BANCO BPM
GROUP

Consolidated interim financial report

as at 30 June 2020

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

Banco BPM S.p.A.

Registered office: Piazza F. Meda, 4 - 20121 Milan, Italy
Administrative headquarters: Piazza Nogara, 2 - 37121 Verona, Italy
Fully paid up share capital as at 30 June 2020: € 7,100,000,000.00
Tax Code and Milan Companies' Register Enrolment No.: 09722490969
A company representing Banco BPM VAT Group, VAT No. 10537050964
Member of the Interbank Deposit Guarantee Fund and the National Guarantee Fund
Parent Company of Banco BPM Banking Group
Enrolled in the Bank of Italy Register of Banks and the Register of Banking Groups

OFFICERS, DIRECTORS AND INDEPENDENT AUDITORS AS AT 30 JUNE 2020

Board of Directors

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Deputy Chairman	Mauro Paoloni
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	Nadine Farida Faruque
	Carlo Frascarolo
	Alberto Manenti
	Marina Mantelli
	Giulio Pedrollo
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	Manuela Soffientini
	Luigia Tauro
	Costanza Torricelli
	Giovanna Zanotti

Board of Statutory Auditors

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Standing Auditors	Maurizio Lauri
	Maria Luisa Mosconi
	Alfonso Sonato
	Nadia Valenti
Alternate Auditors	Fulvia Astolfi
	Gabriele Camillo Erba
	Wilmo Carlo Ferrari

General Management

Joint General Manager	Domenico De Angelis
Joint General Manager	Salvatore Poloni

Manager Responsible for Preparing the Company's Financial Reports

Gianpietro Val

Independent Auditors

PricewaterhouseCoopers S.p.A.

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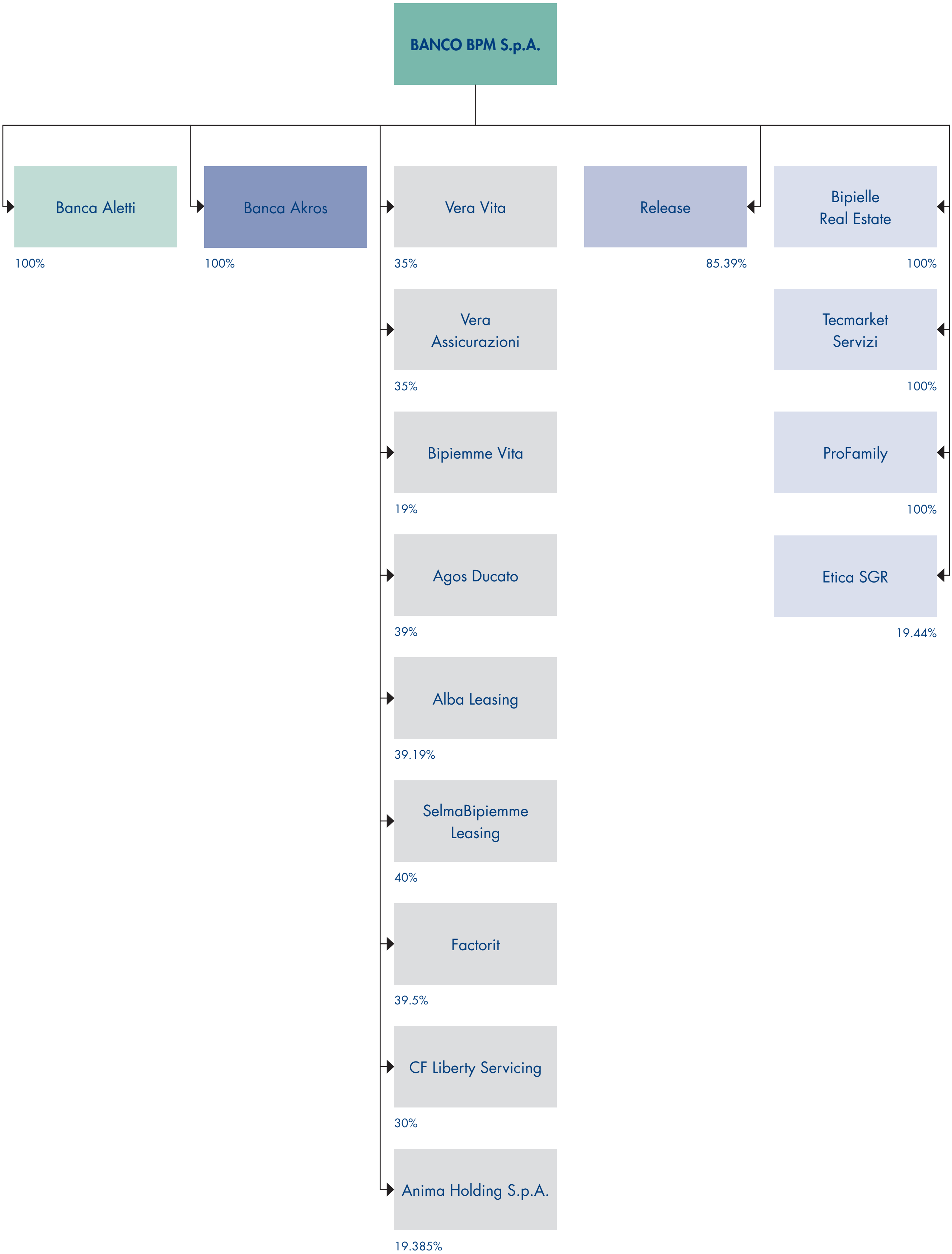
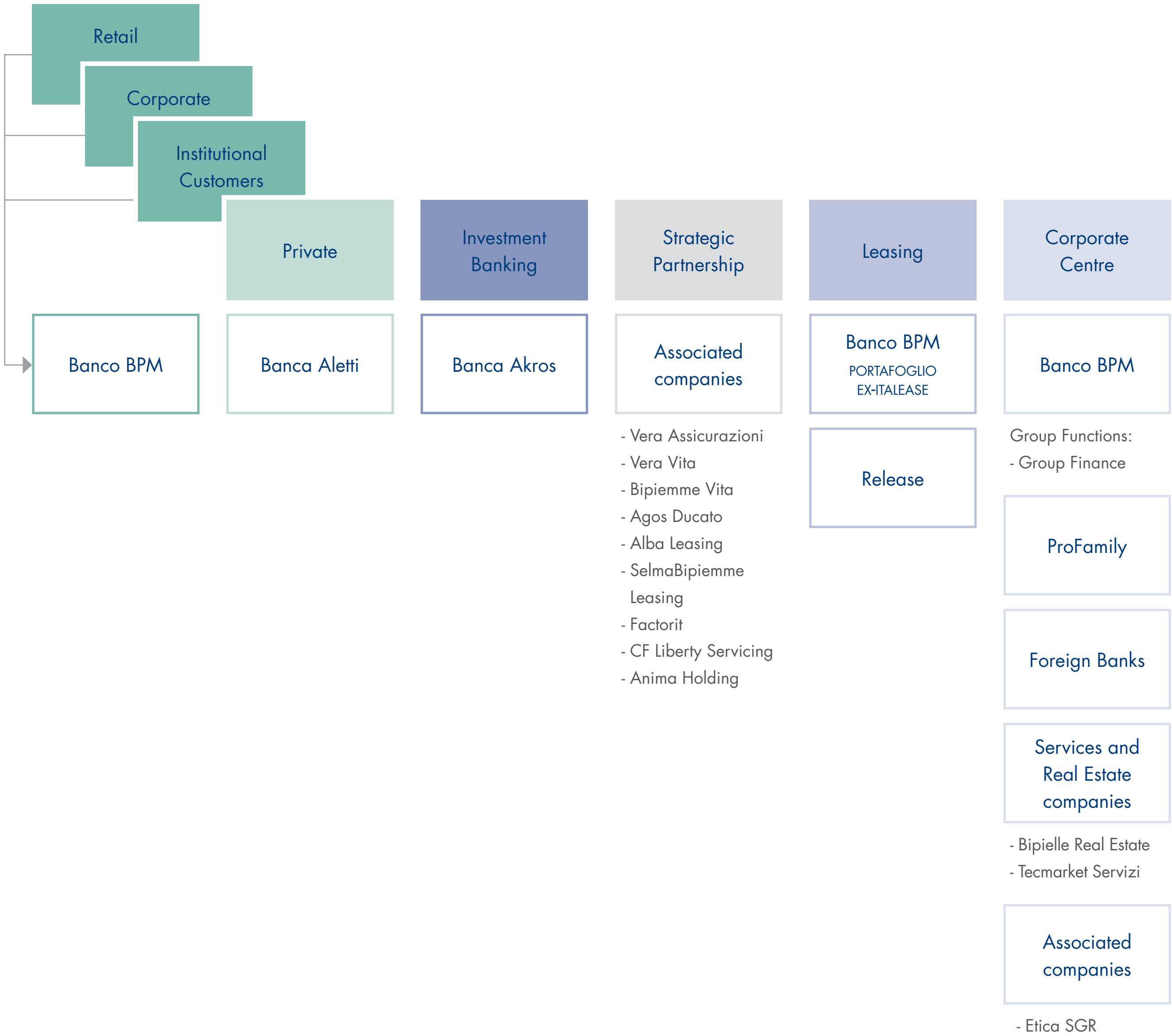


GROUP STRUCTURE: BUSINESS LINES



GROUP TERRITORIAL NETWORK

N° BRANCHES

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

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

Presence abroad

The Group's foreign operations include a subsidiary company, Banca Aletti Suisse, and Representative Offices in China (Hong Kong) and India (Mumbai).

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)	1st half 2020	1st half 2019 (*)	Change
Income statement figures			
Financial margin	1,023.9	1,080.7	(5.3%)
Net fee and commission income	816.9	888.2	(8.0%)
Operating income	1,996.5	2,094.0	(4.7%)
Operating expenses	(1,248.7)	(1,305.1)	(4.3%)
Profit (loss) from operations	747.8	788.9	(5.2%)
Profit (loss) before tax from continuing operations	250.4	743.7	(66.3%)
Parent Company's profit (loss) for the period	105.2	603.0	(82.5%)

(*) The figures for the previous period have been restated taking into account the new measurement criteria for buildings.

(millions of euro)	30/06/2020	31/12/2019	Change
Balance sheet figures			
Total assets	179,415.4	167,038.2	7.4%
Loans to customers (net)	108,388.6	105,845.5	2.4%
Financial assets and hedging derivatives	43,885.5	37,069.1	18.4%
Group shareholders' equity	12,210.8	11,861.0	2.9%
Customers' financial assets			
Direct funding	115,233.7	109,506.3	5.2%
Indirect funding	91,159.4	92,672.2	(1.6%)
- Asset management	57,847.8	58,324.9	(0.8%)
- Mutual funds and SICAVs	38,786.6	39,049.8	(0.7%)
- Securities and fund management	4,007.1	3,904.4	2.6%
- Insurance policies	15,054.1	15,370.7	(2.1%)
- Administered assets	33,311.6	34,347.4	(3.0%)
Information on the organisation			
Average number of employees and other staff (*)	20,851	21,013	
Number of bank branches	1,808	1,808	

(*) 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

	30/06/2020	31/12/2019
Alternative performance measures		
Profitability ratios (%)		
Annualised Return on equity (ROE) (*)	1.74%	7.20%
Annualised Return on assets (ROA) (*)	0.12%	0.48%
Financial margin / Operating income	51.28%	49.60%
Net fee and commission income (*) / Operating income	40.92%	41.80%
Operating expenses / Operating income	62.55%	60.66%
Operational productivity figures (thousands of euro)		
Loans to customers (net) per employee (**)	5,198.1	5,037.0
Annualised operating income per employee (**)	191.5	204.3
Annualised operating expenses per employee (**)	119.8	123.9
Credit risk ratios (%)		
Net bad loans / Loans to customers (net)	1.43%	1.47%
Unlikely to pay / Loans to customers (net)	3.45%	3.70%
Net bad loans / Shareholders' equity	12.69%	13.15%
Other ratios		
Financial assets and hedging derivatives / Total assets	24.46%	22.19%
Derivative assets / Total assets	1.13%	1.24%
- trading derivatives / total assets	1.07%	1.17%
- hedging derivatives / total assets	0.06%	0.06%
Net trading derivatives (***) / Total assets	0.29%	0.41%
Net loans / Direct funding	94.06%	96.66%
Regulatory capitalisation and liquidity ratios		
Common Equity Tier 1 ratio (CET1 capital ratio) (****)	14.73%	14.76%
Tier 1 capital ratio (****)	15.96%	15.42%
Total capital ratio (****)	17.94%	17.73%
Liquidity Coverage Ratio (LCR)	193%	165%
Leverage ratio	5.19%	5.41%
Banco BPM stock		
Number of outstanding shares	1,515,182,126	1,515,182,126
Official closing prices of the stock		
- Final	1.328	2.028
- Maximum	2.456	2.155
- Minimum	1.043	1.620
- Average	1.517	1.897
Annualised basic EPS (*)	0.139	0.527
Annualised diluted EPS (*)	0.139	0.527

(*) The annualised result does not represent a forecast of profits for the year.
(**) 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 at fair value through profit and loss - held for trading", and item 20 of liabilities, "Financial liabilities held for trading".
(****) The figures for the previous year have been restated to take account of the non-distribution of the dividend, as required by the ECB Recommendation of 27 March 2020. The figures as at 30 June 2020 are calculated including the profit for the first half of 2020.

The alternative performance measures (APMs) shown in the table above have been identified by the directors to facilitate the understanding of the economic and financial performance of Banco BPM Group's operations. The APMs are not envisaged in IAS/IFRS and, although they are calculated based on financial statements data, they are not subject to a full or limited audit.
The aforementioned indicators are based on the guidelines of the European Securities and Markets Authority (ESMA) of 5 October 2015 (ESMA/2015/1415), incorporated in CONSOB communication no. 0092543 of 3 December 2015.
In line with the guidance contained in the update of the document "ESMA32_51_370 – Question and answer – ESMA Guidelines on Alternative Performance Measures (APMS)", published on 17 April 2020, no changes have been made to the APMs to take into account the effects of the Covid-19 crisis.
In this regard, it should also be noted that for each APM, evidence of the calculation formula has been provided and the figures used can be inferred from the information contained in the table above and/or in the reclassified financial statements provided in the "Results" section of this Report.

Interim report on operations

ECONOMIC SCENARIO

The Covid-19 pandemic

The first half of 2020 was characterised by the global spread of the Covid-19 pandemic and the structural change in pace that this momentous event imposed on the world economy, marking a historic watershed.
The health crisis has progressively manifested itself across the world. The initial outbreak of the epidemic took place in China, but the pandemic spread to Italy and then to the USA and Russia several weeks later. The impact was also asymmetric in relation to the measures taken to stem the virus (lockdown in China, passive attitude in Sweden, intermediate intensity measures in the case of Hong Kong) and the extension of the essential sectors that continued to operate, some at full capacity, after the lockdown declaration in the various countries involved.
Strict containment measures and public hygiene measures have been effective in containing the spread of the disease and limiting deaths. In general, among the different types of containment measures, closures of workplaces and forced home quarantine were the most effective in flattening the virus and Covid-19-related deaths curve, but also the most costly in terms of impact on the economy as lockdowns have caused significant short-term economic losses and a decline in global economic activity not seen since the Great Depression.
The impact was strongly asymmetrical on the various economic sectors, characterised by different levels of debt and phases of the economic cycle depending on the exposure of the individual business sectors to lockdowns and social distancing. The sectors most affected, regardless of the country concerned, were tourism, household services (excluding those provided through virtual channels), commercial real estate, raw materials sectors. Manufacturing sectors, in general, were affected to a lesser extent. A small few sectors benefited from the pandemic: e.g. Food and Beverage, Telecommunications, Healthcare.
Italy, among the first countries to be affected by the Covid-19 pandemic, recorded the first two confirmed cases on 30 January 2020, when two tourists from China tested positive for the SARS-CoV-2 virus in Rome. An outbreak of the Covid-19 virus was subsequently recorded on 20 February 2020 with 16 confirmed cases in Lombardy, in Codogno, in the province of Lodi, increasing to 60 the following day with the first deaths reported at the same time. The delay with which the virus manifests its initial symptoms compared to the time of infection has allowed it to spread rapidly to other areas of Northern Italy - mainly in the Po Valley area. It spread again in Lombardy, in a more widespread and intense manner, hitting the provinces of Brescia and, above all, Bergamo with great incisiveness, as well as Veneto, to a slightly lesser extent. Subsequently it extended to other areas of the country, reaching the Centre and, to a marginal extent, the South and the Islands.
As regards infection containment measures, Italy was the first European country to suspend all direct flights to and from China, one of the most drastic measures in the EU. Once the first internal outbreak was discovered, one of the first measures taken was to put in place the quarantine of the municipalities concerned. On 23 February and in the following days, the Government, through a series of implementing decrees (Italian Prime Ministerial Decree), extended the restriction measures, making them progressively more stringent, to the entire national territory. Thanks to the effectiveness of the measures, there has been a structural decline in the number of infections, as well as in the number of deaths.
Phase 2 subsequently began in May: from 18 May until 14 June 2020, many retail businesses gradually reopened and a number of restrictions, such as social isolation and restricted regional movements, were lifted.

