Employee termination indemnities	408,160		408,160			408,160	-
100. Provisions for risks and charges:	1,052,829	119,472	1,172,301	-	16,451	1,188,752	16,451
a) commitments and guarantees given	-	119,472	119,472		16,451	135,923	16,451
b) retirement benefits and similar commitments	166,847		166,847			166,847	-
c) other provisions for risks and charges	885,982		885,982			885,982	-
110. Technical reserves	-		-			-	-
120. Valuation reserves	251,706		251,706	(83,005)	4,776	173,477	(78,229)
130. Redeemable shares	-		-			-	-
140. Equity instruments	-		-			-	-
150. Reserves	1,946,308		1,946,308	9,312	(981,934)	973,686	(972,622)
160. Share premium reserve	-		-			-	-
170. Share capital	7,100,000		7,100,000			7,100,000	-
180. Treasury shares (-)	(14,146)		(14,146)			(14,146)	-
190. Non-controlling interests (+/-)	63,310		63,310		(5,743)	57,567	(5,743)
200. Income (Loss) for the period (+/-)	2,616,362		2,616,362			2,616,362	-
Total liabilities and shareholders' equity	**161,206,765**	**-**	**161,206,765**	**(41,020)**	**(965,258)**	**160,200,487**	**(1,006,278)**

a) Balances as at 31 December 2017 on the basis of the IAS 39 standard, classified according to the new criteria for IFRS 9 financial assets and liabilities
b) FTA impacts of IFRS 9 arising from the new measurement criteria for items related to financial assets and financial liabilities (excluding ECL)
c) FTA impacts of IFRS 9 arising from the new Expected Credit Losses (ECL) model

Portfolio of financial assets and liabilities - reconciliation between the balance sheet items published as at 31 December 2017 (IAS 39) and the balance sheet items provided in the new IFRS 9 balance sheet

The tables below provide detailed information on the reconciliation between:

- the items of IAS 39 financial assets and liabilities, as represented in the balance sheet prepared based on the criteria established in the fourth update of Bank of Italy Circular no. 262, which was originally published on 31 December 2017;
- the same financial assets and liabilities, which were restated based on the balance sheet items introduced by the fifth update of the Bank of Italy Circular no. 262, on the basis of the new classification, measurement and impairment criteria provided by IFRS 9.

Specifically, in line with the disclosure requirements established by IFRS 7 with reference to the first time adoption of the standard:

- table 4 illustrates that the balances of the financial assets relating to each IAS 39 accounting category have been reclassified to the new accounting categories in accordance with the reclassifications that were made necessary by the classification criteria introduced by IFRS 9 (IAS 39 reclass. values), as well as the related impacts on measurement and expected losses ("Measurement imp." and "ECL impact");
- table 5 shows the impact of the first time adoption of IFRS 9 on each type of financial instrument (debt securities, equity securities and UCIT units);
- table 6 illustrates the methods used to reclassify the balances of the financial liabilities relating to each IAS 39 accounting category to the new IFRS 9 accounting categories and their relative measurement impact;
- table 7 illustrates, with reference to cash exposures and off-balance-sheet exposures represented by financial guarantees given and commitments to disburse funds, the reconciliation between the adjusting entries for incurred losses determined on the basis of the previous accounting standards IAS 39 and IAS 37 and the adjustments for expected losses calculated on the basis of the new IFRS 9 impairment model.

In this regard, please note that the tables shown above do not furnish any evidence of financial assets and liabilities represented by hedging derivatives as they were not affected by the transition to the new IFRS 9 standard.

Table 4: reconciliation between the accounting categories of financial assets as at 31 December 2017 (IAS 39 values) and the accounting categories of financial assets as at 1 January 2018 (IFRS 9 compliant values) showing the reclassified amounts and the C&M and ECL impacts

FINANCIAL ASSET ITEMS as at 31/12/2017 - IAS 39 Values		FINANCIAL ASSET ITEMS AS AT 01/01/2018 - IFRS 9 compliant values						IFRS 9 FTA IMPACT ON CONSOLIDATED SHAREHOLDERS' EQUITY AS AT 01/01/2018		
(A)		(B)						(C) = (B) - (A)		
		20. Fin. assets designated at FV through IS: a) trade	20. Fin. assets designated at FV through IS: b) designated at FV	20. Fin. assets designated at FV through IS: c) mandatorily at fair value	30. Fin. assets designated at FV through other comprehensive income	40. Fin. assets designated at amortised cost: a) due from banks	40. Fin. assets designated at amortised cost: b) Loans to customers	FTA IFRS 9 impact on Group shareholders' equity as at 01/01/2018	*- of which FTA IFRS 9 impact on "valuation reserves" as at 01/01/2018*	*- of which IFRS FTA impact 9 on "Reserves" as at 01/01/2018*
20. Fin. assets held for trading	**4,911,824**	**4,894,433**					**15,991**	**-1,400**		**-1,400**
- IAS 39 reclass. values	*-4,911,824*	*4,894,433*					*17,391*			
- imp. measurement							*209*	*209*		*209*
- ECL impact							*-1,609*	*-1,609*		*-1,609*
30. Fin. assets designated at fair value	**28,952**			**20,960**	**7,992**			**0**	**275**	**-275**
- IAS 39 reclass. values	*-28,952*			*20,960*	*7,992*					
- imp. measurement								*0*	*259*	*-259*
- ECL impact								*0*	*16*	*-16*
40. Fin. assets available for sale	**17,128,622**			**832,072**	**14,290,445**		**2,023,403**	**17,298**	**-110,404**	**127,702**
- IAS 39 reclass. values	*-17,128,622*			*832,072*	*14,290,445*		*2,006,105*			
- imp. measurement							*17,504*	*17,504*	*-117,361*	*134,865*
- ECL impact							*-206*	*-206*	*6,957*	*-7,163*
50. Fin. assets held to maturity	**11,560,769**				**2,451,635**	**3,423**	**9,155,664**	**49,953**	**51,764**	**-1,811**
- IAS 39 reclass. values	*-11,560,769*				*2,400,035*	*3,423*	*9,157,311*			
- imp. measurement					*51,600*			*51,600*	*51,600*	*0*
- ECL impact							*-1,647*	*-1,647*	*164*	*-1,811*
60. Due from banks	**5,164,715**					**5,161,728**		**-2,987**		**-2,987**
- IAS 39 reclass. values	*-5,164,715*					*5,164,715*				
- ECL impact						*-2,987*		*-2,987*		*-2,987*
70. Loans to customers	**108,176,382**			**425,809**			**106,402,181**	**-1,348,392**		**-1,348,392**
- IAS 39 reclass. values	*-108,176,382*			*444,717*			*107,731,665*			
- imp. measurement				*-18,908*				*-18,908*		*-18,908*
- ECL impact							*-1,329,484*	*-1,329,484*		*-1,329,484*
Total financial assets	**146,971,264**	**4,894,433**	**0**	**1,278,841**	**16,750,072**	**5,165,151**	**117,597,239**	**-1,285,528**	**-58,365**	**-1,227,163**
- IAS 39 reclass. Values - securities	*-34,289,362*	*4,894,433*		*983,051*	*16,698,472*	*225,492*	*11,484,491*			
- IAS 39 reclass. Values - loans	*-112,681,902*			*314,698*		*4,939,223*	*107,427,981*			
- imp. measurement				*-18,908*	*51,600*		*17,713*	*50,405*	*-65,502*	*115,907*
- ECL impact						*-2,987*	*-1,332,946*	*-1,335,933*	*7,137*	*-1,343,070*

Table 5: reconciliation between the accounting categories of financial assets as at 31 December 2017 (IAS 39 values) and the accounting categories of financial assets as at 1 January 2018 (IFRS 9 compliant values) by type of financial instrument

FINANCIAL ASSET ITEMS as at 31/12/2017 - IAS 39 Values	FINANCIAL ASSET ITEMS AS AT 01/01/2018 - IFRS 9 compliant values							IFRS 9 FTA IMPACT ON CONSOLIDATED SHAREHOLDERS' EQUITY AS AT 01/01/2018		
(A)	(B)							(C) = (B) - (A)		
		20. Fin. assets designated at FV through IS: a) trade	20. Fin. assets designated at FV through IS: b) designated at FV	20. Fin. assets designated at FV through IS: c) mandatorily at fair value	30. Fin. assets designated at FV through other comprehensive income	40. Fin. assets designated at amortised cost: a) due from banks	40. Fin. assets designated at amortised cost: b) Loans to customers	FTA IFRS 9 impact on Group shareholders' equity as at 01/01/2018	*- of which FTA IFRS 9 impact on "valuation reserves" as at 01/01/2018*	*- of which IFRS FTA impact 9 on "Reserves" as at 01/01/2018*
20. Fin. assets held for trading	**4,911,824**	**4,894,433**					**15,991**	**-1,400**		***-1,400***
- debt securities	*2,283,911*	*2,266,520*					*15,991*	*-1,400*		*-1,400*
- equity instruments	*693,004*	*693,004*								
- UCITS units	*29,661*	*29,661*								
- derivatives	*1,905,248*	*1,905,248*								
30. Fin. assets designated at fair value	**28,952**			**20,960**	**7,992**			**0**	***275***	***-275***
- debt securities	*9,412*			*1,420*	*7,992*			*0*	*275*	*-275*
- equity instruments	*579*			*579*						
- UCITS units	*18,961*			*18,961*						
40. Fin. assets available for sale	**17,128,622**			**832,072**	**14,290,445**		**2,023,403**	**17,298**	***-110,404***	***127,702***
- debt securities	*15,716,663*			*179,445*	*13,531,113*		*2,023,403*	*17,298*	*17,638*	*-340*
- equity instruments	*993,472*			*234,140*	*759,332*			*0*	*-112,391*	*112,391*
- UCITS units	*418,487*			*418,487*	*0*			*0*	*-15,651*	*15,651*
50. Fin. assets held to maturity	**11,560,769**				**2,451,635**	**3,423**	**9,155,664**	**49,953**	***51,764***	***-1,811***
- debt securities	*11,560,769*				*2,451,635*	*3,423*	*9,155,664*	*49,953*	*51,764*	*-1,811*
60. Due from banks	**5,164,715**					**5,161,728**		**-2,987**		***-2,987***
- loans	*4,939,223*					*4,936,507*		*-2,716*		*-2,716*
- debt securities	*225,492*					*225,221*		*-271*		*-271*
70. Loans to customers	**108,176,382**			**425,809**			**106,402,181**	**-1,348,392**		***-1,348,392***
- loans	*107,742,679*			*308,027*			*106,108,239*	*-1,326,413*		*-1,326,413*
- debt securities	*433,703*			*117,782*			*293,942*	*-21,979*		*-21,979*
Total financial assets	**146,971,264**	**4,894,433**		**1,278,841**	**16,750,072**	**5,165,151**	**117,597,239**	**-1,285,528**	***-58,365***	***-1,227,163***