The international scenario

The pandemic hit at a time when several advanced economies had already shown signs of difficulty and, in some cases, slowdown (Japan, USA, the Eurozone), partly as a result of the trade war between China and the USA.
The economic crisis triggered is unprecedented: estimates suggest that the global recession will be the deepest since World War II, with the largest number of economies suffering a decline in per capita output since 1870. Production in emerging and newly industrialised economies is expected to contract as a whole for the first time in at least 60 years. The effects of social distancing, although characterised by a varied and differentiated intensity per economic-productive sector, have certainly affected, in aggregate, both the demand and the supply side.
On the international economic scene there has been a sharp and rapid deterioration in the outlook for economic activity and trade flows for the current year, accompanied by a sharp increase in the risks of further deterioration. Growth estimates for the global economy, according to Prometeia, foresee a drop of -5.2% (+3.0% in 2019), while international trade is expected to contract sharply: a further drop of -14.4% after the -0.5% drop recorded in 2019,

reflecting a significantly weaker demand for goods and services, especially those related to tourism (transport, hospitality, as well as retail). The economic crisis triggered by the outbreak of Covid-19 is damaging economies, regardless of income levels.
In many countries, numerous fiscal countermeasures to ensure liquidity and continuity for the most affected businesses have prevented greater job losses and business failures. The rapid action of central banks has improved liquidity supply and limited the increase in financing costs.

Specifically, in the first quarter, the U.S. economy experienced a 5.0% annualised quarterly GDP contraction, the most severe since the 8.4% drop recorded in the last quarter of 2008, during the most acute phase of the Global Financial Crisis. The fall reflected the negative trend in personal consumption expenditure (PCE), -6.8%, exports, -9.0%, private fixed investments in machinery and plant, -16.6%, and non-residential fixed investments, -6.4%. Imports have also decreased: -15.7%. Among the growth components are residential fixed investments, +18.2%, federal government expenditure, +2.0%, and public expenditure by state and local authorities, +0.5%. For the second quarter, GDP was fully affected by the lockdown, especially in April, and the contraction was more pronounced: -32.9% annualised quarterly (or -9.5% compared to the corresponding quarter of 2019), according to the first estimate of the US Bureau of Economic Analysis. The significant decrease in personal consumption expenditure (-34.6% annualised quarterly but -10.7% yoy) and in private gross fixed investments (-49.0% annualised quarterly, -17.9% yoy) had a decisive impact on the result. Support came, of course, from the federal government's public expenditure (+17.4% annualised quarterly). Signs of a difficult situation had already arisen in retail sales in April, -14.7% qoq (after -8.2% in March) and from the strong deterioration of the labour market: more than 20.5 million jobs lost in the non-agricultural sectors in April after a fall of more than 700 thousand in March. The household savings rate rose to 25.7% in relation to disposable income (9.5% in the first quarter).
However, it is worth noting that, starting from May, the outlook has improved considerably: retail sales grew rapidly again, +18.2%, continuing the recovery in June, +7.5%. With the resumption of productive activity, 2.7 million new jobs were created in May and 4.8 million in June. The annual inflation rate after a fall to 0.1% in May showed a recovery to 0.6% in June.
The reversal of the trend was supported not only by the fairly expansionary monetary policy, but also by the substantial public support measures: more than USD 3,200 billion spread over four programmes including the Paycheck Protection Program (PPP) aimed at small businesses and the Stimulus Checks aimed at households, included in the CARES Act. Overall in 2020, according to Prometeia, a drop in GDP of around -5.7% (+2.3% in 2019) is forecast, thanks to a further significant recovery in growth expected in the second half of the year. Inflation is expected to be 0.9% (1.8% in 2019).
The Japanese economy was already showing signs of contraction before the deep crisis triggered by Covid-19 (-6.3% annualised quarterly GDP in Q4 2019). The eruption of the epidemic, with devastating effects on businesses and consumers, pushed Japan into recession for the first time in four and a half years, leading to the deepest collapse since the war. In more detail, GDP fell less than expected in the first quarter, -2.2% annualised, while the second quarter is expected to show a much more marked decline. A series of figures points in this direction. These include industrial production, -9.8% monthly change in April and -8.4% in May, exports, -18.1% and -19.6% respectively, and, in part, employment figures, -1.8% monthly change employed in April with +0.1% in May. The Government's fiscal policy has intervened promptly: initially with a first fiscal package of over Yen 110 trillion followed, recently, by a second package, for Yen 117 trillion, of which Yen 31.9 trillion in public spending and Yen 39 trillion in loans and investments guaranteed by the Government through credit institutions.
Expectations for the second half of the year are positive. The epidemic is gradually fading, with a wider reopening of businesses and the full deployment of the effects, including in Japan, of the stimulus measures adopted at international level. Some positive signs have already been seen: in May, orders for machinery grew by 1.7% (-12.0% in April) while, in June, consumer confidence improved: 28.4 against the previous 24.0. Overall, GDP is expected to fall by -5.7% in 2020 (+0.7% in 2019), according to Prometeia, while the inflation rate is estimated at +1.3% per year (+0.5% in 2019).
The Chinese economy, the first to be affected by the economic effects of the epidemic, in the first quarter of the year recorded an economic drop in GDP of -9.8% (-6.8% yoy) due to the severe lockdown and social distancing measures adopted. Gross fixed investments decreased by 16.1% yoy, consumption by -4.3%. The country was also the first to come out of the acute phase of the emergency with signs of recovery that were already evident in April, such as the increase in industrial production, +3.9% yoy, continuing in May, +4.4%. In the second quarter real GDP grew by 11.5% compared to the first quarter (+3.2% yoy). This is due to the robust recovery of the industrial sector, largely driven by public investment in infrastructure, and the strengthening of exports. Consumer spending, negatively affected by the residual social distancing measures, remained weak, as shown by retail sales: down -1.8% in June compared to May. Finally, many investors are likely to remain concerned about a number of risk

factors, including the increasingly difficult relationship between the US and China, the risk of increased US sanctions and trade restrictions, as well as increased tension between China and the EU. For the whole of 2020, Prometeia's estimates are for an increase in GDP to +0.6% (+6.1% in 2019) while the inflation rate, despite the stimulus measures, is estimated to fall to 3.4% (+4.0% in 2019).
Emerging and developing economies will contract this year due to the pandemic, creating the first net increase in global poverty in more than 20 years. The impact is most severe for countries heavily dependent on international trade, tourism, raw materials exports and external financing. In addition to the very high cost in human lives, the economic impact of the pandemic dampened demand and caused interruptions in the supply of raw materials, tourism-related services and capital flows, often in the presence of growing foreign debt, as well as a reduction in remittances from abroad. Exporters of oil or industrial raw materials are the most affected: the drastic reduction in demand and prices for oil, which are also depressed by the divisions within OPEC, and industrial metals are an essential boost for countries where raw materials can cover, on average, 75% of exports. Among these countries, India is expected to record, according to Prometeia's estimates, a drop in GDP of -7.0% in 2020, with -9.2% in Brazil and finally, -6.6% in Russia.
With regard to the prices of the main raw materials, efforts to contain the pandemic, as mentioned, have triggered an unprecedented slump in oil demand and prices, a sharp drop in demand for metals and transport-related goods such as rubber and platinum used for vehicle parts. Thanks also to these factors, international inflation is expected to remain at a low level: +2.4% in 2020 compared to 3.5% in 2019 (Source: Prometeia).

The economy in Europe and Italy

The economic performance of the Eurozone in the first half of 2020 was also affected by the eruption of the pandemic and the introduction of various countermeasures by governments to contain the virus and safeguard public health. Economic activity therefore fell sharply in the first quarter, following the first confinement initiatives launched progressively by various countries from March onwards. The extension of measures to severely restrict personal movements and the interruption imposed on entire sectors of economic activity in many areas has led to a sharp drop in demand for goods and services, accompanied by a similar decline on the supply side. The point of greatest economic slowdown was reached in April, coinciding with the most synchronised phase of the lockdown measures.
In the first quarter of 2020, GDP in the euro area fell by 3.6%, compared with the previous period, the biggest economic downturn since the start of the historical series in 1995 (an annual trend figure of -3.1%, the sharpest contraction since the third quarter of 2009). All components were down: household consumption expenditure fell by 4.7% on a quarterly basis, while gross fixed investment fell by 4.3%. In terms of contributions to GDP growth, consumption weighed down by 2.5 percentage points, gross fixed investments by 1 percentage point, net foreign demand by 0.4 percentage points, while the change in stocks provided limited support (+0.3%). The slowdown was particularly stark, as was to be expected, for the sectors most affected by the lockdown: wholesale and retail trade, transport, accommodation and catering (-6.8% added value on a quarterly basis).
In May and June there were signs of recovery, but the almost general cessation of production activity in April marked the fate of the quarter. Industrial production fell by 18.2% in April and rose by 12.4% in May. Consumer and business confidence indices recovered from the April lows in the subsequent reporting, but remain below pre-crisis levels.
According to preliminary estimates, in the second quarter, the Eurozone's GDP fell by 12.1% compared to the first quarter and 15% compared to the same period of the previous year. The differences between the main countries in the area are rather marked and depend both on the intensity of the lockdown measures adopted and on the sectoral characteristics of the respective economies: Spain recorded a 18.3% decrease in the period on a quarterly basis, the most severe, compared to 13.8% in France and 10.1% in Germany.
The decline in employment was relatively contained, thanks in part to government measures taken to protect jobs: the number of employed people fell by 0.2% and the unemployment rate rose to 7.4% in May, from 7.1% at the end of March.
The European authorities have reacted promptly to counter this exceptional situation. The ECB has launched, in several successive steps, an unprecedented plan in terms of the scale of resources committed to counter tensions in the financial markets. European governments at the individual level, albeit with differences partly due to the different circumstances of public finances in various countries, have adopted extensive measures aimed at remedying emergencies, supporting the labour market and household incomes and guaranteeing the liquidity of the production system, in particular through public guarantee schemes for bank loans to businesses. It is estimated that the combination of actions taken by individual governments amounts to around 6% of Eurozone GDP in terms of higher public expenditure and 19% of the countervalue of the guarantees issued. The increase in public expenditure will

result in an overall deficit in the region of 9% of GDP for 2020. Initiatives launched at Community level have been added to this effort. First of all, in March, the European Commission, activating the safeguard clause, suspended the Stability Pact, allowing governments to derogate from the Maastricht parameters to respond to the Covid-19 emergency. In April, the European Council launched initiatives to mobilise resources of up to 500 billion to support employment (SURE), to support credit for businesses (EIB Guarantee Fund) and to provide precautionary credit to Member States for pandemic crisis management (Pandemic Crisis Support) under the European Stability Mechanism.
Subsequently, the European Commission made a proposal to create a new instrument called Next Generation EU, a plan to help repair the economic and social damage caused by the coronavirus pandemic, relaunch recovery in Europe, protect workers and create jobs. Through this instrument, EU aims to raise financial resources, borrowing up to 750 billion on the market, to be used as loans (around 360 billion) and transfers (around 390 billion) to Member States, especially those most affected by the pandemic. On 21 July, agreement was reached among EU leaders to launch the Recovery & Resilience Fund, the main initiative of Next Generation EU.
The health emergency has also had a very significant impact on our country, one of the first to impose generalised measures of social distancing and closure of important production sectors. The Italian economy, particularly in the first quarter, was one of the worst affected in the area. The measures adopted by the Government with the Italian Prime Ministerial Decree of 22 March led to the closure of all businesses defined as "non-essential", which are estimated to account for about one third of the total value added, which lasted for over a month. Since May, there has been a gradual reopening of economic activity, which was completed at the beginning of June.
The GDP in the first quarter fell by 5.3% on a quarterly basis and by 5.4% compared with the same period of the previous year. All the main components were down. Household spending, in particular, fell by 6.6% compared to the previous quarter (-6.3% year-on-year), accompanied by a 1.7% drop in disposable income. Gross fixed investments fell by 8.1%, but the plant and machinery component fell by 12.4%, with vehicles falling by 21.5%. In terms of contributions to GDP growth, the "push" came from household consumption, - 4 percentage points while net foreign demand "only", if we can say that, contributed 0.8%. The change in stocks made a positive contribution of one percentage point.
The peak of the crisis was also reached in April in Italy and since then more comforting signs have been identified in relation to the state of the economy, following the gradual easing of restrictive measures. In March and April, industrial production collapsed by 28.4% and 20.6%, respectively, before bouncing back by 42.1% in May. The climate of confidence of households has significantly increased, but remains below pre-crisis levels. A recovery in forecasts can also be observed for businesses, albeit with pronounced differences between sectors: greater optimism in the construction sector against still rather negative forecasts in the services sector.
On the employment front, the very extensive use of social shock absorbers allowed for a limited drop in employment (-0.3% in the first quarter compared to the end of 2019); the number of hours worked, on the other hand, fell sharply (-7.5%). Inflation turned negative in May and June, reflecting falling demand and a marked fall in energy prices.
The preliminary estimate of GDP for the second quarter indicates a drop of 12.4% compared to the previous quarter and 17.3% year-on-year. The change is affected on the demand side by the negative contribution from both the domestic component (gross of stocks) and the foreign component. The change in GDP acquired for 2020 amounts to 14.2% at the end of the first half year.
In order to deal with this exceptional situation, the Italian Government has also progressively prepared an articulated set of expansive measures. The three so-called "Cura Italia" (Italy Care), "Rilancio" (Relaunch) and "Liquidità" (Liquidity) decrees commit resources - according to the government's estimates - totalling about 75 billion in 2020, to support the income of households and workers, businesses and the health system. The main measures aimed at households concern the strengthening of social shock absorbers, the financing of special leave and the extension of paid leave for workers. On the other hand, the measures relating to businesses aim to finance the issuing of public guarantees for significant values - Bank of Italy estimates up to 500 billion - and to introduce an extraordinary moratorium to guarantee liquidity, as well as to grant non-repayable grants for VAT payers that have suffered significant falls in turnover and to reduce the tax burden.
According to government estimates, these initiatives, which amount to approximately 5 GDP points, also taking into account the effects of other financial measures, combined with the effects on tax revenues of the sharp fall in GDP, push net borrowing to 10.4% of GDP in 2020, bringing the ratio of debt to GDP to 155.7%. Most of these measures are of a temporary nature with effects on public accounts limited to 2020. However, the decrees also provide for the definitive abolition of the safeguard clauses, which will increase needs by 26 billion in 2021 and approximately 35 billion in 2022.

Monetary policy and the financial markets

The stabilisation of the global economy in the last few months of 2019, after three consecutive contracting quarters, favoured a positive start for financial markets in 2020 despite a continued deceleration of economic growth. The "Phase 1" agreement between the US and China, while not leading to a solution in relation to several points of conflict and the cancellation of existing duties, should have encouraged a recovery of global trade after a very difficult year.
The central banks' attitude had remained expansive with no defined timeframes: the QE in Europe (monthly APP of 20 billion) would have ended only after an initial rise in interest rates, while reinvestment would have continued well beyond that.
The central banks' instruments, although extended in duration and now lacking any prospect of normalisation, were nevertheless perceived as insufficient for a revival of the economy in the absence of a more expansionary fiscal policy. The case of Germany was, in this sense, emblematic because of lower growth than the rest of Europe despite a large tax surplus.
Countermeasures to fight the virus were initially a cause for concern as they would drastically reduce growth. Thus, the central banks of the emerging countries most exposed to the slowdown in China's economy (Brazil, Thailand and the Philippines) have encouraged a reduction in interest rates to counter a deceleration in global demand since February.
The spread of “hotspots” in Europe has led to a shift in monetary policies. This was the case of the ECB on 12 March, with the approval of an extensive package of monetary policy measures:

- new temporary LTROs in view of LTRO III (scheduled for June 2020);
- TLTRO III, with much more favourable conditions delivered, in two stages, at -25bps and -50bps below the refinancing rate;
- extension of the APP for a further 120 billion by the end of the year to strengthen the corporate sector purchase programme (CSPP), which was joined at the end of March by the Pandemic Emergency Purchase Programme (PEPP) with 750 billion provided until the end of the year (or for the pandemic emergency period) and conducted with flexible criteria (capital key limited to the APP); the amount of the PEPP was then increased to 1,350 billion and extended at least until June 2021 with reinvestments at least until the end of 2022;
- expansion of the CSPP to commercial paper issued in non-financial sectors and the extension of the parameters for the Additional Credit Claims (ACC) framework to cover corporate sectors in Eurosystem refinancing operations.

Among other measures taken, the FED activated the Term Asset-Backed Securities Loan Facility (TALF) on 9 April, which had played an important role in supporting the US economy in the aftermath of the 2008-2009 GFC. This after having already announced, a few days earlier, the reactivation of the Commercial Paper Funding Facility (CPFF) programme for the purchase of commercial paper, another important instrument in the management of the GFC and subsequently no longer used.

In Europe, governments' temporary fiscal interventions rapidly reached 3.5% of GDP on average, with a strong dispersion depending on budgetary capacity; this was despite the fact that the suspension of the Fiscal Compact temporarily removed the EU deficit constraints. The asymmetry of the Covid crisis, made more serious by the different reaction capacities of the individual euro area countries, is the basis of the initiative that led to the launch of the Recovery & Resilience Fund in July.
The positive financial market performance in the first 40 days of 2020 followed the evolution of the pandemic with an exceptionally rapid deterioration of corporate bond markets, which collapsed due to lack of liquidity. In contrast to past crises, this strong correction has affected to the same extent, or sometimes even more significantly, the highest rated segments. The reaction of the stock markets was more analytical, which soon metabolised the asymmetry of the impact at sector level, marking large differences in performance between defensive sectors, cyclical sectors, sectors impacted or benefiting from the lockdown.
Once the correction was completed, the American market (DJ Industrial Avg) recovered about 2/3 by the end of the half year, while for Europe (Stoxx 600) the recovery was just over half of the correction. The Italian index (FTSE Mib) recovered about 40% of the correction completed in mid-March. For the American technology index (Nasdaq), on the other hand, the recovery was total: already by the end of May, with an appreciation continuing in the following weeks.
In the financial sector, European banks' stock prices fell by an average of around 50% from mid-February onwards, reaching lows after just one month. Subsequently, there was a considerable underperformance, still evident at the

end of the first half year, albeit with some brief reactions. The intervention of the European regulator in combating the risk of credit crunch, aimed at preserving the capital endowments of credit institutions by preventing, among other things, the distribution of dividends, was of little value, at least for the equity sector.
The government bond market in Europe has recorded a strong widening of spreads in view of the rapid worsening of the budget deficit: for Italy the BTP/Bund spread exceeded 280bps, forcing the European Central Bank to intervene on a growing scale; only from the second part of April were purchases able to effectively counter this trend, forcing a decrease of about 100bps towards the end of June. In fact, this has consolidated an Italian 10-year return differential of around 100bps compared to Spain and Portugal, now almost aligned in terms of return.
The spread of credit default swaps (CDS) relating to European banking issuers widened by around 55bps in the first three months of the year, before normalising to around 80bps (20bps above the beginning of the year) at the end of the half year. The differential between subordinates and seniors (Itraxx 5Y) increased by more than 100bps until mid-March, before falling back almost completely after the end of the semester. For Italian banks, the expansion of the spread (a simple average of 6 main banks) was 200bps within a month of the outbreak of the pandemic, amplified by the initial weakness of the sovereign market. The average spread then returned from mid-May for about 2/3 of the expansion, slightly higher than that at the beginning of the year (166bps vs. 145bps).

Domestic banking activity

The dynamics of national banking activity in the first half of the year were naturally affected by the consequences of the health emergency. Despite the severe slowdown in economic activity, the exceptional credit support measures introduced by the so-called "Liquidity" decree and the extraordinary measures determined by the ECB, mentioned in the previous paragraphs, have created the conditions for a robust expansion of lending volumes to businesses. Demand from companies from the second quarter onwards was driven by liquidity needs, which increased sharply as a result of the reduction in turnover caused by the consequences of the lockdown. The disbursement was concentrated on medium to long maturities, partly due to the increasing use of loans guaranteed by the Central Guarantee Fund. Demand for investment needs, on the other hand, fell sharply, as shown by the Bank of Italy's surveys.
The monetary measures adopted, in particular the financing guaranteed to the banking system by the TLTRO III auctions, provide the necessary funding to support this expansion. Banks' ordinary funding also recorded significant growth rates, sustained by the accumulation of liquid assets by households, primarily current accounts, following the phase of uncertainty linked to the health emergency.

More specifically, in June 2020, on the basis of data published by the ABI - Italian Banking Association, bank lending to the private sector (including loans not recognised in bank financial statements because they were securitised and net of changes in outstanding amounts not connected with disposal operations) grew by 2.1% yoy, while lending to households and businesses alone grew by 2.8%. The current increase is the result of the acceleration of recent months: in fact, in December 2019, the dynamics of the two aggregates were +0.1% and +0.2% respectively. Loans to households, which until a few months ago were the liveliest component, came to a standstill: in fact, in May, the relative aggregate, which was not adjusted for the effects of disposals of non-performing loans, was substantially stable both in comparison with the end of 2019 (-0.2%) and with respect to the previous 12 months (-0.1%). Although moratorium tend to keep the stock stable, the collapse in consumption of durable goods is weighing on new consumer credit disbursements and the uncertainty in the real estate market is also slowing demand for mortgages. On the corporate side, on the other hand, the growth in lending appears lively in 2020, as already mentioned, especially if we compare it to the dropping trend of recent years: in May it has increased by 4.5% since the beginning of the year, compared to a 1.5% decrease in relation to May 2019.
Despite the effects of the lockdown, credit quality has continued to improve, albeit somewhat less rapidly than in previous years, due to continued impaired loan assignment activities. In May 2020, net non-performing loans (net of write-downs and provisions already made by institutions) amounted to 26.3 billion, a decrease of -19.3% compared to 32.6 billion in May 2019. The ratio of net non-performing loans/total lending in the same period was 1.51% compared to 1.55% in December 2019 and 1.88% 12 months earlier.
As regards funding, total direct funding from customers (deposits and bonds) grew by +4.7% in June 2019 over the twelve months. In the first 6 months of 2019 the increase in absolute terms was approximately 53 billion. The increase, as mentioned above, is concentrated on the more liquid forms of deposit: total deposits grew by 6.1% over the 12 months. On the other hand, bonds continue their downward trend: -3.9% per annum.
The bank interest spread, calculated as the difference between the average interest rate on loans and the average interest rate on total funding from households and non-financial companies, decreased on an annual basis to 1.81%

in June 2020 (-12 basis points, compared to 1.93% in June 2019). In the same month, the mark-up (calculated as the difference between the average rate on loans to households and non-financial companies and the 3-month Euribor rate) fell to 275 basis points (-14 basis points compared to the same month of the previous year), while the mark-down (calculated as the difference between the 3-month Euribor rate and the rate on total funding), in comparison with June 2018, improved fractionally from a negative value of 96 basis points to 94 basis points.

In May, the assets of open-end funds under Italian and foreign law amounted to 1,008.2 billion, substantially unchanged compared to the previous 12 months, but down by 5.9% compared to the end of 2019, 22.9% of which was composed of Italian funds and 77.1% composed of foreign registered funds. Net inflows of open-ended funds also fell by 3.7 billion in the first half of the year.

SIGNIFICANT EVENTS DURING THE PERIOD

The main events, which occurred during the first half of the year, are described below.

Banco BPM initiatives to tackle the international Covid-19 emergency

The first half of the year was affected by the international Coronavirus epidemic.
In this context, characterised by serious repercussions on the global economy as well as on the operations of businesses, the Group, in compliance with current regulations, has put in place all measures to protect its customers and employees, as well as a series of measures aimed at providing specific support to businesses, households and the communities in which it operates.

In more detail, the Bank continued to ensure the highest level of safety for its employees and customers by developing smart working and an interaction model based on strengthening the use of digital channels.

With the easing of the restrictive measures imposed for dealing with the health crisis, the Group has put in place a series of initiatives aimed at restoring full operations, in compliance with the provisions laid down for the protection of the health of customers and colleagues. In particular, branches located in the most affected areas were gradually reopened and, by the end of July, 1,581 branches were open.

The Bank also implemented the measures adopted by the Government, which involved granting moratoriums on payments, suspending loan instalments, granting or renegotiating loans against government guarantees, and advancing the redundancy fund.

On the basis of management accounting figures at the end of July, the total amount of loans for which the Bank has granted moratorium measures under the "Cura Italia" Decree and the ABI (Italian Banking Association) protocol amounted to 16.1 billion (of which 12.9 billion in favour of businesses). Against these exposures, the principal instalments subject to suspension amounted to 2.3 billion.
In addition, as part of government measures to support the economy, the Bank has granted over 11.5 billion in loans to companies (already approved or in the process of being approved) covered by the guarantees provided for by the law decrees.

Particular attention was paid to simplifying customer operations to ensure, through the enhancement of online transactions and digital banking, the "omnichannel" management of relationships (through telephone, internet and email contacts) and the development of new IT procedures to speed up the approval and disbursement of credit.

The bank's presence was also manifested through appropriate and timely information to customers and colleagues regarding the measures taken in response to the Covid-19 emergency. Information activities took the form of direct communications from the Chief Executive Officer, Direct Email Marketing initiatives, Social network posts and information messages on YouWeb and Webank services, as well as periodic information notes for colleagues.

Lastly, Banco BPM confirmed its commitment to the local area through donations and fundraising projects (also with the participation of top management), making a total of around 4 million available to beneficiary associations (local communities, hospitals and research institutes).

Banco BPM has implemented the European Central Bank's communication of 27 March 2020, which recommended that supervised banks should not pay dividends (not yet resolved) and should not make any irrevocable commitment to pay them for the financial years 2019 and 2020 at least until 1 October 2020. With a subsequent communication of 27 July, the ECB extended the ban on the distribution of dividends to 1 January 2021 in order to strengthen banks' capital base and enable them to provide greater credit support to households and businesses in the current health emergency.

2020-2023 Strategic Plan

On 3 March, the 2020-2023 Strategic Plan was approved, based on assumptions and objectives determined prior to the adoption of the restrictive measures related to the Coronavirus emergency (so-called lockdown).
Given the new context, as better specified in the section on the outlook for business operations, the Bank will prepare a new strategic plan once the prospective framework is better defined.

Other events in the period

Renewal of company officers

The Shareholders' Meeting of 4 April, among other resolutions, elected the members of the Board of Directors, including the Chairman and the Deputy Chairman, who will remain in office for the years 2020-2021-2022. On the basis of the votes received from the three lists submitted, the following were elected: Massimo Tononi (Chairman), Giuseppe Castagna, Mauro Paoloni (Deputy Chairman), Marina Mantelli, Maurizio Comoli, Luigia Tauro, Carlo Frascarolo, Costanza Torricelli, Eugenio Rossetti, Giulio Pedrollo, Manuela Soffientini, Mario Anolli, Alberto Manenti, Nadine Faruque and Giovanna Zanotti.
The newly formed Board of Directors subsequently appointed Giuseppe Castagna as Chief Executive Officer of Banco BPM.

The same Shareholders' Meeting also elected the members of the Board of Statutory Auditors, including the Chairman, who will remain in office for the years 2020-2021-2022. The standing Auditors are: Marcello Priori (Chairman), Maurizio Lauri, Nadia Valenti, Maria Luisa Mosconi and Alfonso Sonato.
The alternate auditors are Fulvia Astolfi, Wilmo Carlo Ferrari and Gabriele Camillo Erba.

Implementation of the provisions set out in the communication of 27 March 2020 of the European Central Bank

As mentioned above, the Bank has taken note of the communication adopted on 27 March 2020 by the European Central Bank, with which, in order to strengthen the capital endowment of the significant banks subject to its supervision and to be able to provide more ample means to support households and businesses in the situation resulting from the ongoing Covid-19 health emergency, it urged the aforementioned banks not to proceed with the payment of dividends (not yet resolved) and not to make any irrevocable commitment to pay them for the financial years 2019 and 2020 at least until 1 October 2020.
In view of the above, the Board of Directors, in order to take account of the indications provided by the European Central Bank, has decided that at the Shareholders' Meeting of Banco BPM called for Saturday, 4 April 2020, the item on the agenda for resolutions on the allocation and distribution of profits will not be discussed and voted on.
Therefore, the net profit reported in the financial statements of the Parent Company Banco BPM as at 31 December 2019, amounting to 942.5 million, was entirely allocated to the Bank's reserves.
In addition, with a subsequent communication of 27 July, the ECB extended the ban on dividend payments to 1 January 2021.

Further ECB recommendations on dividends and variable remuneration

Following the aforementioned Communication of 27 March 2020, the ECB issued the following additional recommendations to banks on 27 and 28 July 2020:

- to avoid the payment of dividends or irrevocable commitments to pay the same for the financial years 2019 and 2020 until 1 January 2021 and not to repurchase own shares in order to remunerate shareholders;
- to adopt extreme moderation with regard to payments of the variable component of remuneration up to 1 January 2021, especially that in favour of staff members identified as "persons taking significant risks", envisaging the possibility of deferring the variable component over a longer period, as well as disbursing it as shares.

Important funding operations completed

On 14 January, Banco BPM carried out a new issue of Additional Tier 1 instruments intended for institutional investors, amounting to 400 million, as part of an effort to increase the efficiency of its capital structure.
Securities are perpetual and, in accordance with current legislation, may be called by the issuer from 2025. In the event of no call in 2025, it may be exercised later, at the coupon detachment date.
The initial six-monthly coupon was set at 6.125%. The loan settlement provides for a number of mechanisms to limit the payment of said coupon as well as temporarily reduce the nominal value.
The security, placed mainly with funds, banks and hedge funds, is listed on the Luxembourg Stock Exchange.

The placement of a senior non-preferred bond issue of 750 million with a 5-year maturity, which is part of the Group's EMTN Programme, was also successfully completed in February. The bond, intended for institutional investors, provides for a fixed coupon of 1.625%.

Anima Holding

With the Shareholders' Meeting of 31 March 2020 of Anima Holding, for the first time, the new mechanism for the appointment of corporate bodies provided for in the amendments to the Articles of Association approved on 29 March 2019 became operational. In accordance with the rules of the new governance regime, with particular reference to the manner in which lists are presented and the adoption of a proportional criterion, Banco BPM has been able to appoint five directors, including the Chairman and the Chief Executive Officer, to a Board of Directors made up of ten.
The representation on the Board of Directors thus achieved is considered to be evidence of Banco BPM's ability to exercise considerable influence over Anima Holding through its participation in the company's decision-making processes. This evidence is further supported by the increase in the interest held in Anima Holding, which has become 19.385% (the stake held at the beginning of the year was 14.27%). This percentage is in fact very close to the 20% threshold, the keeping of which, in accordance with IAS 28, leads to the presumption of the possibility of exercising a significant influence on the management of the investee company. Lastly, the interest is intended to be held on a permanent basis since its strategic nature is confirmed by the close partnership and contractual agreements regarding the distribution of the funds managed by the Anima Group through Banco BPM's network.
As a result of the above, the equity interest held in Anima Holding, which until 31 March 2020 was classified under item "30. Financial assets measured at *fair value* through other comprehensive income" has been reclassified from 1 April 2020 under item "70. Interests in associates and joint ventures" below.

For further information on the economic and financial impact of the aforementioned change in classification, please refer to Part A – Accounting Policies of the Explanatory Notes of this Financial Report.

Completion of the liquidation of the subsidiary Leasimpresa Finance

In January, at the end of the liquidation process of the subsidiary Leasimpresa Finance, the company was removed from the relevant Companies Register. The conclusion of the liquidation did not have a significant impact on the Group's balance sheet and income statement.

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 months between the dates of approval of the 2019 draft budget and the interim financial statements as at 30 June 2020, new complaints were limited both in number and as a total additional relief (+11 million). In fact, as at 31 July the overall relief related to complaints received amounted to 690 million compared to 679 million as at 31 January 2020 considered for the purpose of estimating the provision for risks and charges set aside in the 2019 financial statements.
The settlement of customer complaints continued during the first half of the year with the settlement of over 3,000 positions through out-of-court settlements.
For further details, reference should be made to the section on Provisions for risks and charges in the Explanatory Notes to the consolidated condensed interim financial statements.

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

In the normal course of its business, the Group is subject to inspections promoted by the Supervisory Authorities. In particular, within the Single Supervisory Mechanism, the Group is subject to the supervision of the European Central Bank ("ECB"). With reference to specific issues such as compliance with anti-money laundering regulations or transparency, the supervisory activity is the direct responsibility of the Bank of Italy.
The supervisory activity involves the performance of regular and recurrent inspections at the headquarters of the Parent Company (on-site inspection), which are accompanied by activities of "remote" verification, conducted through structured and continuous information exchanges rather than through specific requests for documentation and in-depth analysis of the issues.
In the financial years 2018, 2019 and 2020, the Group underwent numerous on-site inspections in the following areas: Credit Quality Review - Corporate, Asset Based or Project Finance Portfolios, Transparency, Operational Risk, Liquidity, Funding Risk, IRRBB, Credit Risk Estimation Models (AIRB) and Market Risk, Anti-Money Laundering, Product Governance and Adequacy, Internal Governance Remuneration and Credit Quality Assessment in relation to Retail & SME-Portfolios.

The inspection activities have for the most part already been completed with the release of the so-called "Final follow up letter" or "Decisions" through which the ECB communicates the required corrective actions in relation to the areas of 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, several inspections are still under way or are pending receipt of the Final follow up letter or the Final Decision from the ECB and/or the final results of the inspections by the other supervisory bodies (Bank of Italy and CONSOB); on the other hand, for others, which have completed the decision-making phase, only the conclusion of corrective action remains:

- verification on the subject of Operational Risk. The on-site phase was concluded at the end of January 2019 and Banco BPM received the Final Decision on 21 November 2019, indicating the recommendations and qualitative requirements; on 19 December 2019, Banco BPM sent the corrective action plan, which is currently under way;
- Credit Risk (PD, LGD, CCF) inspection, with regard to the "Corporate - Other" and "SME" portfolios. The on-site phase of the inspection began on 17 September 2018 and concluded on 16 November 2018. Banco BPM is waiting for the Final Decision;
- verification, in the context of credit risk, concerning the review of credit quality, with reference to the corporate, asset-based and project finance portfolios ("Credit Quality Review - Corporate, Asset based or Project Finance Portfolios"). The on-site phase concluded on 28 September 2018. On 21 October 2019, Banco BPM received the Final Decision and on 7 November 2019 it sent the corrective action plan, which is currently under way;
- audit, in the context of liquidity risk and funding risk (Liquidity, Funding Risk and IRRBB). The on-site phase of the inspection concluded on 17 May 2019. On 4 February 2020, Banco BPM received the Final Decision and on 3 March 2020 it sent the corrective action plan, which is currently under way;
- audit aimed at obtaining the validation of the Market Risk Internal Model (VaR, sVaR, IRC) for the risk categories "debt instruments – specific risk; Forex Risk". The on-site phase of the inspection was completed on 19 July 2019, and the Bank is awaiting the decision;
- audit, performed by the Bank of Italy, regarding observance of the legislation on the subject of combating money laundering in performing online operations carried out through the digital channels. The on-site phase of the inspection concluded on 2 August 2019. On 6 November 2019 the results of the Bank of Italy inspection were presented. On 17 December 2019, Banco BPM submitted its corrective action plan, which is currently being implemented;
- audit, performed by CONSOB, regarding the procedural arrangements defined on the subject of product governance and the procedures for assessing the adequacy of the operations ordered by customers. The audit was launched in April 2019 and was concluded on 3 December 2019. Banco BPM is awaiting the final decision;
- audit by the Bank of Italy on the Transparency of operations and fairness in relations with customers. The on-site phase began on 15 October 2018 and concluded on 18 January 2019. On 11 April 2019, the Bank of Italy's inspection report was presented and sanction proceedings were initiated, following which,

on 15 July 2020, Banco BPM was notified of an administrative penalty, pursuant to Article 144 of the TUB (Consolidated Banking Act), relating to "shortcomings in the organisation and controls on transparency". This penalty, amounting to 1,760,000 (against a maximum of "ten per cent of total annual turnover"), is already covered by the related provision. With reference to the interventions plan - already communicated to the Bank of Italy on 17 July 2019 - the expected deadline of 31 December 2020 for the implementation of the overall plan is currently confirmed;
- audit by the European Central Bank of the internal models for credit risk (PD and LGD), with regard to the “Corporate” and “SME” portfolios. The on-site phase of the inspection, which began on 19 February 2018, concluded on 20 April 2018. Banco BPM received the final decision on 24 April 2019. The corresponding corrective action plan, sent on 24 May 2019, has been incorporated into the internal model changes referred to in the next point;
- audit by the European Central Bank in order to assess the approval of the internal model for credit risk (CCF/EAD; ELBE; LGD for bad loans, PD) for the following exposure classes: Corporate - Other; Corporate - SME; Retail - Other SME; Retail - Retail - Secured by real estate non-SME; Retail - Secured by real estate SME. The on-site phase started on 14 October 2019 and ended - in off-site mode due to the Covid-19 health emergency - on 19 March 2020. Banco BPM is awaiting a final decision;
- audit by the European Central Bank on the credit quality of the Retail & SME portfolios. The on-site phase started on 4 February 2020 and is currently suspended due to the Covid-19 health emergency;
- audit by the European Central Bank to assess Internal Governance Remuneration. The on-site phase began on 9 October and concluded on 13 December 2019. Banco BPM is waiting for the Final Decision.