Effects of the first time adoption of IFRS 9 – Classification, measurement and impairment of financial assets

Based on the information provided in the tables above, the measurement criteria of the new IFRS 9 accounting categories—into which the outstanding instruments at the transition date have been classified—are substantially in line with those of the previous IAS 39 categories, with the exception of a few instances caused by changes in the business model, the intrinsic characteristics of financial instruments and the adoption of accounting choices permitted by the standard. In this regard, please note that the portfolio represented by UCIT units has been entirely reclassified under "Financial assets designated at fair value through profit and loss: c) other financial assets mandatorily at fair value", as the related flows are not comprised solely of the payment of principal and interest. For these instruments, also on the basis of the clarifications provided by the IFRIC (IFRS Interpretation Committee) in May 2017, the possibility of using the category of financial assets designated at fair value through other comprehensive income was not deemed possible. This was due to the fact that these UCIT units are not normally comparable to equity instruments as they entail a contractual obligation to deliver certain financial assets or a net asset in the event of liquidation or a redemption request from the subscriber.

More specifically, on the date of first time adoption, the classification of the portfolio of financial assets, based on the existing business model as at 1 January 2018, was carried out in accordance with the following guidelines:

- the IAS 39 portfolio of "Financial assets held for trading" (4,911.8 million euro) was almost entirely classified within the IFRS 9 accounting category of "Financial assets designated at fair value through profit and loss: a) financial assets held for trading" (4.894,4 million euro);
- the IAS 39 portfolio of "Financial assets designated at fair value" (29.0 million euro) was largely reclassified to the IFRS 9 accounting category of "Financial assets designated at fair value through profit and loss: c) other financial assets mandatorily at fair value", (21.0 million euro) and, for residual positions only, to the category of "Financial assets designated at fair value through other comprehensive income" (8.0 million euro). The reclassification to "Other financial assets mandatorily at fair value", which mainly concerns UCIT units, is due to failure to pass the SPPI test. At first time adoption, this classification did not affect total shareholders' equity, since fair value is the measurement criterion for the financial assets in question, both on the basis of IAS 39 and IFRS 9. As at 1 January 2018, there were no financial instruments for which the Group choose to use the option to designate at fair value through profit and loss;
- the IAS 39 portfolio of debt securities included in the "Financial assets available for sale" category (15,716.7 million euro) was mainly classified in the IFRS 9 accounting category of "Financial assets designated at fair value through other comprehensive income" (13,531.1 million euro), with the exception of certain government securities (2,006.1 million euro) which were classified in the IFRS 9 category of "Financial assets designated at amortised cost", due to the way in which these assets were managed at the transition date. This choice had a positive impact of 17.5 million euro on shareholders' equity, equal to the difference between the book value at 31 December 2017, represented by fair value (2,006.1 million euro), and the value resulting from application of the amortised cost (2,023.4 million euro), net of expected losses (-0.2 million euro). Additionally, there were certain debt instruments, of a limited number and value (179.4 million euro), which, under the IFRS 9 standard, had to be classified in "Financial assets designated at fair value through profit and loss: c) other financial assets mandatorily at fair value", due to failure to pass the SPPI test;
- the IAS 39 portfolio of equity instruments included in the category of "Financial assets available for sale" (993.5 million euro) was mainly classified (759.3 million euro) within "Financial assets designated at fair value through other comprehensive income", due to the option permitted by the standard for instruments held for non-trading purposes. The remaining amount (234.1 million euro) was classified in the IFRS 9 category of "Financial assets designated at fair value through profit and loss: c) other financial assets mandatorily at fair value". This classification did not affect total shareholders' equity and accounted for the fact that the aforementioned assets were and continue to be designated at fair value;
- the IAS 39 portfolio of "Investments held to maturity" (11,560.8 million euro) was almost entirely reclassified to the IFRS 9 accounting category of "Financial assets designated at amortised cost" (9,160.7 million euro), except for certain positions in government securities (2,400.0 million euro) which were reclassified to the IFRS 9 portfolio of "Financial assets designated at fair value through other comprehensive income", in line with the objectives for which they are held. In regard to these last securities, the first time adoption had a positive impact on shareholders' equity (51.6 million euro) amounting to the difference between the book value as at 31 December 2017 represented by the amortised cost (2,400.0 million euro) and the respective fair value measured as at 1 January 2018

(2,451.6 million euro). In regard to the securities reclassified in the amortised cost category, the expected losses were also calculated with a consequent negative impact on FTA shareholders' equity of 1.6 million euro;
- the positions classified in the IAS 39 portfolio of "Due from banks", amounting to 5,164.7 million euro, were entirely classified in the IFRS 9 category of "Financial assets designated at amortised cost: a) due from banks", in line with the objectives for which they are held. At FTA, the measurement of expected losses led to an increase in adjusting entries of 3.0 million euro;
- the positions classified under the IAS 39 portfolio of "Loans to customers", amounting to 108,176.4 million euro, were classified—for 107,731.7 million euro—in the IFRS 9 category of "Financial assets designated at amortised cost: b) loans to customers"; the measurement of expected losses on the basis of the new impairment model had a negative impact on shareholders' equity of 1,329.5 million euro, of which 1,245.8 million euro was related to bad loans (Stage 3). Exposures amounting to 444.7 million euro (consisting of loans amounting to 314.7 million euro and debt securities amounting to 130.0 million euro) are exceptions to the aforementioned rule, which failed the SPPI test and had to be reclassified to the portfolio of "Financial assets designated at fair value through profit and loss: c) other financial assets mandatorily at fair value". In regard to the last positions, the impact on shareholders' equity due to the different measurement criterion was negative by 18.9 million euro (6.7 million euro for loans and 12.2 million euro for debt instruments).

Given that the impact of the classification and measurement of financial assets at FTA—which is not attributable to the new impairment criterion—is insignificant overall, it should be noted that the increase in securities designated at fair value through profit and loss, with particular reference to the equity instruments and UCIT units previously classified in the "Financial assets available for sale" portfolio, will, with all other conditions being equal, cause greater volatility in the financial results recognised as from 1 January 2018.

Disclosure on portfolio transfers at FTA

Below is the information required by IFRS 7 (paragraphs 42M and 42N) on the effects of the reclassification of financial instruments reclassified at amortised cost—from accounting categories measured on the basis of a different criterion compared to amortised cost—and for instruments reclassified from assets designated at fair value through other comprehensive income, previously designated at fair value through profit and loss. Specifically, for the first accounting period in which IFRS 9 is applied, the following indications must be provided: the fair value of the reclassified financial instruments, of the profits or losses that would have been recorded in the income statement or in the valuation reserves if the instruments had continued to be valued on the basis of the previous fair value criterion, and the interest recorded on the reclassified financial instruments on the basis of the effective interest rate.

As made evident in table 4, for the Banco BPM Group the only noteworthy instruments that have been reclassified are government securities, which were previously classified in the portfolio of "Financial assets available for sale" (2,006.1 million euro), and which have been reclassified to "Financial assets designated at amortised cost" (2,023.4 million euro), in relation to the method of management of these securities that is substantially based on the collection of contractual flows.
As at 31 December 2018, the book value of securities reclassified at amortised cost amounted to 2,087.1 million euro, while their fair value amounted to 2,025.4 million euro. Therefore, measurement at fair value would have resulted in the debiting of other comprehensive income to the amount of 44.2 million euro in 2018. Interest recognised during 2018 on the basis of the effective interest rate was 37.7 million euro, in line with the amounts that would have been recognised in the same period without reclassification.

Table 6: reconciliation between the accounting categories of financial liabilities as at 31 December 2017 (IAS 39 values) and the accounting categories of financial liabilities as at 1 January 2018 (IFRS 9 compliant values)

FINANCIAL LIABILITY ITEMS as at 31/12/2017 - IAS 39 Values		FINANCIAL LIABILITY ITEMS AS AT 01/01/2018 - IFRS 9 compliant values					FTA IFRS 9 IMPACT ON CONSOLIDATED SHAREHOLDERS' EQUITY AS AT 01/01/2018		
(A)		(B)					(C) = (B) - (A)		
		10. Fin. liab. designated at amortised cost: a) due to banks	10. Fin. liab. designated at amortised cost: b) due to customers	10. Fin. liab. designated at amortised cost: a) debt securities issued	20. Fin. liab. held for trading	30. Fin. liab. designated at FV	FTA IFRS 9 impact on Group shareholders' equity as at 01/01/2018	*- of which FTA IFRS 9 impact on "valuation reserves" as at 01/01/2018*	*- of which IFRS FTA impact 9 on "Reserves" as at 01/01/2018*
10. Due to banks	**27,199,304**	**27,199,304**					**-**		
20. Due to customers	**87,848,146**		**87,848,146**				**-**		
30. Debt securities issued	**16,248,143**			**16,248,143**			**-**		
40. Financial liabilities held for trading	**7,942,063**				**7,938,445**		**3,618**		**3,618**
- due to banks	**6,176**				**6,176**		**-**		
- due to customers	**816,729**				**816,729**		**-**		
- debt securities	**3,953,232**				**3,953,232**		**-**		
- derivative instruments	**3,165,926**				**3,162,308**				
- IAS 39 reclass. values	*3,165,926*				*3,165,926*				
- imp. measurement					*(3,618)*		***3,618***		*3,618*
50. Financial liabilities designated at FV	**3,413,560**			**175,624**		**3,253,190**	**(15,254)**	**(14,708)**	**(546)**
- IAS 39 reclass. values	*3,413,560*			*160,370*		*3,253,190*			
- imp. measurement				*15,254*			***(15,254)***	*(14,708)*	*(546)*
Totals	**142,651,216**	**27,199,304**	**87,848,146**	**16,423,767**	**7,938,445**	**3,253,190**	**(11,636)**	**(14,708)**	**3,072**
- IAS 39 reclass. values	*6,579,486*			*160,370*	*3,165,926*	*3,253,190*			
- imp. measurement				*15,254*	*(3,618)*		*(11,636)*	*(14,708)*	*3,072*

With reference to financial liabilities, the Banco BPM Group has exercised the right to adopt changes in the accounting treatment of its creditworthiness for financial liabilities designated at fair value in advance, since its 2017 financial statements. Therefore, no FTA impact is attributable to the presentation of the effects related to the different ways in which the creditworthiness of a company is measured. Considering that the IFRS 9 standard substantially adopted the classification and measurement criteria of IAS 39, the transition to the new standard did not affect shareholders' equity, with the exception of two obligations classified in the IAS 39 portfolio of "Financial liabilities designated at fair value" for which, accounting for the transitional provisions of the standard, a reclassification to "Financial liabilities designated at amortised cost" was necessary, as it was impossible to justify the previous valuation with the need to eliminate an outstanding accounting mismatch on the date of transition to the new standard[7]. Financial liabilities were therefore recognised on the basis of amortised cost, which amounted to 175.6 million euro, compared to the previous fair value of 160.4 million euro. The subsequent recognition of a higher value under liabilities consequently negatively affected total shareholders' equity, which amounts to 15.2 million euro.

Lastly, the decrease in 3.6 million euro in "Financial liabilities held for trading" was due to the reversal of the derivative implicit in some loan agreements, accounting for the new IFRS 9 rules for the separation of derivatives from financial assets and the fact that the aforementioned assets were reclassified to the item "Financial assets designated at fair value through profit and loss: c) other financial assets mandatorily at fair value" after failing to pass the SPPI test.

[7] The derivative contract hedging the risks connected with the aforementioned liabilities that motivated the original designation at fair value was subsequently derecognised.

Table 7: Reconciliation schedule of the adjustments for IAS 39 credit risk and of the provisions as per IAS 37 (balances as at 31 December 2017) and the adjustments for credit risk as at 1 January 2018 (IFRS 9 compliant)

ITEMS IN IAS 39 BALANCE SHEET	ITEMS IN THE IFRS 9 BALANCE SHEET	31/12/2017 Total adjustments for IAS 39 credit risk		Effect of reclassification		Effect of loss remeasurement		01/01/2018 Total adjustments for IFRS 9 credit risk	
		Non-performing assets	Performing assets	Non-performing assets Stage 3	Performing assets Stage 1 and 2	Non-performing assets Stage 3	Performing assets Stage 1 and 2	Non-performing assets Stage 3	Performing assets Stage 1 and 2
40. Fin. assets available for sale	**20. Fin. assets designated at FV through IS: c) other fin. assets mandatorily at FV**	**39,251**		**-39,251**					
- securities	- securities	39,251		-39,251					
70. Loans to customers	**20. Fin. assets designated at FV through IS: c) other fin. assets mandatorily at FV**	**152,259**	**16,849**	**-152,259**	**-16,849**				
- securities	- securities	15,032	16,380	-15,032	-16,380				
- loans	- loans	137,227	469	-137,227	-469				
30. Financial assets designated at fair value through profit and loss	**30. Fin. assets designated at FV through other comprehensive income**						**16**		**16**
- securities	- securities						16		16
40. Fin. assets available for sale	**30. Fin. assets designated at FV through other comprehensive income**						**6,957**		**6,957**
- securities	- securities						6,957		6,957
50. Fin. assets held to maturity	**30. Fin. assets designated at FV through other comprehensive income**						**164**		**164**
- securities	- securities						164		164
20. Fin. assets held for trading	**40. Fin. assets designated at amortised cost**						**1,609**		**1,609**
- securities	- securities						1,609		1,609
40. Fin. assets available for sale	**40. Fin. assets designated at amortised cost**						**206**		**206**
- securities	- securities						206		206
50. Fin. assets held to maturity	**40. Fin. assets designated at AC: b) loans to customers**						**1,647**		**1,647**
- securities	- securities						1,647		1,647
60. Due from banks	**40. Fin. assets designated at AC: a) due from banks**	**1,530**	**1,337**				**2,987**	**1,530**	**4,324**
- securities	- securities						271		271
- loans	- loans	1,530	1,337				2,716	1,530	4,053
70. Loans to customers	**40. Fin. assets designated at AC: b) loans to customers**	**12,270,694**	**302,064**			**1,245,844**	**83,640**	**13,516,538**	**385,704**
- securities	- securities						9,742		9,742
- loans	- loans	12,270,694	302,064			1,245,844	73,898	13,516,538	375,962
On-balance-sheet financial assets		**12,463,734**	**320,250**	**-191,510**	**-16,849**	**1,245,844**	**97,226**	**13,518,068**	**400,627**
100. Other liabilities	**100. Provisions for risks and charges - a) provisions for risks and charges**	**119,472**				**16,451**		**135,923**	
- guarantees given and commitments	- guarantees given and commitments	119,472				16,451		135,923	
Off-balance-sheet exposures		**119,472**				**16,451**		**135,923**	

Effects of the first time adoption of IFRS 9 – Impact on value adjustments

On the FTA date, total adjustments to credit risk on exposures to undergo expected losses amounted to 14,054.6 million euro, of which:

- 13,918.7 million euro related to the accounting portfolios of financial assets designated at amortised cost and financial assets designated at fair value through other comprehensive income (13,518.1 million euro relating to non-performing loans—Stage 3—and 400.6 million to performing loans—Stage 1 and Stage 2);
- 135.9 million euro related to off-balance sheet exposures represented by financial guarantees given and commitments to disburse funds of an irrevocable and revocable nature.

The increase in adjusting entries for financial assets of 1,134.7 million euro compared to the figures at 31 December 2017 (amounting to 12,784.0 million euro), is due to the combined effect of the following factors:

- with reference to non-performing loans:
  - the reduction of value adjustments resulting from reclassifications to the new accounting category not subject to the impairment model represented by "Financial assets designated at fair value through profit and loss: c) other financial assets mandatorily at fair value", specifically:
    - 39.3 million euro relating to certain impaired debt securities (41.5 million euro gross), previously recognised within "Financial assets available for sale";
    - 152.2 million euro relating to: 15.0 million euro to the reclassification of securities (20.5 million euro gross) and 137.3 million euro to the reclassification of loans (323.5 million euro gross) previously recognised within "Loans to customers" which did not pass the SPPI test;
  - an increase of 1,245.8 million euro in the loan portfolio of "Financial assets designated at amortised cost: b) loans to customers" as a result of the new calculation model;
- with reference to performing loans:
  - the reduction in value adjustments of 16.4 million euro on reclassifications of debt securities (140.9 million euro gross) and 0.4 million euro on loans (128.9 million euro gross), previously recognised within "Loans to customers" and reclassified to the new accounting category not subject to the impairment model represented by "Financial assets designated at fair value through profit and loss: c) other financial assets mandatorily at fair value";
  - value adjustments on debt securities classified in the portfolio of "Financial assets designated at fair value through other comprehensive income" amounting to 7.1 million euro (no adjustment entries existed as at 31 December 2017 on the basis of the incurred loss model);
  - value adjustments on debt securities classified in the "Financial assets designated at amortised cost" portfolio, amounting to 13.5 million euro, (no adjustment entries existed as at 31 December 2017 on the basis of the incurred loss model);
  - the new model of expected losses on loans classified as "Financial assets designated at amortised cost" with respect to the model of expected losses of 76.6 million euro compared to the previous incurred losses model;
- with regard to off-balance-sheet exposures represented by financial guarantees given and commitments to disburse funds, the measurement of provisions on the basis of expected losses led to an increase in adjusting entries of 16.5 million euro, mainly attributable to the extension of the impairment model to the scope of revocable margins (15.2 million euro). As at 1 January 2018, the adjusting entries amounted to 136.0 million euro and are shown in balance sheet liability item "100. Provisions for risks and charges a) guarantees given and commitments".