With reference to the aforementioned inspections for which the Bank is awaiting a final decision, it should also be noted that - with a press release dated 28 July 2020 on the measures adopted in relation to the Covid-19 emergency - the ECB confirmed the six-month suspension, provided for in the previous press release of 20 March 2020, of the issuance of all decisions relating to inspections and model validation, as well as the suspension of the verification of compliance with SREP quality measures.

RESULTS

Introduction

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

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

- the impacts arising from Purchase Price Allocations made following past aggregation transactions have been grouped into a single separate item in the reclassified income statement called "Purchase Price Allocation net of taxes". This item groups together the impacts that in the income statement format are recognised in interest income (reversal effect of the fair value measurement of loans), amortisation of intangible assets recognised in item 220 (amortisation of so-called "client relationships") and in the item "Taxation charge related to profit or loss from continuing operations";
- the portion of the economic results pertaining to investee companies carried at equity (included in item 250) has been stated in a specific item, which represents, together with the "Net interest income", the aggregate defined as the "Financial margin";
- dividends on shares classified as financial assets at fair value through profit and loss and through other comprehensive income (included in item 70) were re-attributed to "Net financial result";
- the economic result related to the issue of liabilities held for trading represented by the Group's certificates, which in the income statement format prepared on the basis of Circular no. 262 is presented in item "80. Net trading income", was partially re-attributed to the reclassified income statement item "Net fee and commission income". In more detail, net fee and commission income includes, according to an operational viewpoint, the portion of profitability of the product that remunerates the placement activity carried out by the Group. Moreover, fee and commission expense relating to placement services carried out by third party networks are included in the net trading income;
- 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";
- gains and losses on disposal of loans, not represented by debt securities (included in item 100) and gains (losses) from contractual modification without derecognition (booked to item 140), were added, together with net losses/recoveries on impairment of receivables, to the item "Net adjustments to loans to customers";
- ordinary and extraordinary charges introduced for banks due to the single and national resolution funds (SRF and NRF) and the deposit guarantee scheme (DGS) were recognised, net of relative tax effects, in a separate item "Charges related to the banking system, net of taxes", rather than in "Other administrative expenses" and "Taxation charge related to profit or loss from continuing operations".

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

Consolidated income statement figures

Reclassified consolidated income statement

Reclassified income statement items ***(thousands of euro)***	**1st half 2020**	**1st half 2019 (*)**	**Changes**
Net interest income	953,621	1,011,305	(5.7%)
Gains (losses) on interests in associates and joint ventures carried at equity	70,302	69,386	1.3%
Financial margin	**1,023,923**	**1,080,691**	**(5.3%)**
Net fee and commission income	816,934	888,191	(8.0%)
Other net operating income	31,599	42,110	(25.0%)
Net financial result	124,080	83,042	49.4%
Other operating income	**972,613**	**1,013,343**	**(4.0%)**
Operating income	**1,996,536**	**2,094,034**	**(4.7%)**
Personnel expenses	(816,979)	(843,857)	(3.2%)
Other administrative expenses	(308,674)	(330,154)	(6.5%)
Net value adjustments to property, plant and equipment and intangible assets	(123,089)	(131,074)	(6.1%)
Operating expenses	**(1,248,742)**	**(1,305,085)**	**(4.3%)**
Profit (loss) from operations	**747,794**	**788,949**	**(5.2%)**
Net adjustments to loans to customers	(476,242)	(349,644)	36.2%
Fair value gains (losses) on property, plant and equipment	(5,416)	(26,782)	(79.8%)
Net adjustments to securities and other financial assets	(8,383)	25	
Net provisions for risks and charges	(7,614)	(5,680)	34.0%
Gains (losses) on disposal of interests in associates and joint ventures and other investments	220	336,813	(99.9%)
Profit (loss) before tax from continuing operations	**250,359**	**743,681**	**(66.3%)**
Taxation charge related to profit or loss from continuing operations	(52,425)	(81,145)	(35.4%)
Charges related to the banking system, net of taxes	(75,684)	(56,861)	33.1%
Profit (loss) for the period attributable to non-controlling interests	1,508	4,471	(66.3%)
Parent Company's profit (loss) for the period without PPA	**123,758**	**610,146**	**(79.7%)**
Purchase Price Allocation net of taxes (**)	(18,527)	(7,162)	
Parent Company's profit (loss) for the period	**105,231**	**602,984**	

(*) The figures for the previous period have been restated taking into account the new measurement criterion for buildings.
(**) PPA relating to receivables and client relationships, net of related tax effects.

Reclassified consolidated income statement – Quarterly evolution

Reclassified income statement items (thousands of euro)	FY 2020		FY 2019 (*)			
	Q2	Q1	Q4	Q3	Q2	Q1
Net interest income	479,507	474,114	473,959	495,805	512,117	499,188
Gains (losses) on interests in associates and joint ventures carried at equity	48,036	22,266	33,917	27,952	32,628	36,758
Financial margin	**527,543**	**496,380**	**507,876**	**523,757**	**544,745**	**535,946**
Net fee and commission income	376,371	440,563	462,167	444,065	453,673	434,518
Other net operating income	14,855	16,744	16,129	17,785	17,928	24,182
Net financial result	(82,718)	206,798	207,370	41,668	10,697	72,345
Other operating income	**308,508**	**664,105**	**685,666**	**503,518**	**482,298**	**531,045**
Operating income	**836,051**	**1,160,485**	**1,193,542**	**1,027,275**	**1,027,043**	**1,066,991**
Personnel expenses	(397,954)	(419,025)	(437,052)	(415,622)	(417,984)	(425,873)
Other administrative expenses	(154,094)	(154,580)	(149,780)	(158,632)	(163,135)	(167,019)
Net value adjustments to property, plant and equipment and intangible assets	(61,710)	(61,379)	(69,289)	(68,586)	(67,745)	(63,329)
Operating expenses	**(613,758)**	**(634,984)**	**(656,121)**	**(642,840)**	**(648,864)**	**(656,221)**
Profit (loss) from operations	**222,293**	**525,501**	**537,421**	**384,435**	**378,179**	**410,770**
Net adjustments to loans to customers	(262,999)	(213,243)	(220,499)	(208,387)	(197,692)	(151,952)
Fair value gains (losses) on property, plant and equipment	(5,094)	(322)	(131,012)	(739)	(19,306)	(7,476)
Net adjustments to securities and other financial assets	(3,728)	(4,655)	1,596	4,138	3,996	(3,971)
Net provisions for risks and charges	(9,809)	2,195	(62,633)	(2,712)	(10,102)	4,422
Gains (losses) on disposal of interests in associates and joint ventures and other investments	129	91	(3,638)	(24)	336,646	167
Profit (loss) before tax from continuing operations	**(59,208)**	**309,567**	**121,235**	**176,711**	**491,721**	**251,960**
Taxation charge related to profit or loss from continuing operations	41,398	(93,823)	(26,565)	(44,949)	(27,436)	(53,709)
Charges related to the banking system, net of taxes	(18,169)	(57,515)	(4,495)	(31,521)	(15,240)	(41,621)
Profit (loss) for the period attributable to non-controlling interests	1,537	(29)	9,247	1,846	3,225	1,246
Profit (loss) for the period without PPA	**(34,442)**	**158,200**	**99,422**	**102,087**	**452,270**	**157,876**
Purchase Price Allocation net of taxes (**)	(11,962)	(6,565)	(3,650)	(3,842)	(4,700)	(2,462)
Parent Company's profit (loss) for the period	**(46,404)**	**151,635**	**95,772**	**98,245**	**447,570**	**155,414**

(*) The figures for the previous periods have been restated-reclassified to provide a like-for-like comparison.
(**) PPA relating to receivables and client relationships, net of related tax effects.

With Communication no. DEM/6064293 of 28 July 2006, CONSOB asked companies issuing financial instruments listed on Italian regulated markets to provide information on the impact of non-recurring events or operations.
Note that, based on the general criteria adopted by the Group, the following are classified as non-recurring:

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

Conversely, the following are usually considered recurring:

- the economic impacts deriving from the sale or measurement of all financial assets (other than loans), including those in the HtC and financial liabilities;
- save for exceptional cases, the economic impacts deriving from valuation aspects (value adjustments to loans and other financial assets or provisions for risks and charges);
- the economic impacts deriving from changes in the reference valuation parameters considered by the valuation models applied on a continuous basis;

- the economic impacts of amounts that individually are insignificant or cannot be determined, which constitute out-of-period income and/or expenses (e.g. costs and revenues and/or adjustments to costs and revenues pertaining to other years);
- tax effects connected with the economic impacts in the above points.

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 Explanatory Notes, which highlight trends in equity items.

In light of the criteria set out above, it should be noted that in the first half of 2020 non-recurring items of a significant amount were not recognised.
In particular, the income statement as at 30 June shows the following impacts:

- "Net value adjustments to property, plant and equipment and intangible assets" includes write-downs due to impairment of fixed assets for a total of 2.1 million;
- "Fair value gains (losses) on property, plant and equipment" includes losses of 5.4 million;
- the item "Gains (losses) on disposal of interests in associates and joint ventures and other investments" by definition non-recurring, is positive by 0.2 million;
- the "Taxation charge related to profit or loss from continuing operations" include the tax impacts of the aforementioned non-recurring items amounting to +2.1 million;
- "Charges related to the banking system, net of taxes" includes additional contributions paid to the National Resolution Fund amounting to 18.2 million (equal to 26.9 million gross net of the related tax effect of 8.7 million).

Overall, also taking account of the effects attributable to minorities (+0.3 million), non-recurring items relating to the first six months of 2020 were therefore negative by 23.2 million.

In the first half of 2019, restated for the sake of uniformity of comparison, the following non-recurring items had been classified:

- "Gains (losses) on disposal of interests in associates and joint ventures and other investments" included capital gains achieved through reorganisation of the consumer loan segment, for 189.5 million, and the sale to Credito Fondiario of 70% of CF Liberty Servicing S.p.A., for 142.7 million;
- the fair value measurement of property, plant and equipment had led to the recognition of losses of 26.8 million (this amount was recognised following the restatement of the consolidated financial statements as at 30 June 2019 following the change in the property valuation criteria applied for the first time when preparing the financial statements as at 31 December 2019);
- "Net value adjustments to property, plant and equipment and intangible assets" also included impairment losses on intangible assets amounting to 0.7 million;
- the item "net provisions for risks and charges" included provisions of an extraordinary nature totalling 15.3 million and relating for 9.1 million to the recalculation of conditions applied to customers in previous years and estimated according to metrics recently defined by stricter regulations and interpretative notes of the supervisory bodies, and for 6.2 million to the estimate of charges relating to contractual commitments;
- "Taxation charge related to profit or loss from continuing operations" included the tax impacts of non-recurring items previously detailed amounting to 4.7 million in addition to other extraordinary items amounting to a total of 18.1 million;
- "Charges related to the banking system, net of taxes" included 15.2 million represented by the additional contributions relating to paid National Resolution Fund (amounting to 22.6 million) net of the related tax of 7.4 million.

Overall, also taking account of the effects attributable to minorities (+0.6 million), non-recurring items relating to the first six months of 2019 were positive amounting to 302.2 million.

Reclassified consolidated income statement

The main income statement items as at 30 June 2020 are illustrated below.

Covid-19: effects on the economic results of the first half of the year

Before commenting on the half-year results, it should be noted that they were affected by the ongoing health pandemic. In line with CONSOB Notification 8/20 of 16 July 2020, in order to better appreciate the effects of the aforementioned pandemic, an illustration of its impact on the economic results for the period is provided below.

Net fee and commission income

The pandemic had a significant negative impact on the half-yearly income statement in terms of a reduction in operating income as a direct consequence of the lower volumes of business following the lockdown and the change in savers' propensity to invest. This impact is most clearly reflected in the decrease in net fee and commission income, amounting to -71.3 million compared to the same period of the previous year.

Net financial result

The Covid-19 pandemic has led to high volatility in financial markets, including intraday. In particular, a significant reduction in financial asset prices in the first quarter was followed by a substantial recovery in the second quarter. This volatility affected not only the assets but also the financial liabilities issued by the Group and measured at fair value, whose prices were significantly affected by the volatility of Banco BPM's credit risk.
More specifically, as at 31 March 2020, the deterioration in Banco BPM's credit risk and the consequent reduction in the fair value of its liabilities measured at fair value had led to the recognition of unrealised capital gains of 206.0 million under "Net financial result". After 31 March, the improvement in its credit risk led to a progressive reduction in the aforementioned capital gain with a consequent significant negative impact on the income statement in the second quarter, which amounted to -165.4 million. Overall, the economic effect of the change in its credit risk in the first half of the year was a positive 40.6 million.
In terms of assets and liabilities, the total effects of changes in its credit risk were almost entirely reabsorbed as at 30 June 2020; in fact the residual unrealised gain amounted to 5.8 million compared to 171.3 million at the end of March 2020 (a loss of 34.8 million remained as at 31 December 2019).

Operating expenses

During the first half of the year, a number of contingency interventions - related to property management, operational support services and security and physical prevention - were carried out at the bank's offices and branches to ensure the safety of staff and customers. The estimated costs in the first half of the year for these interventions, incurred specifically to deal with the Covid emergency (sanitisation of offices and branches, purchase of disinfectant gels, masks, disposable gloves, fitting of mobile plexiglas walls) amounted to 5.3 million.
On the other hand, personnel expenses were affected by the measures taken to contain the risk of virus contraction.

Net adjustments to loans to customers

When measuring the impairment of receivables, IFRS 9 requires that not only historical and current information be considered, but also forward-looking information (so-called “forward-looking" factors) considered able to influence the recoverability of credit exposures.
The update of macroeconomic scenarios based on projections published by the ECB and the Bank of Italy at the beginning of June, together with changes in ratings and staging of the exposures being assessed, resulted in a significant increase of 111.8 million in write-downs of performing loans charged to the income statement for the first half of the year. On a like-for-like macroeconomic scenario compared with 31 December 2019, the economic impact of the pandemic is estimated at about 140 million.

Fair value gains (losses) on property, plant and equipment

For the purpose of preparing the half-yearly financial report, it was considered that the development recorded in the real estate market is not such as to require an update with respect to the valuations in the 2019 financial statements, except for a limited number of property units held for investment purposes for which, in 2020, taking into account the impact that the Covid-19 crisis may have had on the tenant's business, negotiations were undertaken with the tenant to grant discounts or renegotiate rents, even of a temporary nature. For this scope of property, the update of the fair value, carried out with the support of an external appraiser, resulted in a charge to the income statement for the first half of the year of an amount of 3 million.
Considering the other events that led to the need to update the valuations carried out as at 31 December 2019 (sale negotiations, negative developments in property prospects, etc.), the overall result for the first half of the year resulting from the valuation of property assets is negative by 5.4 million.

Recoverability of intangible assets with indefinite useful life and deferred tax assets

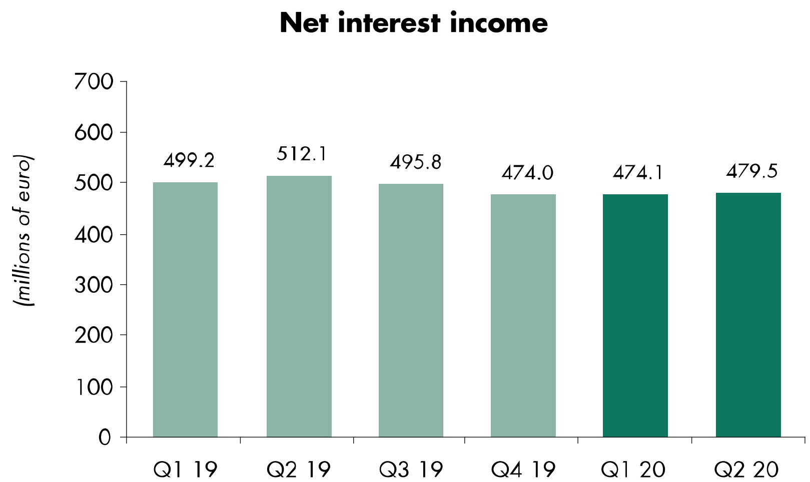
The checks carried out as at 30 June 2020 on the recoverability of intangible assets with an indefinite useful life (trademarks and goodwill) and on DTA (Deferred Tax Assets) confirmed the values recognised in the financial statements; it was therefore not necessary to recognise any impairment of the assets in question in the income statement for the first half of the year.