Effects of the first time adoption of IFRS 9 - Credit quality

Based on the above, tables 8 and 9 below provide an analysis of credit quality as at 1 January 2018 for all exposures subject to the IFRS 9 impairment model, i.e. for "Financial assets designated at fair value through other comprehensive income" and for "Financial assets designated at amortised cost" – loans to banks and customers", divided between exposures represented by debt securities and loans.
Specifically, credit quality is expressed in two form: closing-balance exposures and opening-balance exposures.
The representation of credit quality in closing balances presents, in the Gross exposure columns, the purchase values of the loans resulting from the business combination between the former BPM Group (which took place on 01 January 2017), that is the net values of outstanding adjusting entries at the merger date.

Therefore, in order to allow for an assessment of the coverage of exposures, with particular reference to impaired exposures, an opening-balance representation is also provided, which shows the total value adjustments recorded on loans from the date of their disbursement, in line with the credit management and monitoring processes.

Table 8: Credit quality as at 1 January 2018 (IFRS 9) – Closing-balance exposures

The following table displays the breakdown of the exposures subject to the IFRS 9 impairment model by stage (Stage 1, Stage 2 and Stage 3), illustrating the gross exposure, the total adjustment value and the net exposure.

	Gross exposure				Total value adjustments				Net exposure			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
30. Financial assets designated at fair value through other comprehensive income	**15,891,003**	**106,875**	**-**	**15,997,878**	**(5,041)**	**(2,097)**	**-**	**(7,138)**	**15,885,962**	**104,778**	**-**	**15,990,740**
- securities	15,891,003	106,875	-	**15,997,878**	(5,041)	(2,097)	-	**(7,138)**	15,885,962	104,778	-	**15,990,740**
40. Financial assets designated at amortised cost	**98,929,482**	**12,529,308**	**22,694,583**	**134,153,373**	**(63,590)**	**(228,613)**	**(11,098,780)**	**(11,390,983)**	**98,865,892**	**12,300,695**	**11,595,803**	**122,762,390**
a) due from banks	**4,452,582**	**715,488**	**1,598**	**5,169,668**	**(1,914)**	**(1,073)**	**(1,530)**	**(4,517)**	**4,450,668**	**714,415**	**68**	**5,165,151**
- loans	4,223,668	715,488	1,598	**4,940,754**	(1,645)	(1,073)	(1,530)	**(4,248)**	4,222,023	714,415	68	**4,936,506**
- securities	228,914	-	-	**228,914**	(269)	-	-	**(269)**	228,645	-	-	**228,645**
b) loans to customers	**94,476,900**	**11,813,820**	**22,692,985**	**128,983,705**	**(61,676)**	**(227,540)**	**(11,097,250)**	**(11,386,466)**	**94,415,224**	**11,586,280**	**11,595,735**	**117,597,239**
- loans	83,171,805	11,616,712	22,692,985	**117,481,502**	(58,208)	(217,803)	(11,097,250)	**(11,373,261)**	83,113,597	11,398,909	11,595,735	**106,108,241**
- securities	11,305,095	197,108	-	**11,502,203**	(3,468)	(9,737)	-	**(13,205)**	11,301,627	187,371	-	**11,488,998**
Total	**114,820,485**	**12,636,183**	**22,694,583**	**150,151,251**	**(68,631)**	**(230,710)**	**(11,098,780)**	**(11,398,121)**	**114,751,854**	**12,405,473**	**11,595,803**	**138,753,130**

The quality of credit relating to non-performing loans (Stage 3) is described in greater detail below and is divided into bad loans, unlikely to pay and past due - non-performing.

Stage 3 - Loans - credit quality	Gross exposure				Total value adjustments				Net exposure			
	Bad loans	Unlikely to pay	Past due - non-performing	Stage 3 Total	Bad loans	Unlikely to pay	Past due - non-performing	Stage 3 Total	Bad loans	Unlikely to pay	Past due - non-performing	Stage 3 Total
a) due from banks	**1,598**	**-**	**-**	**1,598**	**(1,530)**	**-**	**-**	**(1,530)**	**68**	**-**	**-**	**68**
- loans	1,598			**1,598**	(1,530)			**(1,530)**	68	-	-	**68**
b) loans to customers	**14,038,805**	**8,558,786**	**95,394**	**22,692,985**	**(8,797,025)**	**(2,285,257)**	**(14,968)**	**(11,097,250)**	**5,241,780**	**6,273,529**	**80,426**	**11,595,735**
- loans	14,038,805	8,558,786	95,394	**22,692,985**	(8,797,025)	(2,285,257)	(14,968)	**(11,097,250)**	5,241,780	6,273,529	80,426	**11,595,735**
Total	**14,040,403**	**8,558,786**	**95,394**	**22,694,583**	**(8,798,555)**	**(2,285,257)**	**(14,968)**	**(11,098,780)**	**5,241,848**	**6,273,529**	**80,426**	**11,595,803**

Table 9: Credit quality as at 1 January 2018 (IFRS 9) – Opening-balance exposures

The following table displays the breakdown of the exposures subject to the IFRS 9 impairment model by stage (Stage 1, Stage 2 and Stage 3), illustrating the gross exposure, the total adjustment value and the net exposure.

	Gross exposure				Total value adjustments				Net exposure			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
30. Financial assets designated at fair value through other comprehensive income	**15,891,003**	**106,875**	**-**	**15,997,878**	**(5,041)**	**(2,097)**	**-**	**(7,138)**	**15,885,962**	**104,778**	**-**	**15,990,740**
- securities	15,891,003	106,875	-	**15,997,878**	(5,041)	(2,097)	-	**(7,138)**	15,885,962	104,778	-	**15,990,740**
40. Financial assets designated at amortised cost	**98,985,821**	**12,574,254**	**25,113,870**	**136,673,945**	**(119,929)**	**(273,559)**	**(13,518,067)**	**(13,911,555)**	**98,865,892**	**12,300,695**	**11,595,803**	**122,762,390**
a) due from banks	**4,452,754**	**716,653**	**1,598**	**5,171,005**	**(2,086)**	**(2,238)**	**(1,530)**	**(5,854)**	**4,450,668**	**714,415**	**68**	**5,165,151**
- loans	4,223,840	716,653	1,598	**4,942,091**	(1,817)	(2,238)	(1,530)	**(5,585)**	4,222,023	714,415	68	**4,936,506**
- securities	228,914	-	-	**228,914**	(269)	-	-	**(269)**	228,645	-	-	**228,645**
b) loans to customers	**94,533,067**	**11,857,601**	**25,112,272**	**131,502,940**	**(117,843)**	**(271,321)**	**(13,516,537)**	**(13,905,701)**	**94,415,224**	**11,586,280**	**11,595,735**	**117,597,239**
- loans	83,227,972	11,660,493	25,112,272	**120,000,737**	(114,375)	(261,584)	(13,516,537)	**(13,892,496)**	83,113,597	11,398,909	11,595,735	**106,108,241**
- securities	11,305,095	197,108	-	**11,502,203**	(3,468)	(9,737)	-	**(13,205)**	11,301,627	187,371	-	**11,488,998**
Total	**114,876,824**	**12,681,129**	**25,113,870**	**152,671,823**	**(124,970)**	**(275,656)**	**(13,518,067)**	**(13,918,693)**	**114,751,854**	**12,405,473**	**11,595,803**	**138,753,130**

As illustrated in the table above, almost all exposures represented by debt securities are classified in Stage 1, as the majority are government securities with an investment grade rating.
However, in regard to performing exposures represented by loans to banks and customers, please note that these are classified for approximately 88% under Stage 1, with the remaining 12% under Stage 2.
By focusing the analysis on the portfolio of loans classified as loans to customers, the coverage of performing loans was 0.4%; more specifically, it was 0.14% for Stage 1 and 2.24% for Stage 2.

The quality of credit relating to non-performing loans (Stage 3) is described in greater detail below and is divided into bad loans, unlikely to pay and past due - non-performing.

Stage 3 - Loans - credit quality	Gross exposure				Total value adjustments				Net exposure			
	Bad loans	Unlikely to pay	Past due - non-performing	Stage 3 Total	Bad loans	Unlikely to pay	Past due - non-performing	Stage 3 Total	Bad loans	Unlikely to pay	Past due - non-performing	Stage 3 Total
a) due from banks	**1,598**	**-**	**-**	**1,598**	**(1,530)**	**-**	**-**	**(1,530)**	**68**	**-**	**-**	**68**
- loans	1,598			**1,598**	(1,530)			**(1,530)**	68	-	-	**68**
b) loans to customers	**15,793,632**	**9,223,246**	**95,394**	**25,112,272**	**(10,551,852)**	**(2,949,717)**	**(14,968)**	**(13,516,537)**	**5,241,780**	**6,273,529**	**80,426**	**11,595,735**
- loans	15,793,632	9,223,246	95,394	**25,112,272**	(10,551,852)	(2,949,717)	(14,968)	**(13,516,537)**	5,241,780	6,273,529	80,426	**11,595,735**
Total	**15,795,230**	**9,223,246**	**95,394**	**25,113,870**	**(10,553,382)**	**(2,949,717)**	**(14,968)**	**(13,518,067)**	**5,241,848**	**6,273,529**	**80,426**	**11,595,803**

Effects of the first time adoption of IFRS 9 – Recognition of deferred tax assets (DTA)

As illustrated in table 1 above, the first time adoption of IFRS 9 led to the debiting of shareholders' equity to the amount of 1,406.0 million euro, gross of the tax effect, mainly due to the new impairment model on credit exposures.
With reference to the relative taxation, it should be noted that the Decree issued by the Ministry of Economy and Finance on 10 January 2018, which was in force at the date of determining the related effects of the first time adoption of IFRS 9, established that the negative equity impact caused by the adoption of the new impairment model could be deducted from the taxable income for IRES and IRAP for 2018.
Given the significance of the impacts that arose from the adoption of the IFRS 9 accounting standard and their immediate deductibility on the basis of the aforementioned legislation, at the date of the FTA, the estimates for taxable income for IRES and IRAP for 2018 show a tax loss on both taxes and for the main Group companies.
In response to these forecasts, at FTA only the IRES DTAs were recognised, as IRES tax losses can be carried forward and can be recovered by generating taxable income in subsequent years without any time limit. Otherwise, at FTA, for the main Group companies no active IRAP taxation was recorded because, as there is no option for carrying forward tax losses for this form of taxation, the benefit of deducting the impacts related to the first time adoption of IFRS 9 had to be considered as lost overall.
Given this aforementioned legislation, in force at IFRS 9 FTA, deferred tax assets (DTA) of 349.4 million euro were recognised, almost entirely attributable to IRES tax losses.
In this regard, note that the aforementioned legislation was amended with Italian Law no. 145 of 30 December 2018 (known as the "2019 Budget Law"). Indeed, the aforementioned law states that the impacts of the new impairment model are deductible from taxable income, both for IRES and IRAP purposes, to the amount of 10% of their total in the tax period of first time adoption of IFRS 9 (2018) and for the remaining 90% on a straight line basis for the nine subsequent tax periods.
For the purposes of the 2018 financial statements, the aforementioned amendment did not generate economic or financial impacts in regards to IRES taxation, merely leading to a different time span for recovering IRES DTAs recognised at the date of first time adoption of IFRS 9. In regards to IRAP, the new law created the conditions for the inclusion of new IRAP DTAs of 64 million euro, as it provides the impacts to be deducted over ten financial years. This taxation was recorded as a balancing entry in the income statement, instead of in shareholders' equity as at 01 January 2018, as it was due to regulatory changes that occurred after the date of the IFRS 9 FTA.

Method of presenting balances from previous periods for comparison

As indicated in the introduction to this section, the Banco BPM Group has made use of the exemption from the obligation to recalculate comparative values provided for in paragraph 7.2.15 of IFRS 9 and paragraphs E1 and E2 of IFRS 1 "First-Time Adoption of International Financial Reporting Standards", based on which the first financial statements that adopt the new standard do not envisage the mandatory restatement of comparative figures on a uniform basis.
Consequently, the balance sheet and income statement balances for the previous year are not fully comparable with the new accounting categories and the related valuation criteria introduced by the new IFRS 9 standard, as they were prepared in accordance with the previous IAS 39 accounting standard.
For this reason,and also taking into account that the Supervisory Authority left the form and content of the information relating to the transition to IFRS 9 to the independence of the competent corporate bodies when issuing the fifth update of Circular no. 262, the Banco BPM Group decided not to compare the items affected by IFRS 9, as the balances—both the balance sheet and income statement balances—for the previous year were not determined and thus would not allow for a comparison to be made on a completely consistent basis.
Therefore, in order to present the balances relating to the previous year/period, the Banco BPM Group chose to:

- reconcile the balances relating to the balance sheet and income statement items not affected by IFRS 9 into a single statement;
- prepare a separate indication of the balance sheet items intended to record the balance sheet and income statement balances of the financial instruments that fall within the scope of IFRS 9, which will continue to be included in the items published in the latest approved financial statements.

A reconciliation between the items in the balance sheet as at 31 December 2017 is found below, prepared on the basis of the fourth update of Circular 262 and the new items in the balance sheet introduced by the fifth update of Circular 262, showing comparable items (albeit with different numbering) and items for which no comparison is provided as they were prepared on a inconsistent basis and are therefore not comparable. This reconciliation is provided in order to furnish an immediate understanding of the balance sheet and income statement reported in the Consolidated financial statements.

Consolidated balance sheet

Reconciliation between items before and after IFRS 9

Asset items	
Asset statement as at 31.12.2018 (IFRS 9)	**Asset statement as at 31/12/2017 (IAS 39)**
10. Cash and cash equivalents	10. Cash and cash equivalents
20. Financial assets designated at fair value through profit and loss	
a) financial assets held for trading	
b) financial assets designated at fair value	
c) other financial assets mandatorily at fair value	
30. Financial assets designated at fair value through other comprehensive income	
40. Financial assets designated at amortised cost	
a) due from banks	
b) loans to customers	
	20. Financial assets held for trading
	30. Financial assets designated at fair value through profit and loss
	40. Financial assets available for sale
	50. Investments held to maturity
	60. Due from banks
	70. Loans to customers
50. Hedging derivatives	80. Hedging derivatives
60. Fair value change of financial assets in macro fair value hedge portfolios (+/-)	90. Fair value change of financial assets in macro fair value hedge portfolios (+/-)
70. Equity investments	100. Equity investments
80. Technical reserves of reinsurers	110. Technical reserves of reinsurers
90. Property, plant and equipment	120. Property, plant and equipment
100. Intangible assets	130. Intangible assets
of which:	of which:
- goodwill	- goodwill
110. Tax assets	140. Tax assets
a) current	a) current
b) deferred	b) deferred
120. Non-current assets and asset disposal groups held for sale	150. Non-current assets and asset disposal groups held for sale
130. Other assets	160. Other assets
Total assets	**Total assets**

Liability and shareholders' equity items	
Liability statement as at 31.12.2018 (IFRS 9)	**Liability statement as at 31/12/2017 (IAS 39)**
10. Financial liabilities designated at amortised cost	
a) due to banks	10. Due to banks
b) due to customers	20. Due to customers
c) debt securities issued	
	30. Debt securities issued
20. Financial liabilities held for trading	40. Financial liabilities held for trading
30. Financial liabilities designated at fair value	
	50. Financial liabilities designated at fair value
40. Hedging derivatives	60. Hedging derivatives
50. Fair value change of financial liabilities in macro fair value hedge portfolios (+/-)	70. Fair value change of financial liabilities in macro fair value hedge portfolios (+/-)
60. Tax liabilities	80. Tax liabilities
a) current	a) current
b) deferred	b) deferred
70. Liabilities associated with asset disposal groups held for sale	90. Liabilities associated with asset disposal groups held for sale
80. Other liabilities	
	100. Other liabilities
90. Employee termination indemnities	110. Employee termination indemnities
100. Provisions for risks and charges:	
a) commitments and guarantees given	
	120. Provisions for risks and charges:
b) retirement benefits and similar commitments	a) retirement benefits and similar commitments
c) other provisions for risks and charges	b) other provisions
110. Technical reserves	130. Technical reserves
120. Valuation reserves	140. Valuation reserves
130. Redeemable shares	150. Redeemable shares
140. Equity instruments	160. Equity instruments
150. Reserves	170. Reserves
160. Share premium reserve	180. Share premium reserve
170. Share capital	190. Share capital
180. Treasury shares (-)	200. Treasury shares (-)
190. Non-controlling interests (+/-)	210. Non-controlling interests (+/-)
200. Income (Loss) for the period (+/-)	220. Income (Loss) for the period (+/-)
Total liabilities and shareholders' equity	**Total liabilities and shareholders' equity**

Consolidated income statement

Reconciliation between items before and after IFRS 9

Income statement items	
Income statement as at 31/12/2018 (IFRS 9)	**Income statement as at 31/12/2017 (IAS 39)**
10. Interest and similar income	
	10. Interest and similar income
20. Interest and similar expense	20. Interest and similar expense
30. Interest margin	
	30. Interest margin
40. Fee and commission income	40. Fee and commission income
50. Fee and commission expense	50. Fee and commission expense
60. Net fee and commission income	**60. Net fee and commission income**
70. Dividends and similar income	70. Dividends and similar income
80. Profits (losses) on trading	
	80. Profits (losses) on trading
90. Fair value adjustments in hedge accounting	90. Fair value adjustments in hedge accounting
100. Profits (losses) on disposal or repurchase of:	100. Profits (losses) on disposal or repurchase of:
a) financial assets measured at amortised cost	
b) financial assets designated at fair value through other comprehensive income	
c) financial liabilities	d) financial liabilities
	a) loans
	b) financial assets available for sale
	c) investments held to maturity
110. Profits (losses) on financial assets and liabilities designated at fair value through profit and loss	
a) financial assets and liabilities designated at fair value through profit and loss	
b) other financial assets mandatorily at fair value	
	110. Profits (losses) on financial assets and liabilities designated at fair value through profit and loss
120. Net interest and other banking income	
	120. Net interest and other banking income
130. Net losses/recoveries on credit risk relating to:	
a) financial assets measured at amortised cost	
b) financial assets designated at fair value through other comprehensive income	
	130. Net losses/recoveries on impairment of:
	a) loans
	b) financial assets available for sale
	c) investments held to maturity
	d) other financial transactions
140. Profit/loss from contractual changes without derecognition	
150. Net income from banking activities	
	140. Net income from banking activities
160. Net premiums	150. Net premiums
170. Balance of other income/expense from insurance activities	160. Balance of other income/expense from insurance activities
180. Net income from banking and insurance activities	
	170. Net income from banking and insurance activities
190. Administrative expenses:	180. Administrative expenses:
a) personnel expenses	a) personnel expenses
b) other administrative expenses	b) other administrative expenses
200. Net provisions for risks and charges	
a) commitments and guarantees given	