Operating income

Net interest income

(thousands of euro)	1st half 2020	1st half 2019 (*)	Abs. change	Change %
Financial assets (securities)	221,495	304,079	(82,584)	(27.2%)
Net interest due to customers	903,671	929,484	(25,813)	(2.8%)
Net interest due to banks	(25,118)	(68,467)	43,349	(63.3%)
Securities issued and financial liabilities at fair value	(163,739)	(150,115)	(13,624)	9.1%
Hedging derivatives (net balance)	(31,098)	(60,653)	29,555	(48.7%)
Net interest on other assets/liabilities	48,410	56,977	(8,567)	(15.0%)
Total	**953,621**	**1,011,305**	**(57,684)**	**(5.7%)**

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



The **net interest income** amounted to 953.6 million compared to 1,011.3 million from the previous year. The trend in net interest income was negatively impacted by the trend in interest rates and the lower contribution from non-commercial activities, as well as a lower contribution from interest on non-performing receivables resulting from

the de-risking plan implemented in previous years. The latter amounted to 58.9 million in the first half of 2020 compared to 74.2 million in the same period of 2019.
Net interest income in the second quarter amounted to 479.5 million, an increase of 1.1% compared to the figure for the first quarter of 2020 (474.1 million).

Gains (losses) on interests in associates and joint ventures carried at equity

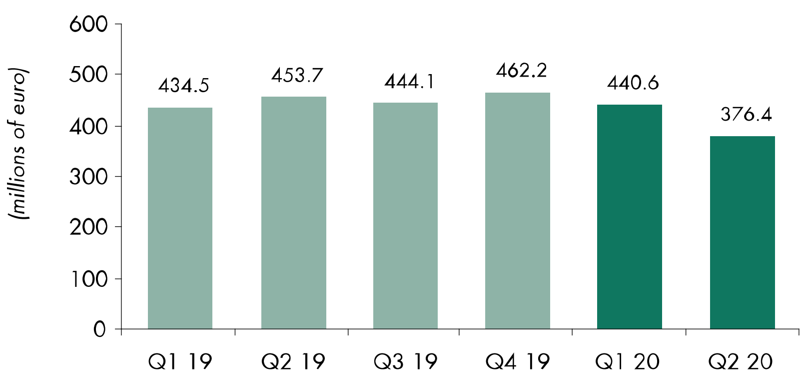
The **result of the investee companies carried at equity** was positive for 70.3 million, compared with 69.4 million in the first half of last year. Within this aggregate, the main contribution was provided by consumer credit, driven by the investment held in Agos Ducato. The item also includes the contribution of 6.6 million relating to the second quarter of the associate Anima Holding S.p.A., consolidated using the equity method as from 1 April 2020.
The contribution in the second quarter, positive by 48.0 million, more than doubled compared to the first quarter, amounting to 22.3 million, thanks to the contribution from Agos Ducato, which benefited from a positive impact resulting from the tax relief of its goodwill and other intangible assets.

Net fee and commission income

(thousands of euro)	1st half 2020	1st half 2019 (*)	Abs. change	Change %
Management, brokerage and advisory services	389,945	424,836	(34,891)	(8.2%)
Distribution of savings products	325,905	353,240	(27,335)	(7.7%)
- Placement of financial instruments	34,389	21,329	13,060	61.2%
- Portfolio management	241,042	264,189	(23,147)	(8.8%)
- Bancassurance	50,474	67,722	(17,248)	(25.5%)
Consumer credit	12,980	16,188	(3,208)	(19.8%)
Credit cards	15,511	20,184	(4,673)	(23.2%)
Custodian bank	717	683	34	5.0%
Trading securities, currencies and acceptance of orders	35,482	32,357	3,125	9.7%
Other	(650)	2,184	(2,834)	
Current account management and loans	284,185	299,296	(15,111)	(5.0%)
Collection and payment services	71,506	82,678	(11,172)	(13.5%)
Guarantees given and received	31,903	36,448	(4,545)	(12.5%)
Other services	39,395	44,933	(5,538)	(12.3%)
Total	**816,934**	**888,191**	**(71,257)**	**(8.0%)**

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

Net fee and commission income



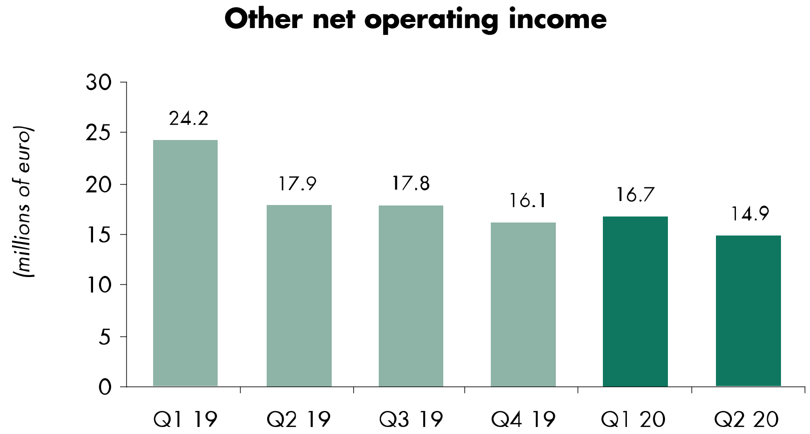
Net fee and commission income, amounted to 816.9 million, down 8.0% compared with 888.2 million in the same period last year. The contraction is generalised for all components of the aggregate (management, brokerage and advisory services -8.2%; maintenance, management of current accounts and loans -5.0%; collection and payment services -13.5%) and is mainly a consequence of the impact on the Group's operations due to lockdown measures.

Net fee and commission income in the second quarter fell by 14.6% compared to the first quarter. This was due to the crisis resulting from the Covid-19 epidemic, which particularly affected the flow of commissions and fees in April and May. There was a good recovery in June with net fee and commission income amounting to 150.7 million (compared to 104.1 million in April and 121.5 million in May).

Other net operating income

(thousands of euro)	1st half 2020	1st half 2019 (*)	Abs. change	Change %
Income on current accounts and loans	6,473	10,955	(4,482)	(40.9%)
Rents receivable	19,899	23,299	(3,400)	(14.6%)
Expenses on leased assets	(12,105)	(11,561)	(544)	4.7%
Other income and charges	17,332	19,417	(2,085)	(10.7%)
Total	**31,599**	**42,110**	**(10,511)**	**(25.0%)**

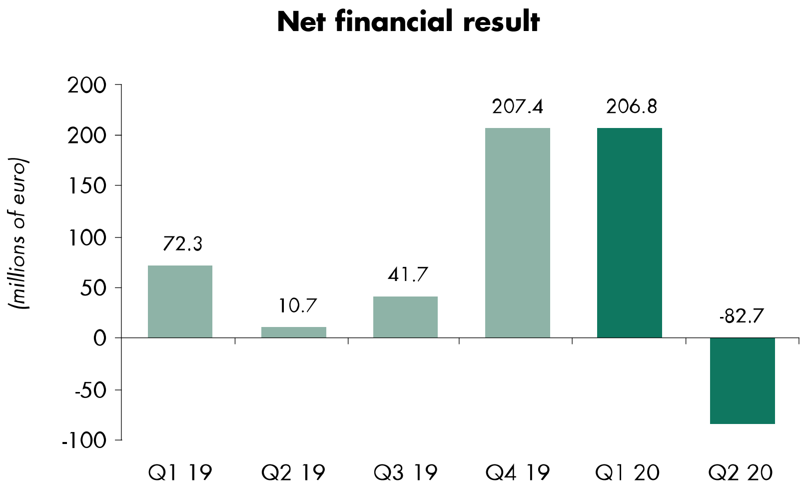
(*) The figures for the previous period have been reclassified to provide a like-for-like comparison.



Other net operating income amounted to 31.6 million, a decrease of 10.5 million compared to the first half of 2019, mainly due to the progressive reduction in fast-track fees (-40.9%) and the lower contribution from rental income (-14.6%), which was affected by the progressive disposal of investment property.

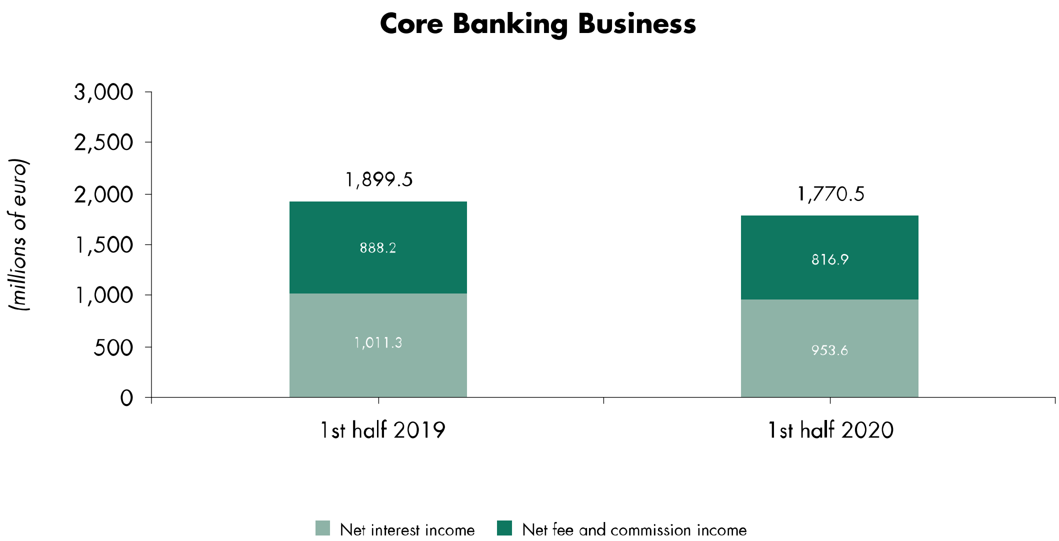
Net financial result

(thousands of euro)	1st half 2020	1st half 2019	Abs. change	Change %
Net trading income	58,549	(189,868)	248,417	
Gains/losses on disposal of financial assets	50,876	179,207	(128,331)	(71.6%)
Dividends and similar income on financial assets	18,798	25,727	(6,929)	(26.9%)
Gains/losses from repurchase of financial liabilities	119	(2,237)	2,356	
Fair value gains/losses on hedging derivatives	(8,855)	(487)	(8,368)	not significant
Other income/expense	4,593	70,700	(66,107)	(93.5%)
Total	**124,080**	**83,042**	**41,038**	**49.4%**



The **net financial result** was 124.1 million, compared with 83.0 million in the first half of last year.
This result includes the positive impact of the change in its credit risk on the valuation of the certificates issued by the Group amounting to 40.6 million. Net of this component, the net financial result for the first half of 2020 is substantially in line with the corresponding period of the previous year. It should be noted that in the first half of 2019, capital gains totalling 70.7 million were recognised on securities recognised in the portfolio of other financial assets mandatorily measured at fair value, of which 59.8 million relating to Nexi S.p.A.
The net financial result for the second quarter was negative and amounted to -82.7 million compared to +206.8 million euro in the first quarter. This change is attributable to the effect of the change in its credit risk in relation to the fair value measurement of its own liabilities issued (certificates), which led to the recognition of a charge of 165.4 million, compared to the positive impact recorded in the first quarter of 206.0 million. Excluding that effect, the net financial result for the second quarter amounted to 82.7 million, compared to 0.8 million in the first quarter. This higher contribution derives mainly from the resumption of valuations of financial assets and higher gains on the sale of securities.

As a result of the performance described, total **operating income** therefore amounted to 1,996.5 million, a decrease of 4.7% compared to the first half of 2019, mainly as a result of the items described above relating to net interest income and fee and commission income.



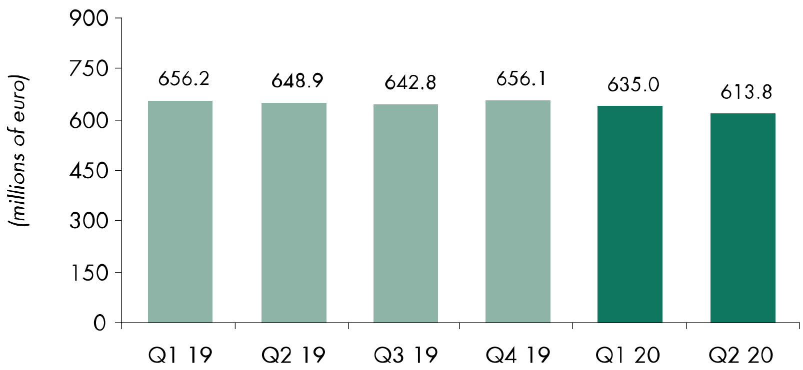
Taking only revenues from "**core banking business**" into account, represented by the sum of the aggregates relating to net interest income and net fee and commission income, the first half of 2020 reached 1,770.5 million, down by 6.8% compared to the same period of last year.

Operating expenses

(thousands of euro)	1st half 2020	1st half 2019 (*)	Abs. change	Change %
Personnel expenses	**(816,979)**	**(843,857)**	**26,878**	**(3.2%)**
Other administrative expenses	**(308,674)**	**(330,154)**	**21,480**	**(6.5%)**
- Taxes and duties	(145,542)	(156,775)	11,233	(7.2%)
- Services and consulting	(138,742)	(148,428)	9,686	(6.5%)
- Property	(33,031)	(43,059)	10,028	(23.3%)
- Postal, telephone and stationery	(12,741)	(16,646)	3,905	(23.5%)
- Maintenance and fees for furniture, machines and systems	(42,084)	(29,981)	(12,103)	40.4%
- Advertising and entertainment	(6,217)	(6,186)	(31)	0.5%
- Other administrative expenses	(55,516)	(58,491)	2,975	(5.1%)
- Recoveries on expenses	125,199	129,412	(4,213)	(3.3%)
Value adjustments to property, plant and equipment and intangible assets	**(123,089)**	**(131,074)**	**7,985**	**(6.1%)**
- Value adjustments to property, plant and equipment	(85,918)	(97,979)	12,061	(12.3%)
- Value adjustments to intangible assets	(35,056)	(32,420)	(2,636)	8.1%
- Net write-downs for impairment	(2,115)	(675)	(1,440)	213.3%
Total	**(1,248,742)**	**(1,305,085)**	**56,343**	**(4.3%)**

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

Operating expenses



Personnel expenses, of 817.0 million showed a decrease of 3.2% compared to the 843.9 million in the same period of last year. The total number of employees was 21,852 as at 30 June 2020, compared to 21,941 at the end of 2019.
In the second quarter, the item, amounting to 398.0 million, decreased by 5.0% compared to 419.0 million in the first quarter, mainly due to the savings recorded compared to the amount set aside in the previous year for the incentive scheme.

Other administrative expenses[1] amounted to 308.7 million, down by 6.5% compared to the first half of 2019, thanks to the strict control of costs, despite the higher charges deriving from the management of the Covid-19 emergency.

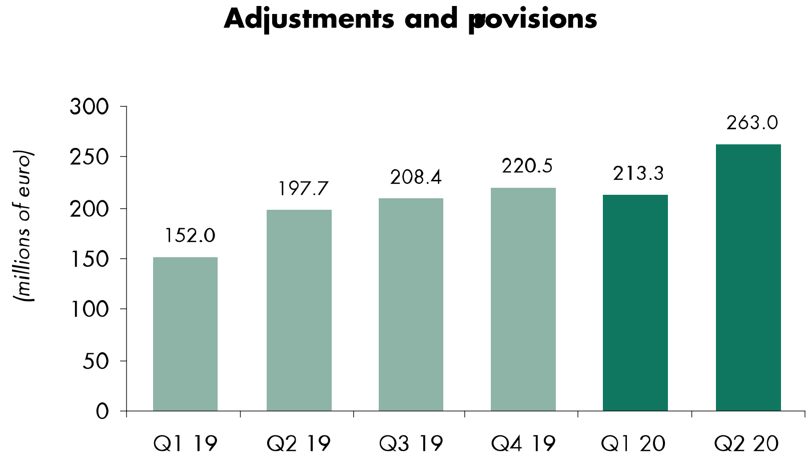
Value adjustments to property, plant and equipment and intangible assets amounted to 123.1 million, compared to 131.1 million as at 30 June 2019, and include impairment losses for 2.1 million. The comparison with the first half of 2019 shows a significant reduction in depreciation on property, plant and equipment (-10.3 million), as a result of the process of rationalisation of the property sector launched by the Group.

[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.

Total **operating expenses** therefore amounted to 1,248.7 million, falling by 4.3% compared to the first half of 2019.

Adjustments and provisions

(thousands of euro)	1st half 2020	1st half 2019	Abs. change	Change %
Net value adjustments to loans to customers	**(464,239)**	**(374,443)**	**(89,796)**	**24.0%**
Specific value adjustments: derecognitions	(55,617)	(22,787)	(32,830)	144.1%
Specific value adjustments: other	(628,691)	(782,571)	153,880	(19.7%)
Specific recoveries	331,911	432,150	(100,239)	(23.2%)
Net portfolio adjustments/recoveries	(111,842)	(1,235)	(110,607)	not significant
Profits/(losses) on disposal of loans	**(12,003)**	**24,799**	**(36,802)**	
Total	**(476,242)**	**(349,644)**	**(126,598)**	**36.2%**



Net adjustments on loans to customers amounted to 476.2 million, up by 126.6 million compared to the same period of the previous year. This amount includes adjustments to performing loans amounting to 111.8 million. The impact resulting from the consideration of the post-Covid-19 macroeconomic scenario is estimated at around 140 million. As a result, the cost of credit, measured by the ratio of net adjustments on loans to net lending, was 88 b.p. compared with 66 b.p. in the same period last year (73 b.p. as at 31 December 2019). Net of the above effect, the cost of credit would have been 62 b.p.