Income statement items	
Income statement as at 31/12/2018 (IFRS 9)	**Income statement as at 31/12/2017 (IAS 39)**
b) other net provisions	190. Net provisions for risks and charges
210. Net adjustments to/recoveries on property and equipment	200. Net adjustments to/recoveries on property and equipment
220. Net adjustments to/recoveries on intangible assets	210. Net adjustments to/recoveries on intangible assets
230. Other operating expenses/income	220. Other operating expenses/income
240. Operating expenses	
	230. Operating expenses
250. Profits (losses) on investments in associates and companies subject to joint control	240. Profits (losses) on investments in associates and companies subject to joint control
260. Profits (losses) from the fair value designation of property, plant and equipment and intangible assets	250. Profits (losses) from the fair value designation of property, plant and equipment and intangible assets
270. Value adjustments on goodwill	260. Value adjustments on goodwill
280. Profits (losses) on disposal of investments	270. Profits (losses) on disposal of investments
290. Before tax profits/(losses) from current operations	
	280. Before tax profits/(losses) from current operations
300. Taxes on income from continuing operations	290. Taxes on income from continuing operations
310. After tax profits/(losses) from current operations	
	300. After tax profits/(losses) from current operations
320. Profit (loss) from discontinued operations, net of taxes	310. After tax profit/(loss) on asset disposal groups held for sale
330. Profit (loss) for the period	
	320. Profit (loss) for the period
340. Income (loss) attributable to minority interests	330. Income (loss) attributable to minority interests
350. Parent Company's net income (loss)	
	340. Parent Company's net income (loss)

DISCLOSURE ON THE FIRST ADOPTION OF THE IFRS 15 ACCOUNTING STANDARD - REVENUE FROM CONTRACTS WITH CUSTOMERS

The standard, published by the IASB on 28 May 2014, introduces a single model for the recognition of all revenues originating from contracts with customers and replaces the previous standards/interpretations on revenues (IAS 18, IAS 11, IFRIC 13, IFRIC 15, IFRIC 18, SIC 31).
On the basis of this model, 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.

Services that involved the recognition of commission income in the income statement were analysed with the aim of verifying the correct method of recognising revenues. Specifically, the analysis focused on the potentially variable revenue components and on those that may be derecognised, particularly those relating to the provision of asset management services and placement activities.
The analyses revealed that the methods for recognising revenues introduced by the new accounting standard were substantially in line with the previous accounting treatment.
Taking into account that the IFRS 15 accounting standard makes explicit the need to record a liability for the amounts collected but which may be reversed (refund liabilities), an estimate was made of the above liability, which in the Group is attributable to the specific case of the placement of certain single-premium insurance products for which, in the presence of the early extinction of the products, the placement bank is required to return part of the placement fees collected in proportion to the residual duration.
The quantification of this liability, which was carried out with reference to historical observation of early repayment, amounted to 20.4 million euro. Considering the related tax effect, amounting to 5.6 million euro, the reduction in shareholders' equity amounts to 14.8 million euro.
For more immediate evidence of the above impacts on the Group's financial position, reference should be made to the reconciliation table between the balance sheet as at 31 December 2017 and that restated as at 1 January 2018, as reported in the introduction to this appendix.

With reference to information on revenues from contracts with customers, mainly attributable to commission income and the related breakdown by IFRS 8 operating segments, reference should be made to “Part C – Information on the income statement, Section 2 – Commissions” and “Part L – Segment reporting” of these notes to the consolidated financial statements.

Attachments

Reclassified consolidated balance sheet - reconciliation between the balances at 31 December 2017 and at 1 January 2018

In order to give a better understanding of the transition to the new IFRS 9 and IFRS 15 accounting standards, the following table provides the reconciliation between the balances at 31 December 2017 and at 1 January 2018 for each item on the reclassified balance sheet, with separate evidence of the changes attributable to the IFRS 9 and IFRS 15 accounting standards.
Regarding the IFRS 9 standard, the changes attributable to the new classification criteria and the impacts relating to the new measurement criteria (with separate indication of those relating to the new impairment model of expected losses ECL – Expected Credit Losses) are shown. To this end, the balances at 31 December 2017 (IAS 39) have been conventionally reclassified into the new accounting categories (column "31/12/2017 (IAS 39)"); the "IFRS 9 Reclassifications" column illustrates the IAS 39 balances reallocated according to the new classification rules provided for by IFRS 9 and the "IFRS 9 Measurement Impacts" and "IFRS 9 ECL Impacts" columns provide the impacts relating to the new measurement criteria (excluding the impacts of expected losses) and impairment respectively. With reference to IFRS 15, the "IFRS 15 Impacts" column shows the liability recorded in FTA with the related tax impact and the change in shareholders' equity.
For a better understanding of the impacts concerning the transition to the new IFRS 9 and IFRS 15 accounting standards, as well as the criteria for preparing the balance sheet in a reclassified form, please refer to:

- the section "Disclosure on the first adoption of the accounting standards IFRS 9 – Financial instruments and IFRS 15 – Revenue from contracts with customers", found in the appendix to the consolidated notes;
- the disclosure contained within the "Results" section of Report on Operations.

(thousands of euro)	31/12/2017 (IAS 39)		Reclassification IFRS 9 (a)	31/12/2017 (IAS 39) reclassified	Measurement Impacts IFRS 9 (b)	ECL Impacts IFRS 9 (c)	ECL Impacts IFRS 15	01/01/2018
Cash and cash equivalents	976,686		-	976,686	-	-		976,686
Loans measured at Amortised Cost	112,681,902		(314,696)	112,367,206	-	(1,322,458)		111,044,748
- Loans to banks	4,939,223	(1)	-	4,939,223	-	(2,716)		4,936,507
- Loans to customers	107,742,679	(2)	(314,696)	107,427,983	-	(1,319,742)		106,108,241
Financial assets and hedging derivatives	34,533,172		314,696	34,847,868	50,405	(13,475)		34,884,798
- Designated at FV through Profit or Loss	5,184,586		1,251,406	6,435,992	(18,908)	-		6,417,084
- Designated at FV through OCI	17,128,622	(3)	(430,150)	16,698,472	51,600	-		16,750,072
- Designated at AC	12,219,964	(4)	(506,560)	11,713,404	17,713	(13,475)		11,717,642
Investments in associates and companies subject to joint control (*)	1,349,191		-	1,349,191	(92,348)	-		1,256,843
Property, plant and equipment	2,735,182		-	2,735,182	-	-		2,735,182
Intangible assets	1,297,160		-	1,297,160	-	-		1,297,160
Tax assets	4,520,189		-	4,520,189	923	370,675	5,610	4,897,397
Non-current assets and asset disposal groups held for sale	106,121		-	106,121	-	-		106,121
Other assets	3,007,162		-	3,007,162	-	-		3,007,162
Total assets	**161,206,765**		**-**	**161,206,765**	**(41,020)**	**(965,258)**	**5,610**	**160,206,097**
Due to banks	27,199,304		-	27,199,304	-	-		27,199,304
Direct funding	107,509,849		-	107,509,849	15,254	-		107,525,103
- Due to customers	87,848,146		-	87,848,146	-	-		87,848,146
- Securities and financial liabilities designated at FV	19,661,703		-	19,661,703	15,254	-		19,676,957
Other financial liabilities designated at FV	8,707,966		-	8,707,966	(3,618)	-		8,704,348
Liability provisions	1,580,461	(5)	-	1,580,461	-	16,451	20,400	1,617,312
Tax liabilities	669,494		-	669,494	21,037	1,192		691,723
Liabilities associated with asset disposal groups held for sale	35		-	35	-	-		35
Other liabilities	3,576,116	(6)	-	3,576,116	-	-		3,576,116
Total liabilities	**149,243,225**		**-**	**149,243,225**	**32,673**	**17,643**	**20,400**	**149,313,941**
Minority interests	63,310		-	63,310	-	(5,743)		57,567
Group shareholders' equity	11,900,230		-	11,900,230	(73,693)	(977,158)	(14,790)	10,834,589
Consolidated shareholders' equity	**11,963,540**		**-**	**11,963,540**	**(73,693)**	**(982,901)**	**(14,790)**	**10,892,156**
Total liabilities and shareholders' equity	**161,206,765**		**-**	**161,206,765**	**(41,020)**	**(965,258)**	**5,610**	**160,206,097**

a) Reclassification of IAS 39 balances on the basis of new items for financial assets and liabilities

b) FTA impacts of IFRS 9 arising from the new measurement criteria for items related to financial assets and financial liabilities (excluding ECL)

c) FTA impacts of IFRS 9 arising from the new Expected Credit Losses (ECL) model

(*) Impact on investments in associates and companies subject to joint control following the restatement of shareholders' equity based on IFRS 9 by investees.

(1) Corresponds to the previous balance sheet item "due from banks" (5,164,715 thousand), net of assets represented by debt securities (225,492 thousand).

(2) Corresponds to the previous balance sheet item "loans to customers" (108,176,382 thousand), net of assets represented by debt securities (433,703 thousand).

(3) In the item "assets designated at FV through OCI" the portfolio pursuant to IAS 39 of "Financial assets available for sale" has been entirely reclassified.

(4) The item "Financial assets designated at amortised cost" includes the balance of the portfolio pursuant to IAS 39 of "Financial assets held to maturity" (11,560,769 thousand) and loans to customers and banks represented by debt securities, as illustrated in points 1) and 2) above (for a total of 659,195 thousand).

(5) The item "Liability provisions" includes the balances of the items pursuant to IAS 39 "Provisions for employee severance indemnity" and "Provisions for risks and charges", increased by the "Risk coverage for guarantees given and commitments", which was included in the item "Other liabilities" in the IAS 39 financial statements.

(6) The item "Other liabilities" is net of "Risk coverage for guarantees given and commitments" (119,472 thousand) reclassified under the item "Liability provisions".

Reconciliation between the items in the consolidated income statement and the reclassified consolidated income statement schedule for 2018

2018	Income statement	Reclassifications		Reclassified income statement
Interest margin				**2,292,562**
10. Interest and similar income	2,861,587			
20. Interest and similar expense	(569,025)			
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		159,457	(a)	**159,457**
Financial margin				**2,452,019**
Net fee and commission income				**1,848,760**
40. Fee and commission income	1,949,561			
50. Fee and commission expense	(100,801)			
Other net operating income				**389,771**
230. Other operating expenses/income	700,803	17,775	(b)	
		(281,344)	(c)	
		(5,351)	(d)	
		(42,112)	(e)	
Net financial result				**82,360**
70. Dividends and similar income	51,956			
80. Profits (losses) on trading	(95,610)			
90. Fair value adjustments in hedge accounting	(2,657)			
100 Profits (losses) on disposal or repurchase	(111,630)	257,453	(f)	
110. Profits (losses) on financial assets and liabilities designated at fair value through profit and loss	(17,152)			
Other operating income				**2,320,891**
Operating income				**4,772,910**
Personnel expenses				**(1,732,805)**
190 a) Personnel expenses	(1,728,610)	(9,546)	(g)	
190 b) Other administrative expenses		5,351	(d)	
Other administrative expenses				
190 b) Other administrative expenses	(1,246,132)	9,546	(g)	**(816,478)**
		281,344	(c)	
		138,764	(m)	
Net value adjustments on property and equipment and intangible assets				**(243,498)**
210. Net adjustments to/recoveries on property and equipment	(155,093)			
220. Net adjustments to/recoveries on intangible assets	(117,118)	42,112	(e)	
		4,376	(n)	
		(17,775)	(b)	
Operating expenses				**(2,792,781)**
Profit (loss) from operations				**1,980,129**
Net adjustments on loans to customers				**(1,941,116)**
130 a) Net adjustments to/recoveries on credit risk related to financial assets designated at amortised cost	(1,674,775)	(2,637)	(h)	
		(3)	(i)	
		(4,405)	(l)	
		(257,453)	(f)	
140. Profit/loss from contractual changes without derecognition	(1,843)			
Net adjustments on securities and other financial assets				**3,291**
130 b) Net adjustments to/recoveries from credit risk related to financial assets designated at fair value through other comprehensive income	(3,754)			
		2,637	(h)	
		3	(i)	
		4,405	(l)	
Net provisions for risks and charges				**(345,341)**
200. Net provisions for risks and charges	(345,341)			
Profits (Losses) on disposal of investments in associates and companies subject to joint control and other investments				**173,358**

2018	Income statement	Reclassifications		Reclassified income statement
250. Profits (losses) on investments in associates and companies subject to joint control	330,160	(159,457)	(a)	
280. Profits (losses) on disposal of investments	2,655			
Profit (loss) before tax from continuing operations				**(129,679)**
Taxes on income from continuing operations				**162,835**
300. Taxes on income from continuing operations	202,828	(38,546)	(m)	
		(1,447)	(n)	
Charges related to the banking system, net of taxes		(100,218)	(m)	**(100,218)**
Profit (loss) from discontinued operations				**936**
320. Profit (loss) from discontinued operations, net of taxes	936			
Income (loss) attributable to minority interests				**9,623**
340. Income (loss) after tax from discontinued operations	9,623			
Income (loss) without impairment on client relationship		**2,929**		**(56,503)**
Impairment of client relationships after taxes		(2,929)	(n)	**(2,929)**
Parent Company's net income (loss)	**(59,432)**	**-**		**(59,432)**

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 159.5 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 expense (item 50);
- the item **"Other net operating income"** is represented by the financial statement item "230 Other operating expense/income", (i) with the recoveries on indirect taxes, legal fees and other expenses, totalling 281.3 million euro (c), separated out, which, for reclassification purposes are shown in the item "Other administrative expenses" and (ii) with the recovery of training costs of 5.4 million euro (d), classified in "Personnel expenses", also separated out. The aggregate of "Other net operating income" does not include the amortisation charges on costs for improvements to third party assets of 17.8 million euro (b) (recognised in the reclassified item "Net value adjustments on property and equipment and intangible assets") and does include value adjustments to intangible assets with a definite useful life (client relationship) of 42.1 million euro (e) (taken from item 220 of the official schedule). The effect of the aforementioned reclassifications was -311.0 million euro;
- the income statement item "**Net financial result**" includes "Dividends and similar income" (item 70), "Profits (losses) on trading" (item 80), "Fair value adjustments in hedge accounting" (item 90), "Profits (losses) on financial assets and liabilities designated 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 loss of 257.4 million euro (f) relating to the disposal of loans not represented by debt securities, classified in the operational aggregate "Net adjustments on 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 9.5 million euro (g), recognised in the financial statements under item "190 b) Other administrative expenses" and by the recovery of training costs of 5.4 million euro (d), recorded under item "230 Other operating expense/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 281.3 million euro (c), included in the item "230 Other operating expense/income", as described above, and of several charges connected to personnel, recognised in the reclassified item "Personnel expenses" for 9.5 million euro (g). Ordinary and extraordinary charges totalling 138.8 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 on property and equipment and intangible assets"** equals the balance sheet items 210 and 220, gross of the portion of amortisation on costs for improvements to third party assets, for 17.8 million euro (b), recognised in the item "230 Other operating expense/income" and net of the adjustments to intangible assets with definite useful lives (client relationship), grouped in the reclassified aggregate "Other net operating income", for 42.1 million euro (b). The aggregate also saw removal of the amount of impairment of client relationships following the impairment test, in the amount of 4.4 million (n), indicated in a separate item in the reclassified income statement, "Impairment of client relationships after taxes". The overall effect of the aforementioned adjustments on the aggregate was a positive figure of 28.7 million euro;
- the total of **"Net adjustments on loans to customers"** and **"Net adjustments on securities and other financial assets"** starts from income statement items 130 "Net credit risk writedowns/writebacks" and 140 "Profit/loss from contractual changes without derecognition". Specifically, "Net adjustments on loans to customers" include adjustments to the value of exposures classified in the portfolio of financial assets designated at amortised cost - loans to customers - loans, as well as the negative result of the disposal of loans, amounting to 257,5 million euro (f) (included in item 100).

  The aggregate of "Net adjustments on securities and other financial assets" includes net adjustments on exposures classified in the portfolio of financial assets designated at amortised cost—loans to banks—loans (h), as well as net adjustments for impairment of exposures classified in the portfolio of financial assets designated at amortised cost consisting of debt securities (included in item 130) issued by banks (i) and by customers (l) totalling 7.0 million euro;
- the **"Net provisions for risks and charges"** corresponds to item 200 of the official 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 investments carried at equity (item 250 of the official income statement), net of the portion of profits (losses) of the investees valued at equity, overall a positive 159.5 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 system expenses, amounting to 38.5 million euro (m), and impairment of the client relationship, equal to 1.4 million (n), as previously illustrated;
- the item **"Charges related to the banking system, net of taxes"** includes the aforementioned ordinary and extraordinary charges for a total of 138.8 million euro (m) recognised in the accounts in item 190 b) of the official income statement, net of the related tax effect, amounting to 38.5 million euro (m).