Fair value gains (losses) on property, plant and equipment shows a loss of 5.4 million at 30 June 2020.

Net adjustments to securities and other financial assets of 8.4 million were also recognised in the income statement for the first half (the amount of the item as at 30 June 2019 was negligible).

Net provisions for risks and charges amounted to 7.6 million; in the corresponding period of last year provisions of 5.7 million were recorded.

In the first half of the 2020 financial year, there were no **profits on disposal of interests in associates and joint ventures and other investments** of a significant amount; as at 30 June of last year there were capital gains achieved as a result of the reorganisation of the consumer loan segment (189.5 million) and establishment of the partnership with Credito Fondiario to manage recovery activities for non-performing loans (142.7 million).

As a result of the performance described above, **profit (loss) before tax from continuing operations and banking industry charges** amounted to 250.4 million compared to profit of 743.7 million recorded in the first half of last year, which also included gains on the disposal of interests in associates and joint ventures and businesses mentioned above amounting to 336.8 million.

Other revenue and cost items

The **taxation charge related to profit or loss from continuing operations** as at 30 June 2020 amounted to -52.4 million (-81.1 million as at 30 June 2019).

Charges relating to the banking system, net of taxes were charged to the income statement for the period, amounting to 75.7 million (56.9 million in the first half of 2019) relating to the ordinary contribution to the Single Resolution Fund (SRF) and the additional contribution to the National Resolution Fund (totalling 112.1 million before tax compared to 84.2 million as at 30 June 2019).

The new item in the reclassified income statement, called **Purchase Price Allocation net of taxes**, amounts to -18.5 million and includes the reversal effects of the PPA relating to the loan portfolio and client relationships, net of the relative tax effects. The figure for the first half of 2019 amounts to -7.2 million.

Considering the share of income attributable to non-controlling interests, the first half of 2020 closed with a **net profit for the period** of 105.2 million, compared to the net result of 603.0 million achieved as at 30 June 2019. Net of non-recurring items, profit for the period amounted to 128.4 million compared to 300.8 million for the period ended 30 June 2019 (-57.3%).

Consolidated balance sheet figures

Reclassified consolidated balance sheet

Below is the reclassified balance sheet as at 30 June 2020 compared with the balances in the financial statements as at 31 December 2019.
A reconciliation between the items in the consolidated balance sheet and the reclassified consolidated balance sheet is attached to this report.

(thousands of euro)	30/06/2020	31/12/2019	Changes	
Cash and cash equivalents	838,403	912,742	(74,339)	(8.1)%
Loans measured at Amortised Cost	121,213,278	115,889,891	5,323,387	4.6%
- Loans to banks	12,824,727	10,044,427	2,780,300	27.7%
- Loans to customers (*)	108,388,551	105,845,464	2,543,087	2.4%
Other financial assets and hedging derivatives	43,885,488	37,069,089	6,816,399	18.4%
- At FV through Profit or Loss	9,074,876	7,285,091	1,789,785	24.6%
- At FV through OCI	13,112,219	12,526,772	585,447	4.7%
- At AC	21,698,393	17,257,226	4,441,167	25.7%
Interests in associates and joint ventures	1,577,065	1,386,079	190,986	13.8%
Property, plant and equipment	3,522,027	3,624,312	(102,285)	(2.8)%
Intangible assets	1,260,785	1,269,360	(8,575)	(0.7)%
Tax assets	4,628,214	4,619,636	8,578	0.2%
Non-current assets and disposal groups held for sale	105,232	131,082	(25,850)	(19.7)%
Other assets	2,384,870	2,136,010	248,860	11.7%
Total assets	**179,415,362**	**167,038,201**	**12,377,161**	**7.4%**
Direct funding	115,233,654	109,506,299	5,727,355	5.2%
- Due to customers	98,769,456	93,375,026	5,394,430	5.8%
- Securities and financial liabilities at FV	16,464,198	16,131,273	332,925	2.1%
Due to banks	32,929,600	28,515,685	4,413,915	15.5%
Lease payables	682,003	732,536	(50,533)	(6.9)%
Other financial liabilities designated at fair value	11,498,817	10,919,429	579,388	5.3%
Liability provisions	1,277,756	1,486,683	(208,927)	(14.1)%
Tax liabilities	611,548	619,269	(7,721)	(1.2)%
Liabilities associated with assets classified as held for sale	4,216	5,096	(880)	(17.3)%
Other liabilities	4,942,360	3,366,122	1,576,238	46.8%
Total liabilities	**167,179,954**	**155,151,119**	**12,028,835**	**7.8%**
Non-controlling interests	24,559	26,076	(1,517)	(5.8)%
Group shareholders' equity	12,210,849	11,861,006	349,843	2.9%
Consolidated shareholders' equity	**12,235,408**	**11,887,082**	**348,326**	**2.9%**
Total liabilities and shareholders' equity	**179,415,362**	**167,038,201**	**12,377,161**	**7.4%**

(*) 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 Italian Decree Law 18/2016 ("GACS") has been activated.

The changes in the main balance sheet items as at 30 June 2020 are described below.

Loan brokering activities

Direct funding

(thousands of euro)	30/06/2020	% impact	31/12/2019 (*)	% impact	Abs. change	Change %
Current accounts and deposits	**93,059,844**	**80.8%**	**87,782,024**	**80.2%**	**5,277,820**	**6.0%**
- current accounts and demand deposits	91,398,925	79.3%	86,155,794	78.7%	5,243,131	6.1%
- fixed-term deposits and other restricted current accounts	1,660,919	1.4%	1,626,230	1.5%	34,689	2.1%
Securities	**16,464,198**	**14.3%**	**16,131,273**	**14.7%**	**332,925**	**2.1%**
- bonds and liabilities at fair value	16,406,657	14.2%	16,055,719	14.7%	350,938	2.2%
- certificates of deposit and other securities	57,541	0.0%	75,554	0.1%	(18,013)	(23.8%)
Repurchase agreements	**3,923,452**	**3.4%**	**3,866,166**	**3.5%**	**57,286**	**1.5%**
Loans and other payables	**1,786,160**	**1.6%**	**1,726,836**	**1.6%**	**59,324**	**3.4%**
Direct funding	**115,233,654**	**100.0%**	**109,506,299**	**100.0%**	**5,727,355**	**5.2%**
Direct funding without repurchase agreements	**111,310,202**		**105,640,133**		**5,670,069**	**5.4%**
Other funding (Protected capital certificates)	3,129,867		3,239,661		(109,794)	(3.4%)
Total direct funding without repurchase agreements with certificates	**114,440,069**		**108,879,794**		**5,560,275**	**5.1%**

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

As at 30 June 2020, **direct funding**[1] totalled 114.4 billion, showing an increase of 5.1% compared to the 108.9 billion as at 31 December 2019. In comparison with the figures at the end of 2019 there has been an increase of 5.3 billion in the segment represented by the current accounts and demand deposits of the commercial network (+6.0%). The trend in bonds issued also increased (+2.2%) following the new non-preferred senior bond issue during the period. As regards funding guaranteed by the stock of certificates, the balance as at 30 June 2020 amounted to 3.1 billion, a decrease compared to 3.2 billion as at 31 December 2019 (-3.4%).

Indirect funding

(thousands of euro)	30/06/2020	% impact	31/12/2019 (*)	% impact	Abs. change	Change %
Managed assets	**57,847,787**	**63.5%**	**58,324,893**	**62.9%**	**(477,106)**	**(0.8%)**
mutual funds and SICAVs	38,786,609	42.5%	39,049,762	42.1%	(263,153)	(0.7%)
securities and fund management	4,007,111	4.4%	3,904,398	4.2%	102,713	2.6%
insurance policies	15,054,067	16.5%	15,370,733	16.6%	(316,666)	(2.1%)
Administered assets	**33,311,567**	**36.5%**	**34,347,351**	**37.1%**	**(1,035,784)**	**(3.0%)**
Total indirect funding	**91,159,354**	**100.0%**	**92,672,244**	**100.0%**	**(1,512,890)**	**(1.6%)**
Underlying funding for protected capital certificates	2,762,751		2,929,380		(166,629)	(5.7%)
Total indirect funding without certificates	**88,396,603**		**89,742,864**		**(1,346,261)**	**(1.5%)**

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

Indirect funding net of protected capital certificates[2] amounted to 88.4 billion, down by 1.5% compared to 31 December 2019, due to negative market trends. In the second quarter, however, there was a marked recovery from the figure as at 31 March, due both to the recovery of the markets and the growth in assets.
The component of managed assets amounted to 57.8 billion, substantially in line with the figure of 58.3 billion as at 31 December 2019, but up compared to the previous quarter (+7.0%).
Administered assets, net of funding underlying certificates, amounted to 30.5 billion, a contraction of 0.9 billion (-2.8%) compared to the end of 2019, attributable to a reduction in volumes, which recovered in the second quarter of 2020 (+8.6%).

[1] As from 30 June 2020, for the sake of consistency with the criteria used to represent operating results, the aggregate of direct funding is represented by the sum of term and demand deposits and current accounts, bonds issued, certificates of deposit and other securities, loans and other payables, and protected capital certificates. Repurchase agreements are not included.

[2] As from 30 June 2020, for consistency with the criteria for the representation of operating results, the aggregate of indirect funding is represented net of deposits underlying protected capital certificates. Figures for the previous period have been restated to ensure comparison on a consistent basis.

Loans to customers

(thousands of euro)	30/06/2020	% impact	31/12/2019	% impact	Abs. change	Change %
Mortgage loans	69,979,261	64.6%	65,341,934	61.7%	4,637,327	7.1%
Current accounts	10,228,901	9.4%	11,345,996	10.7%	(1,117,095)	(9.8%)
Repurchase agreements	4,729,338	4.4%	5,724,258	5.4%	(994,920)	(17.4%)
Finance leases	1,645,109	1.5%	1,715,408	1.6%	(70,299)	(4.1%)
Credit cards, personal loans and salary-backed loans	1,858,534	1.7%	2,019,994	1.9%	(161,460)	(8.0%)
Other transactions	17,609,148	16.2%	17,195,762	16.2%	413,386	2.4%
Senior securities relative to Exodus and ACE transactions (GACS)	2,338,260	2.2%	2,502,112	2.4%	(163,852)	(6.5%)
Total net loans to customers	**108,388,551**	**100.0%**	**105,845,464**	**100.0%**	**2,543,087**	**2.4%**

Net loans to customers[1] amounted to 108.4 billion as at 30 June 2020, an increase of 2.5 billion compared to 31 December 2019. The increase is entirely attributable to performing loans, which grew by 2.7 billion (+2.7%) with new lending to households and businesses amounting to 12.4 billion in the first half, while non-performing loans fell further compared to the end of 2019 (-0.1 billion or -2.6%).

Credit quality

Loans to customers at amortised cost

(thousands of euro)	30/06/2020		31/12/2019		Abs. change	Change %
	Net exposure	% impact	Net exposure	% impact		
Bad loans	1,549,305	1.4%	1,559,597	1.5%	(10,292)	(0.7%)
Unlikely to pay	3,738,713	3.4%	3,911,791	3.7%	(173,078)	(4.4%)
Non-performing past-due exposures	111,442	0.1%	72,996	0.1%	38,446	52.7%
Non-performing loans	**5,399,460**	**5.0%**	**5,544,384**	**5.2%**	**(144,924)**	**(2.6%)**
Performing loans	100,650,831	92.9%	97,798,968	92.4%	2,851,863	2.9%
Senior securities relative to Exodus and ACE transactions (GACS)	2,338,260	2.2%	2,502,112	2.4%	(163,852)	(6.5%)
Performing loans	**102,989,091**	**95.0%**	**100,301,080**	**94.8%**	**2,688,011**	**2.7%**
Total loans to customers	**108,388,551**	**100.0%**	**105,845,464**	**100.0%**	**2,543,087**	**2.4%**

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

Loans to customers at amortised cost

(thousands of euro)	30/06/2020				31/12/2019			
	Gross exposure	Total value adjustments	Net exposure	Coverage	Gross exposure	Total value adjustments	Net exposure	Coverage
Bad loans	3,530,229	(1,980,924)	1,549,305	56.1%	3,564,561	(2,004,964)	1,559,597	56.2%
Unlikely to pay	6,158,508	(2,419,795)	3,738,713	39.3%	6,423,516	(2,511,725)	3,911,791	39.1%
Non-performing past-due exposures	149,817	(38,375)	111,442	25.6%	98,492	(25,496)	72,996	25.9%
Non-performing loans	**9,838,554**	**(4,439,094)**	**5,399,460**	**45.1%**	**10,086,569**	**(4,542,185)**	**5,544,384**	**45.0%**
of which: forborne	4,935,653	(2,001,029)	2,934,624	40.5%	4,701,537	(1,809,432)	2,892,105	38.5%
Performing loans (*)	**103,430,825**	**(441,734)**	**102,989,091**	**0.4%**	**100,631,192**	**(330,112)**	**100,301,080**	**0.3%**
of which: first stage	96,565,263	(182,327)	96,382,936	0.2%	94,717,188	(123,560)	94,593,628	0.1%
of which: second stage	6,865,562	(259,407)	6,606,155	3.8%	5,914,004	(206,552)	5,707,452	3.5%
of which: forborne	1,811,252	(76,255)	1,734,997	4.2%	1,982,039	(73,477)	1,908,562	3.7%
Total loans to customers	**113,269,379**	**(4,880,828)**	**108,388,551**	**4.3%**	**110,717,761**	**(4,872,297)**	**105,845,464**	**4.4%**

(*) Includes senior securities related to the Exodus Project and the ACE Project for 2,338.3 million (2,340.2 million of gross exposure and 1.9 million of value adjustments).

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

Net non-performing loans (bad loans, unlikely to pay and past due and/or non-performing overdue) amounted to 5.4 billion as at 30 June 2020, a decrease of 145 million (-2.6%) compared to 31 December 2019.
An analysis of the individual items shows the following changes:

- net bad loans of 1.5 billion, in line with the figure as at 31 December 2019;
- net unlikely to pay of 3.7 billion, down by 4.4% compared to 3.9 billion as at 31 December 2019);
- net past due exposures amounting to 111 million (73 million as at 31 December 2019).

The coverage rate for the entire impaired loans aggregate was 45.1% (45.0% as at 31 December 2019).
More specifically, as at 30 June 2020, the coverage ratio was as follows:

- bad loans 56.1% (56.2% as at 31 December 2019);
- unlikely to pay 39.3% (39.1% at 31 December 2019);
- past due 25.6% (25.9% at 31 December 2019).

The coverage ratio of performing loans came out at 0.43%, compared to 0.33% as at 31 December 2019. The increase observed in the first half of the year is attributable to the updated macroeconomic scenarios following the crisis triggered by the current health emergency.

Financial assets

(thousands of euro)	30/06/2020	% impact	31/12/2019	% impact	Abs. change	Change %
Debt securities (*)	38,287,632	87.2%	31,238,603	84.3%	7,049,029	22.6%
Equity instruments	1,017,686	2.3%	1,942,243	5.2%	(924,557)	(47.6%)
UCIT units	556,092	1.3%	604,969	1.6%	(48,877)	(8.1%)
Total securities portfolio	**39,861,410**	**90.8%**	**33,785,815**	**91.1%**	**6,075,595**	**18.0%**
Derivative trading and hedging instruments	2,031,871	4.6%	2,063,323	5.6%	(31,452)	(1.5%)
Loans	1,992,207	4.5%	1,219,951	3.3%	772,256	63.3%
Total financial assets	**43,885,488**	**100.0%**	**37,069,089**	**100.0%**	**6,816,399**	**18.4%**

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

Financial assets amounted to 43.9 billion, an increase of 18.4% compared to 37.1 billion as at 31 December 2019; the increase was mainly concentrated in debt securities held for trading and those valued at amortised cost. The composition as at 30 June 2020 consisted of debt securities amounting to 38.3 billion, equity instruments and UCIT units amounting to 1.6 billion and derivatives and other financial assets amounting to 4.0 billion. Exposures in debt securities issued by sovereign states came to 33.1 billion, of which 21.7 billion referring to Italian government bonds. The impact of the latter on the segment of government securities was 65.6% as at 30 June 2020 compared to 58.7% in December 2019, an increase linked to positions in both the trading and the HTC portfolios.