Reconciliation between the items in the consolidated balance sheet and the reclassified consolidated balance sheet as at 31 December 2018

Asset items (***in thousands of euro***)		**31/12/2018**
10.	Cash and cash equivalents	922,017
	Cash and cash equivalents	**922,017**
40. a)	Financial assets designated at amortised cost: due from banks	4,377,526
	less: debt securities to banks at amortised cost	(184,407)
	Loans designated at AC: loans to banks	**4,193,119**
40. b)	Financial assets designated at amortised cost: loans to customers	119,462,481
	plus: senior securities relative to Project Exodus (GACS)	1,428,614
	less: debt securities to customers at amortised cost	(16,876,482)
	Loans designated at AC: loans to customers	**104,014,613**
20.	Financial assets designated at fair value through profit and loss	5,738,595
50.	Hedging derivatives	130,511
	Financial assets and hedging derivatives designated at FV through Profit or Loss	**5,869,106**
30.	Financial assets designated at fair value through other comprehensive income	15,351,561
	Financial assets and hedging derivatives designated at FV through OCI	**15,351,561**
	debt securities to banks and customers at amortised cost	17,060,889
	less: senior securities relative to Project Exodus (GACS)	(1,428,614)
	Financial assets and hedging derivatives designated at AC	**15,632,275**
70.	Equity investments	1,434,163
	Equity investments	**1,434,163**
90.	Property, plant and equipment	2,775,885
	Property, plant and equipment	**2,775,885**
100.	Intangible assets	1,277,941
	Intangible assets	**1,277,941**
110.	Tax assets	5,012,477
	Tax assets	**5,012,477**
120.	Non-current assets and asset disposal groups held for sale	1,592,782
	Non-current assets and asset disposal groups held for sale	**1,592,782**
60.	Fair value change of financial assets in macro fair value hedge portfolios (+/-)	42,173
130.	Other assets	2,346,679
	Other assets	**2,388,852**
	Total assets	**160,464,791**

Liability items *(thousands of euro)*		**31/12/2018**
10. a)	Financial liabilities designated at amortised cost: due to banks	31,633,541
	Due to banks	**31,633,541**
10. b)	Financial liabilities designated at amortised cost: due to customers	90,197,859
10. c)	Financial liabilities designated at amortised cost: debt securities issued	14,328,942
30.	Financial liabilities designated at fair value	692,890
	Direct funding	**105,219,691**
20.	Financial liabilities held for trading	6,502,522
40.	Hedging derivatives	726,307
	Other financial liabilities designated at fair value	**7,228,829**
90.	Employee termination indemnities	377,498
100.	Provisions for risks and charges	1,327,368
	Liability provisions	**1,704,866**
60.	Tax liabilities	505,402
	Tax liabilities	**505,402**
70.	Liabilities associated with asset disposal groups held for sale	3,043
	Liabilities associated with asset disposal groups held for sale	**3,043**
50.	Fair value change of financial liabilities in macro fair value hedge portfolios (+/-)	49,756
80.	Other liabilities	3,814,589
	Other liabilities	**3,864,345**
	Total liabilities	**150,159,717**
190.	Non-controlling interests (+/-)	45,599
	Minority interests	**45,599**
120.	Valuation reserves	(346,438)
150.	Reserves	3,577,955
170.	Share capital	7,100,000
180.	Treasury shares (-)	(12,610)
200.	Income/Loss for the period	(59,432)
	Group shareholders' equity	**10,259,475**
	Total liabilities and shareholders' equity	**160,464,791**

Reconciliation between the reclassified consolidated income statement for 2017 and the same restated for comparative purposes

Reclassified income statement items ***(thousands of euro)***	**2017**	**System expenses reclassification**	**2017 restated**
Interest margin	2,113,447		2,113,447
Profits (losses) on investments in associates and companies subject to joint control carried at equity	166,036		166,036
Financial margin	**2,279,483**	**-**	**2,279,483**
Net fee and commission income	1,950,410		1,950,410
Other net operating income	98,817		98,817
Net financial result	155,049		155,049
Other operating income	**2,204,276**	**-**	**2,204,276**
Operating income	**4,483,759**	**-**	**4,483,759**
Personnel expenses	(1,784,854)		(1,784,854)
Other administrative expenses	(979,266)	106,911	(872,355)
Net value adjustments on property, plant and equipment and intangible assets	(266,915)		(266,915)
Operating expenses	**(3,031,035)**	**106,911**	**(2,924,124)**
Profit (loss) from operations	**1,452,724**	**106,911**	**1,559,635**
Net adjustments on loans to customers	(1,660,963)		(1,660,963)
Net adjustments on receivables due from banks	(140,217)		(140,217)
Net provisions for risks and charges	(13,757)		(13,757)
Profits (Losses) on disposal of investments in associates and companies subject to joint control and other investments	25,698		25,698
Profit (loss) before tax from continuing operations	**(336,515)**	**106,911**	**(229,604)**
Taxes on income from continuing operations	122,436	(29,647)	92,789
Charges related to the banking system, net of taxes	-	(77,264)	(77,264)
After tax profit/(loss) on asset disposal groups held for sale	762,262		762,262
Income (loss) attributable to minority interests	9,658		9,658
Net income (loss) for the period excluding badwill and impairment on goodwill and client relationship	**557,841**	**-**	**557,841**
Impairment of goodwill and client relationships net of taxes	(1,017,616)		(1,017,616)
Merger difference (Badwill)	3,076,137		3,076,137
Parent Company's net income (loss)	**2,616,362**	**-**	**2,616,362**

Country by Country Reporting

The regulations for country by country reporting, introduced with article 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 requirement to publish the information with reference to letters a), b),c), d), e) and f) of article 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 the Banco BPM Group are indicated in the following table, which refers to that indicated in article 317 of Regulation 575/2013 of the European Parliament and Council (CRR), integrated with additional specific activities.
These activities are grouped, based on criteria of prevalence, with the "activity sectors" which, in brief, refer to the Group's internal management structure and are referred to in the Report on Operations (section "Results by operating sector", as well as in "Part L - Segment Reporting" in the Notes to the Consolidated Financial Report at 31 December 2018).

Taken from CRR: paragraph 4, article 317, Table 2		**Banco BPM Group business sectors**							
Business line	**List of activities**	**Retail**	**Corporate**	**Institutional**	**Private**	**Investment Banking**	**Strategic partnerships**	**Leasing**	**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 consulting		✔			✔			
	Investment research and financial analysis and other forms of general consulting involving operations in financial instruments		✔			✔			
Trading and sales	Own account trading								✔
	Receipt and transmission of orders for 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 SME meeting the criteria set under article 123 for retail exposures class)	Receipt and transmission of orders for 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	✔	✔	✔					
	Loan operations	✔	✔	✔					
	Financial leases						✔	✔	
	Issuing of guarantees and unsecured guarantees	✔	✔	✔					
Retail banking (with real persons or SME meeting the criteria set under article 123 for retail exposures class)	Collection of deposits or other repayable funds	✔			✔				
	Loan operations	✔					✔		
	Financial leases	✔					✔	✔	
	Issuing of guarantees and unsecured guarantees	✔							
Payment and settlement	Payment services	✔	✔						
	Issuing and management of means of payment	✔	✔						

Taken from CRR: paragraph 4, article 317, Table 2		Banco BPM Group business sectors							
Business line	**List of activities**	**Retail**	**Corporate**	**Institutional**	**Private**	**Investment Banking**	**Strategic partnerships**	**Leasing**	**Corporate Centre**
Agency services	Custody and administration of financial instruments for customers, including custody and associated services such as management of cash/collateral					✔			✔
Asset management	Portfolio management						✔		
	UCITS management								✔
	Other forms of equity management						✔		
Other services and support activity	Treasury management and own account funding								✔
	Investment portfolio management								✔
	IT asset management								✔
	Real estate asset management and maintenance								✔

With reference to the main content, the activity sector:

- "**Retail**" includes management and commercialisation 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 and commercialisation 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 and commercialisation of banking and financial products/services and credit brokering aimed at entities and institutions (UCITS, 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 and commercialisation 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 nucleus, 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. After the transfer of the investment banking business unit from Banca Aletti to Banca Akros on 1 October 2018, the latter performs these activities;
- "**Strategic partnerships**" includes investments in certain companies (Vera Assicurazioni, Vera Vita, Bipiemme Vita, Agos Ducato, Alba Leasing, SelmaBipiemme Leasing, Factorit and Anima Holding)
- "**Leasing**" includes management and administration of financial leasing contracts established by the parent company Banco BPM and the subsidiary Release;
- "**Corporate Center**" 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, Società Gestione Servizi BP and the Group's real estate companies.

To a marginal degree with respect to the Group's overall volumes, certain retail activities falling under these classifications are also carried out by the foreign subsidiary Banca Aletti & C. (Suisse) S.A. (specialised financial services for "private" clientèle). With reference to 31 December 2018, 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 3,966.2 million at 31 December 2018 (3,813.4 million at 31 December 2017). Please see the schedule in the Consolidated Income Statement for 2018.

(C) Number of FTE employees

In terms of full-time equivalent employees, the figure at 31 December 2018 totalled 21,228, including CoCoPro (temporary contract) and internship contracts (22,289 at 31 December 2017).

(D) Profit or loss before tax

The Group's loss before tax corresponds with the sum of items 290 and 320 in the consolidated income statement, equal to -271.9 million (profit of 2,461 million at 31 December 2017). Please see the schedule in the Consolidated Income Statement for 2018.

(E) Taxes

The Group's income tax in 2018 was equal to the amount stated under item 290 of the consolidated income statement schedule, positive for 202.8 million (+145.7 million at 31 December 2017). Please see the schedule in the Consolidated Income Statement for 2018.

(F) Public contributions received

During 2018 the Banco BPM Group received public contributions to provide personnel training courses totalling 4.9 million (no contribution the previous year).

To that end, note that in the listing of these contributions, 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.

Address
Banco BPM S.p.A.
Piazza F. Meda, 4 - 20121 Milano - Italia
Piazza Nogara, 2 - 37121 Verona - Italia

Investor Relations
tel. +39-02.77002057 | +39-045.8675537
investor.relations@bancobpm.it
www.bancobpm.it

Layout