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

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

(thousands of euro)	30/06/2020	% impact	31/12/2019	% impact	Abs. change	Change %
Debt securities	3,861,517	42.6%	2,086,204	28.6%	1,775,313	85.1%
Equity instruments	633,189	7.0%	1,310,644	18.0%	(677,455)	(51.7%)
UCIT units	556,092	6.1%	604,969	8.3%	(48,877)	(8.1%)
Total securities portfolio	**5,050,798**	**55.7%**	**4,001,817**	**54.9%**	**1,048,981**	**26.2%**
Financial and credit derivatives	2,031,871	22.4%	2,063,323	28.3%	(31,452)	(1.5%)
Loans	1,992,207	22.0%	1,219,951	16.7%	772,256	63.3%
Overall total	**9,074,876**	**100.0%**	**7,285,091**	**100.0%**	**1,789,785**	**24.6%**

Financial assets measured at fair value through other comprehensive income

(thousands of euro)	30/06/2020	% impact	31/12/2019	% impact	Abs. change	Change %
Debt securities	12,727,722	97.1%	11,895,173	95.0%	832,549	7.0%
Equity instruments	384,497	2.9%	631,599	5.0%	(247,102)	(39.1%)
Total	**13,112,219**	**100.0%**	**12,526,772**	**100.0%**	**585,447**	**4.7%**

Financial assets at amortised cost

(thousands of euro)	30/06/2020	% impact	31/12/2019	% impact	Abs. change	Change %
Debt securities (*)	21,698,393	100.0%	17,257,226	100.0%	4,441,167	25.7%
Total	**21,698,393**	**100.0%**	**17,257,226**	**100.0%**	**4,441,167**	**25.7%**

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

Exposure to sovereign risk

The Group's total exposure in sovereign debt securities as at 30 June 2020 was 33,101.2 million, and is provided below, broken down by country (amounts in thousands of euro):

Countries	Total debt securities
Italy	21,720,319
Spain	3,701,369
Ireland	19,852
Germany	1,180,911
France	3,449,643
Austria	145,461
Other EU countries	421,105
Total EU countries	**30,638,659**
USA	2,303,091
Israel	5,209
Chile	21,769
Argentina	83
China	113,685
Mexico	18,752
Total other countries	**2,462,589**
Total	**33,101,248**

Exposure is mainly concentrated within the Parent Company Banco BPM, which as at 30 June held a total of 31,577.6 million, mostly relative to Italian government bonds.
Investments in sovereign debt securities are classified at 60.5% in the portfolio of financial assets measured at amortised cost, 29.5% in the portfolio of financial assets measured at fair value through other comprehensive income and 10% in the portfolio of financial assets at fair value through profit and loss as they are held for trading.
About 93% of this exposure refers to securities issued by countries of the European Union and in particular about 66% by Italy.

The tables below provide, for securities issued by EU countries, more detailed information about the breakdown by accounting portfolio, residual life brackets and fair value hierarchy.

Financial assets at fair value through profit and loss

Country	Maturing by 2020	Maturing between 2021 and 2025	Maturing between 2026 and 2030	Maturing beyond 2030	Total fair value as at 30/06/2020	Total fair value by hierarchy		
						LEVEL 1	LEVEL 2	LEVEL 3
Italy	727,772	2,161,582	47,002	6,261	2,942,617	2,942,617	-	-
Spain	-	66,393	308,543	-	374,936	374,936	-	-
Ireland	-	1	1	1	3	3	-	-
Greece	-	-	-	2	2	2	-	-
Germany	-	-	-	2	2	2	-	-
Other EU countries	-	32	2	-	34	34	-	-
Total	**727,772**	**2,228,010**	**355,548**	**6,266**	**3,317,595**	**3,317,595**	**-**	**-**

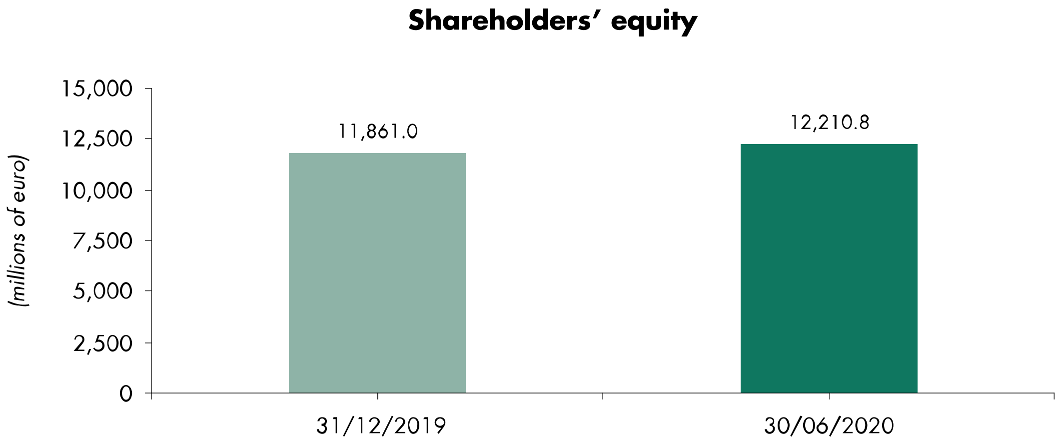
Financial assets measured at fair value through other comprehensive income

Country	Maturing by 2020	Maturing between 2021 and 2025	Maturing between 2026 and 2030	Maturing beyond 2030	Total fair value as at 30/06/2020	Net Reserve FVTOCI	Value adjustments	Total fair value by hierarchy		
								LEVEL 1	LEVEL 2	LEVEL 3
Italy	-	3,999,532	986,442	-	4,985,973	15,251	-	4,985,973	-	-
Spain	-	71,588	1,929,776	-	2,001,364	951	-	2,001,364	-	-
France	-	-	1,786,562	-	1,786,562	6,496	-	1,786,562	-	-
Germany	-	77,583	564,063	-	641,646	5,122		641,646		
Other EU countries	-	4,559	115,213	10,405	130,178	321	-	130,178	-	-
Total	**-**	**4,153,262**	**5,382,055**	**10,405**	**9,545,723**	**28,141**	**-**	**9,545,723**	**-**	**-**

Financial assets at amortised cost

Country	Maturing by 2020	Maturing between 2021 and 2025	Maturing between 2026 and 2030	Maturing beyond 2030	Total book value as at 30/06/2020	Total fair value	Total fair value by hierarchy		
							LEVEL 1	LEVEL 2	LEVEL 3
Italy	1,140,679	9,965,571	2,685,478	-	13,791,728	14,140,103	14,140,103	-	-
Spain	-	369,938	955,130	-	1,325,068	1,366,136	1,366,136	-	-
France	-	-	1,663,080	-	1,663,080	1,716,009	1,716,009	-	-
Ireland	-	-	19,849	-	19,849	21,748	21,748	-	-
Germany	-	-	539,263	-	539,263	555,153	555,153		
Other EU countries	-	5,303	431,049	-	436,352	448,980	448,980	-	-
Total	**1,140,679**	**10,340,813**	**6,293,848**	**-**	**17,775,340**	**18,248,129**	**18,248,129**	**-**	**-**

Shareholders' equity and solvency ratios



The Group's consolidated shareholders' equity as at 30 June 2020, including valuation reserves and profit (loss) for the period, amounted to 12,210.8 million, compared to the figure at the end of 2019 of 11,861.0 million.
The increase of 349.8 million is due to the issuance of 400 million nominal Additional Tier 1 instruments in January, recognised in the financial statements for an amount of 397.3 million (equal to the consideration received less transaction costs) under item "140. Equity instruments" net of the negative contribution of comprehensive income recorded during the period. The latter is negative by 33.4 million due to the net profit for the period of 105.2 million and the negative change in valuation reserves of 138.6 million.
In addition, other negative changes totalling 14.1 million were recorded, relating to the payment of coupons in relation to Additional Tier 1 instruments and the change in own shares in portfolio.

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

(thousands of euro)	Shareholders' equity	Profit (loss) for the period
Balance as at 30/06/2020 as per the Parent Company's financial statements	**11,294,999**	**111,370**
Impact of the consolidation of subsidiaries	839,785	39,965
Impact of the valuation at equity of associated companies	43,498	70,302
Cancellation of the dividends received during the year from subsidiaries and associates	-	(147,746)
Other consolidation adjustments	32,567	31,340
Balance as at 30/06/2020 as per the consolidated financial statements	**12,210,849**	**105,231**

Solvency ratios - reference legislation and standards to follow

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

The new rules introduced a gradual elimination (or phase-out over an extended period until 2021 under a "grandfathering" regime) for capital instruments that do not fully meet the new regulation's requirements to be included.

The minimum capital requirements for 2020 are as follows:

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

The Bank of Italy has confirmed the Countercyclical Capital Buffer ratio at zero per cent for the first and second quarters of 2020.
Through its communication on 30 November 2017, the Bank of Italy identified Banco BPM Banking Group as an Other Systemically Important Institution (O-SII). The O-SII reserve for 2020 is equal to 0.13%, and must be gradually increased each year on a straight-line basis to reach 0.25% on 1 January 2022.

On 11 December 2019, the European Central Bank (ECB) notified Banco BPM of its final decision on the minimum capital ratios to be complied with by Banco BPM on an ongoing basis, starting from 2020.
The decision is based on the supervisory review and evaluation process (SREP) conducted in compliance with Article 4(1)(f) of Regulation (EU) no. 1024/2013.
In compliance with Article 16 (2) (a) of the Regulation no. 1024/2013, which confers on the ECB the power to require supervised banks to hold own funds in excess of the minimum capital requirements laid down by current regulations, the requirement to be added to the requirements highlighted above was reduced to 2.25% (it was 2.50% previously).
Taking into account the requirements deriving from the aforementioned SREP requirement, the Banco BPM Group is required to comply with the following capital ratios at consolidated level for 2020, in accordance with the transitional criteria in force:

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

With the letter dated 8 April 2020, the ECB decided to amend the aforementioned decision taken in December 2019 following the Covid-19 health emergency, stipulating that the SREP requirement of 2.25% must be maintained by Banco BPM for 56.25% as Common Equity Tier 1 (CET1) and 75% as Tier 1 Capital (Tier 1). Therefore, the minimum requirements that Banco BPM is required to meet for 2020, starting in June 2020 and until further notice, are as follows:

- CET1 ratio: 8.398%;
- Tier 1 ratio: 10.319%;
- Total Capital ratio: 12.882%.

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

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

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

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. and the Leasing Division of the Parent Company[1].

Applying the transitional regime in effect as at 30 June 2020, the capital ratios are as follows:
- Common Equity Tier1 (CET1) Ratio of 14.56% (14.73% including the profit recorded for the half-year) compared to 14.43% at the end of the December 2019;
- Tier 1 Capital Ratio of 15.79% (15.96% including the profit registered for the half-year), an increase compared to the figure at the end of December 2019 of 15.08%;
- Total Capital Ratio of 17.77% (17.94% including the profit registered for the half-year) compared to 17.40% at the end of December 2019.

The fully operational ratios calculated, including the profit registered for the first half of 2020, are as follows:
- CET1 Ratio of 13.31%;
- Tier 1 Capital ratio of 14.38%;
- Total Capital ratio of 16.35%.

Own fund levels as at 30 June 2020 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.

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]. As at 30 June 2020, the Banco BPM Group had a consolidated LCR equal to 193%.

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

Lastly, as regards the leverage ratio, the value as at 30 June 2020 was 5.187% (4.710% with the definition of standard regulatory capital).

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[1] Decision of the European Central Bank notified on 15 June 2016.
[2] 60% from 1 October 2015; 70% from 1 January 2016; 80% from 1 January 2017; 100% from 1 January 2018.

Key financial highlights of the main Group companies

A summary of the main interests in Group companies is presented below, with an indication of the most significant balance sheet, income statement and operating balances as at 30 June 2020.

(millions of euro)	Total assets	Shareholders' equity (*)	Direct Funding	Indirect Funding	Net loans	Income (Loss)
Banks						
Banca Aletti & C.	2,531.7	357.6	2,016.0	21,351.5	221.8	12.2
Banca Akros	9,911.3	721.5	1,209.1	-	725.1	11.6
Banca Aletti & C. (Suisse)	162.4	28.5	132.5	445.6	13.3	(0.6)
Bipielle Bank (Suisse)	27.4	21.5	4.2	-	-	(0.3)
Financial companies						
Aletti Fiduciaria	10.7	7.3	0.1	968.6	2.3	(0.2)
Release	1,588.2	161.2	6.8	-	706.8	(9.6)
ProFamily	1,343.0	89.7	2.9	-	1,324.0	4.7
Other companies						
Bipielle Real Estate	1,290.4	1,207.8	30.1	-	7.1	16.2
Tecmarket Servizi	43.4	21.4	-	-	-	4.9
Ge.Se.So.	1.4	0.3	-	-	-	0.0

(*) amount inclusive of the profit (loss) for the period.

Group ratings

Summary table of Banco BPM ratings

Rating agency	Type of Rating	30/06/2020	31/12/2019
Moody's Investor Service	Long Term on Senior Unsecured Debt	Ba2/Negative Outlook	Ba2/Negative Outlook
	Issuer Rating	Ba2/Negative Outlook	Ba2/Negative Outlook
	Long Term on Deposits	Baa3/Negative Outlook	Baa3/Stable Outlook
	Short Term on Deposits	P-3	P-3
	Baseline Credit Assessment	ba3	ba3
	Counterparty Risk Assessment	Baa3(cr)/P-3(cr)	Baa3(cr)/P-3(cr)
DBRS Morningstar	Long-Term Issuer Rating	BBB (low)/Negative Trend	BBB (low)/Stable Trend
	Short-Term Issuer Rating	R-2 (middle)/Negative Trend	R-2 (middle)/Stable Trend
	Long Term on Senior Debt	BBB (low)/Negative Trend	BBB (low)/Stable Trend
	Short Term on Debt	R-2 (middle)/Negative Trend	R-2 (middle)/Stable Trend
	Long Term on Deposits	BBB/Negative Trend	BBB/Stable Trend
	Short Term on Deposits	R-2 (high)/Negative Trend	R-2 (high)/Stable Trend
	Intrinsic Assessment	BBB (low)	BBB (low)
	Support Assessment	SA3	SA3

Summary table of Banca Akros ratings

Rating agency	Type of Rating	30/06/2020	31/12/2019
DBRS Morningstar	Long-Term Issuer Rating	BBB (low)/Negative Trend	BBB (low)/Stable Trend
	Short-Term Issuer Rating	R-2 (middle)/Negative Trend	R-2 (middle)/Stable Trend
	Long Term on Senior Debt	BBB (low)/Negative Trend	BBB (low)/Stable Trend
	Short Term on Debt	R-2 (middle)/Negative Trend	R-2 (middle)/Stable Trend
	Long Term on Deposits	BBB/Negative Trend	BBB/Stable Trend
	Short Term on Deposits	R-2 (high)/Negative Trend	R-2 (high)/Stable Trend
	Support Assessment	SA1	SA1

During the first half of 2020, the following actions on ratings took place:

- Moody's, on 26 March 2020, as part of a rating action on 15 Italian banks as a reflection of the crisis triggered by Covid-19, confirmed all Banco BPM's ratings, changing the Outlook for the Long Term Rating on Deposits from Stable to Negative;
- DBRS Morningstar, on 2 April 2020, as part of a rating action on 9 Italian banks as a reflection on the crisis triggered by Covid-19, confirmed all the ratings of Banco BPM and its subsidiary Banca Akros, changing the Trends on the long and short term ratings of Banco BPM and Banca Akros from Stable to Negative.

RISK MANAGEMENT

Information on risks is provided in the explanatory notes to the consolidated condensed interim financial statements, to which reference should be made.

DISCLOSURE ON TRANSACTIONS WITH RELATED PARTIES

The information on transactions with related parties is included in the explanatory notes to the consolidated condensed interim financial statements, to which reference is made.

OUTLOOK FOR BUSINESS OPERATIONS

The outbreak of the Covid-19 epidemic, both globally and in the Eurozone and Italy, has cancelled previous forecasts of economic growth for the current year, giving way to significant recession forecasts. Meanwhile, in the short term, the recovery of production, after the lockdown, guarantees a partial recovery of economic growth in the final two quarters of the year, although starting from much lower GDP levels than before the health emergency. There is still a risk that a resurgence of the epidemic may occur again this autumn, although the containment measures and the development of the health framework seem to limit the risks associated with it to an appreciable extent.
During the period, the ECB provided crucial support to the Eurozone economy and, in particular, to the Italian economy. The launch of the PEPP (Pandemic Emergency Purchase Programme), the strengthening of the LTRO auctions with the advent of the new PELTROs, which are not tied to the provision of new credit, and the more favourable conditions that characterised the launch of the TLTRO III guaranteed a flow of liquidity and extremely advantageous funding for Italian banks and businesses, counteracting the negative financial effects of the health emergency.
The need to support the economy, in particular through state intervention, by issuing state guarantees to borrowers in difficulty, combined with the ECB's success in ensuring the smooth functioning of the mechanism used to transmit monetary policy, has given particular impetus to lending activity.
In this context, the aggregate of loans to companies, aimed at supporting their liquidity needs, will grow appreciably over the year as a whole, while disbursement conditions, thanks to the ample liquidity and the low cost of funding guaranteed by the monetary measures mentioned above, will remain relaxed and advantageous for customers. The Covid crisis has not slowed down NPL disposals in the system, both because of the increase in asset volumes and the foreseeable lower prospective quality of the same. The cost of funding will remain stable in the presence of a shift towards more liquid forms, thanks to the decisive role of the ECB.
The compound effect of the increase in assets and the decline in unit margins on loans to households and businesses is expected to lead to a decrease in customer margins. The savings in funding costs at the ECB will instead support the net interest income, which will grow again. Net fee and commission income will be affected both by the reduced operations of households and businesses linked to the lockdown and, on the financial investments side, by the initial fall in markets. Combined, this should result in a marginal increase in operating income.
Operating expenses are down, thanks in part to the change in the service model, with the digital transformation accelerated by the pandemic, and are expected to lead to an improvement in operating profit. Despite the loosening of regulatory constraints in 2020 (flexibility on IFRS 9 procyclicality and calendar provisioning) and the measures introduced in favour of households and businesses, provisions and adjustments to loans will increase significantly, including losses related to increased disposals of non-performing loans.

Given this context, it is confirmed that the objectives of the Group's 2020-2023 Strategic Plan, announced at the beginning of March, unlike the main business development guidelines, are no longer to be considered current, as they were drawn up on the basis of assumptions made before the spread of the Covid-19 pandemic on a global scale, in a macroeconomic scenario that differs from the one that is being determined on a day-to-day basis. The

Group will therefore proceed with the preparation of a new Strategic Plan once the prospective framework is better defined, so that it can be based on new and more up-to-date macroeconomic and sector assumptions.
The operating performance in the second half of the year is expected to improve compared to the first six months, thanks in particular to the evolution of the net interest income, which will also benefit from the increased contribution from the use of ECB loans, and the containment of operating costs, which will be one of the main priorities for action. With regard to credit quality, despite the fact that the physiological dynamics of the relative cost during the quarter were substantially in line with expectations and the trend for inflows into deteriorated loan categories as at the end of July did not show any particular acceleration, the Group anticipated the possible impact of the worsening of the scenario, appropriately adjusted to take account of the mitigation effects of the support measures granted to customers (government guarantees and moratoriums), further increasing the provisions on the performing portfolio. The effects of these assessments will in any case be constantly monitored in line with the evolution of the prospective macroeconomic framework. Unless the scenario worsens further, which, given the exceptionality and uncertainty of the current environment, cannot be ruled out, the Group's solid capital position, combined with its ability to generate capital organically, will not preclude sustainable shareholder remuneration, subject to the indications that will be provided by the ECB on the distribution of dividends after 1 January 2021.

Consolidated condensed interim financial statements

FINANCIAL STATEMENTS

Consolidated Balance Sheet

Asset items	30/06/2020	31/12/2019
10. Cash and cash equivalents	838,403	912,742
20. Financial assets at fair value through profit and loss	8,963,784	7,181,477
a) financial assets held for trading	7,537,807	5,726,814
c) other financial assets mandatorily measured at fair value	1,425,977	1,454,663
30. Financial assets measured at fair value through other comprehensive income	13,112,219	12,526,772
40. Financial assets at amortised cost	142,911,671	133,147,117
a) loans to banks	13,680,932	10,834,518
b) loans to customers	129,230,739	122,312,599
50. Hedging derivatives	111,092	103,614
60. Fair value change of financial assets in macro fair value hedge portfolios (+/-)	51,031	29,161
70. Interests in associates and joint ventures	1,577,065	1,386,079
90. Property, plant and equipment	3,522,027	3,624,312
100. Intangible assets	1,260,785	1,269,360
of which:		
- goodwill	76,200	76,200
110. Tax assets	4,628,214	4,619,636
a) current	164,311	159,845
b) deferred	4,463,903	4,459,791
120. Non-current assets and disposal groups held for sale	105,232	131,082
130. Other assets	2,333,839	2,106,849
Total assets	**179,415,362**	**167,038,201**

Liability and shareholders' equity items	30/06/2020	31/12/2019
10. Financial liabilities at amortised cost	148,610,102	138,333,959
a) due to banks	32,936,858	28,523,335
b) due to customers	99,444,201	94,099,912
c) debt securities in issue	16,229,043	15,710,712
20. Financial liabilities held for trading	10,771,808	10,366,668
30. Financial liabilities designated at fair value	342,658	420,561
40. Hedging derivatives	619,506	552,761
50. Fair value change of financial liabilities in macro fair value hedge portfolios (+/-)	129,763	62,299
60. Tax liabilities	611,548	619,269
a) current	4,963	9,235
b) deferred	606,585	610,034
70. Liabilities associated with assets classified as held for sale	4,216	5,096
80. Other liabilities	4,812,597	3,303,823
90. Provisions for employee severance pay	382,034	384,886
100. Provisions for risks and charges	895,722	1,101,797
a) commitments and guarantees given	114,596	115,990
b) post-employment benefits and similar obligations	143,690	150,910
c) other provisions	637,436	834,897
120. Valuation reserves	160,298	164,836
140. Equity instruments	695,417	298,112
150. Reserves	4,164,082	3,512,575
170. Share capital	7,100,000	7,100,000
180. Own shares (-)	(14,179)	(11,518)
190. Non-controlling interests (+/-)	24,559	26,076
200. Profit (Loss) for the period (+/-)	105,231	797,001
Total liabilities and shareholders' equity	**179,415,362**	**167,038,201**

Consolidated Income Statement

Items	1st half 2020	1st half 2019 (*)
10. Interest and similar income	1,181,357	1,274,352
of which: interest income using the effective interest method	1,153,889	1,255,073
20. Interest and similar expense	(237,501)	(254,354)
30. Net interest income	**943,856**	**1,019,998**
40. Fee and commission income	865,493	918,843
50. Fee and commission expense	(60,900)	(49,776)
60. Net fee and commission income	**804,593**	**869,067**
70. Dividends and similar income	29,129	52,250
80. Net trading income	60,559	(197,267)
90. Fair value gains/losses on hedging derivatives	(8,855)	(487)
100. Gains (losses) on disposal or repurchase of:	38,992	201,769
a) financial assets at amortised cost	4,176	38,676
b) financial assets measured at fair value through other comprehensive income	34,697	165,330
c) financial liabilities	119	(2,237)
110. Net Gains (Losses) from other financial assets and liabilities measured at fair value through profit or loss	4,593	70,700
a) financial assets and liabilities designated at fair value	3,762	30
b) other financial assets mandatorily measured at fair value	831	70,670
120. Operating income	**1,872,867**	**2,016,030**
130. Net credit impairment losses/recoveries relating to:	(471,621)	(367,683)
a) financial assets at amortised cost	(470,290)	(369,869)
b) financial assets measured at fair value through other comprehensive income	(1,331)	2,186
140. Gains (losses) from contractual modification without derecognition	(1,001)	(1,001)
150. Net income from financial activities	**1,400,245**	**1,647,346**
180. Net income from financial and insurance activities	**1,400,245**	**1,647,346**
190. Administrative expenses:	(1,363,548)	(1,387,695)
a) personnel expenses	(815,403)	(838,851)
b) other administrative expenses	(548,145)	(548,844)
200. Net provisions for risks and charges	(7,614)	(5,680)
a) commitments and guarantees given	1,394	3,766
b) other net provisions	(9,008)	(9,446)
210. Depreciation and impairment losses on property, plant and equipment	(86,105)	(97,979)
220. Amortisation and impairment losses on intangible assets	(54,898)	(52,293)
230. Other operating expenses/income	157,362	165,815
240. Operating expenses	**(1,354,803)**	**(1,377,832)**
250. Gains (losses) of associates and joint ventures	70,302	68,547
260. Fair value gains (losses) on property, plant and equipment and intangible assets	(5,416)	(26,782)
280. Gains (losses) on disposal of investments	220	337,652
290. Profit (loss) before tax from continuing operations	**110,548**	**648,931**
300. Taxation charge related to profit or loss from continuing operations	(6,825)	(50,418)
310. Profit (loss) after tax from continuing operations	**103,723**	**598,513**
330. Profit (Loss) for the period	**103,723**	**598,513**
340. Profit (loss) for the period attributable to non-controlling interests	1,508	4,471
350. Parent Company's profit (loss) for the period	**105,231**	**602,984**
Basic EPS (euro)	0.070	0.399
Diluted EPS (euro)	0.070	0.399

(*) The amounts relating to the previous period have been restated to reflect the impact of the change in the valuation criteria for the Group's property assets, as explained in detail in the section "Notes for a proper comparison of the comparative financial statements" in Part A of the Explanatory Notes.

Statement of Consolidated Comprehensive Income

Items	30/06/2020	30/06/2019 (*)
10. Profit (Loss) for the period	**103,723**	**598,513**
Other comprehensive income after tax without reclassification to the income statement	**(118,470)**	**(40,531)**
20. Equity instruments designated at fair value through other comprehensive income	(120,340)	(12,347)
30. Financial liabilities designated at fair value through profit and loss (changes to its own credit risk)	910	(4,212)
70. Defined benefit plans	946	(23,907)
90. Share of valuation reserves related to interests in associates and joint ventures carried at equity	14	(65)
Other comprehensive income after tax with reclassification to the income statement	**(20,181)**	**164,535**
100. Foreign investment hedges	(335)	(408)
110. Exchange rate differences	953	1,043
120. Cash flow hedges	5,643	488
140. Financial assets (other than equity instruments) at fair value through other comprehensive income	(25,742)	155,775
160. Share of valuation reserves related to interests in associates and joint ventures carried at equity	(700)	7,637
170. Total other comprehensive income after tax	**(138,651)**	**124,004**
180. Comprehensive income (Items 10+170)	**(34,928)**	**722,517**
190. Consolidated comprehensive income attributable to non-controlling interests	(1,508)	(4,498)
200. Consolidated comprehensive income attributable to the Parent Company	**(33,420)**	**727,015**

(*) The amounts relating to the previous period have been restated to reflect the impact of the change in the valuation criteria for the Group's property assets, as explained in detail in the section "Notes for a proper comparison of the comparative financial statements" in Part A of the Explanatory Notes.

Statement of Changes of Consolidated Shareholders' Equity

30 June 2020	Balance as at 31/12/2019	Changes in opening balances	Balance as at 01/01/2020	Allocation of profit from previous year		Changes in the year									Shareholders' equity as at 30/06/2020	Group shareholders' equity as at 30/06/2020	Non-controlling interests as at 30/06/2020
							Operations on shareholders' equity							Comprehensive income for the period			
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of own shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on own shares	Stock options	Changes in equity investments				
Share capital:	**7,163,693**	**-**	**7,163,693**	**-**		**(37,944)**	**-**	**-**					**(10)**		**7,125,739**	**7,100,000**	**25,739**
a) ordinary shares	7,163,693	-	7,163,693	-		(37,944)	-	-					(10)		7,125,739	7,100,000	25,739
b) other shares	-	-	-	-		-	-	-					-		-	-	-
Share premium reserve	**-**	**-**	**-**	**-**		**-**	**-**	**-**					**-**		**-**	**-**	**-**
Reserves:	**3,490,528**	**-**	**3,490,528**	**781,437**		**(105,526)**	**(2,024)**	**-**	**-**		**-**		**1**		**4,164,416**	**4,164,082**	**334**
a) retained earnings	2,980,837	-	2,980,837	781,437		28,855	(2,024)	-	-				1		3,789,106	3,788,770	336
b) other	509,691	-	509,691	-		(134,381)	-	-			-		-		375,310	375,312	(2)
Valuation reserves	**164,830**	**-**	**164,830**	**-**		**134,113**							**-**	**(138,651)**	**160,292**	**160,298**	**(6)**
Equity instruments	**298,112**	**-**	**298,112**							**397,305**					**695,417**	**695,417**	**-**
Own shares	**(11,518)**	**-**	**(11,518)**			**-**	**1,419**	**(4,080)**							**(14,179)**	**(14,179)**	**-**
Profit (Loss) for the period	**781,437**	**-**	**781,437**	**(781,437)**	**-**									**103,723**	**103,723**	**105,231**	**(1,508)**
Shareholders' equity	**11,887,082**	**-**	**11,887,082**	**-**	**-**	**(9,357)**	**(605)**	**(4,080)**	**-**	**397,305**	**-**		**(9)**	**(34,928)**	**12,235,408**	**12,210,849**	**24,559**
- of the Group	**11,861,006**	**-**	**11,861,006**	**-**	**-**	**(9,357)**	**(605)**	**(4,080)**	**-**	**397,305**	**-**		**-**	**(33,420)**	**12,210,849**		
- of non-controlling interests	**26,076**	**-**	**26,076**	**-**		**-**	**-**	**-**					**(9)**	**(1,508)**	**24,559**		

30 June 2019 (*)	Balance as at 31/12/2018	Changes in opening balances	Balance as at 1/01/2019	Allocation of profit from previous year		Changes in the period									Shareholders' equity as at 30/06/2019	Group shareholders' equity as at 30/06/2019	Non-controlling interests as at 30/06/2019
							Operations on shareholders' equity										
				Reserves	Dividends and other destinations	Changes in reserves	Issue of new shares	Purchase of own shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on own shares	Stock options	Changes in equity investments	Comprehensive income for the period			
Share capital:	**7,163,927**	**-**	**7,163,927**	**-**		**-**	**-**	**-**					**(10)**		**7,163,917**	**7,100,000**	**63,917**
a) ordinary shares	7,163,927	-	7,163,927	-		-	-	-					(10)		7,163,917	7,100,000	63,917
b) other shares	-	-	-	-		-	-	-					-		-	-	-
Share premium reserve	**-**	**-**	**-**	**-**		**-**	**-**	**-**					**-**		**-**	**-**	**-**
Reserves:	**3,569,082**	**(11,912)**	**3,557,170**	**(69,119)**		**(2,876)**	**(321)**	**-**	**-**		**-**		**-**		**3,484,854**	**3,505,898**	**(21,044)**
a) retained earnings	3,064,319	(11,912)	3,052,407	(69,119)		(3,335)	(321)	-	-				-		2,979,632	3,000,674	(21,042)
b) other	504,763	-	504,763	-		459	-	-			-		-		505,222	505,224	(2)
Valuation reserves	**(346,270)**	**-**	**(346,270)**	**-**		**(1,888)**							**-**	**124,004**	**(224,154)**	**(224,295)**	**141**
Equity instruments	**-**	**-**	**-**							**298,112**					**298,112**	**298,112**	**-**
Own shares	**(12,610)**	**-**	**(12,610)**			**-**	**225**	**-**							**(12,385)**	**(12,385)**	**-**
Profit (Loss) for the period	**(69,055)**	**-**	**(69,055)**	**69,119**	**(64)**									**598,513**	**598,513**	**602,984**	**(4,471)**
Shareholders' equity	**10,305,074**	**(11,912)**	**10,293,162**	**-**	**(64)**	**(4,764)**	**(96)**	**-**	**-**	**298,112**	**-**		**(10)**	**722,517**	**11,308,857**	**11,270,314**	**38,543**
- of the Group	**10,259,475**	**(9,429)**	**10,250,046**	**-**	**-**	**(4,763)**	**(96)**	**-**	**-**	**298,112**	**-**		**-**	**727,015**	**11,270,314**		
- of non-controlling interests	**45,599**	**(2,483)**	**43,116**	**-**	**(64)**	**(1)**	**-**	**-**					**(10)**	**(4,498)**	**38,543**		

(*) The amounts relating to the previous period have been restated to reflect the impact of the change in the valuation criteria for the Group's property assets, as explained in detail in the section "Notes for a proper comparison of the comparative financial statements" in Part A of the Explanatory Notes.

Consolidated Cash Flow Statement

Indirect method

A. Operating activities	30/06/2020	30/06/2019 (*)
1. Cash flow from operations	**596,378**	**1,103,313**
- profit (loss) for the period (+/-)	105,231	602,984
- gains/losses on financial assets held for trading and on other financial assets/liabilities at fair value through profit and loss (-/+)	(68,500)	3,304
- capital gain/loss on hedging activities (-/+)	8,855	487
- net credit impairment losses/recoveries (-/+)	472,622	368,684
- net impairment losses/recoveries on property, plant and equipment and intangible assets (+/-)	141,003	150,272
- allocations to provisions for risks and charges and other costs/revenues (+/-)	8,010	5,949
- net premiums not collected (-)		
- other insurance income/expenses not collected (-/+)		
- duties, taxes and tax credits not settled (+/-)	(541)	41,019
- net impairment losses/recoveries on discontinued operations net of taxes (-/+)		
- other adjustments (+/-)	(70,302)	(69,386)
2. Cash flow from/used in financial assets	**(12,817,768)**	**(7,141,511)**
- financial assets held for trading	(1,747,016)	(1,551,215)
- financial assets designated at fair value	-	-
- other financial assets mandatorily measured at fair value	29,905	(64,789)
- financial assets measured at fair value through other comprehensive income	(586,778)	1,589,801
- financial assets at amortised cost	(10,235,845)	(6,863,708)
- other assets	(278,034)	(251,600)
3. Cash flow from/used in financial liabilities	**11,877,493**	**5,662,841**
- financial liabilities at amortised cost	10,276,143	4,577,829
- financial liabilities held for trading	405,140	810,320
- financial liabilities designated at fair value	(74,599)	(110,968)
- other liabilities	1,270,809	385,660
Net cash flow from/used in operating activities	**(343,897)**	**(375,357)**
B. Investing activities		
1. Cash flow from:	**2,494**	**5,002**
- sales of interests in associates and joint ventures	-	1
- dividends collected on interests in associates and joint ventures		
- sales of property, plant and equipment	2,494	5,001
- sales of intangible assets	-	-
- sales of subsidiaries and business segments		
2. Cash flow used in:	**(117,116)**	**(51,893)**
- purchases of interests in associates and joint ventures	(50,740)	-
- purchases of property, plant and equipment	(20,055)	(14,359)
- purchases of intangible assets	(46,321)	(37,534)
- purchases of subsidiaries and business segments		
Net cash flow from/used in investing activities	**(114,622)**	**(46,891)**
C. Financing activities		
- issues/purchases of own shares		
- issues/purchases of equity instruments	384,180	294,923
- dividend distribution and other allocations	-	(64)
- third-party sales/purchases		
Net cash flow from/used in financing activities	**384,180**	**294,859**
Net cash flow from/used during the period	**(74,339)**	**(127,389)**

Reconciliation	**30/06/2020**	**30/06/2019 (*)**
- Cash and cash equivalents at the beginning of the period	912,742	922,017
- Net cash flow from/used during the period	(74,339)	(127,389)
- Cash and cash equivalents: foreign exchange effect		
Cash and cash equivalents at the end of the period	**838,403**	**794,628**

(*) The amounts relating to the previous period have been restated to reflect the impact of the change in the valuation criteria for the Group's property assets, as explained in detail in the section "Notes for a proper comparison of the comparative financial statements" in Part A of the Explanatory Notes.

EXPLANATORY NOTES

These “Explanatory Notes” have been prepared with reference to the structure of the notes required by Bank of Italy Circular 262 for the financial statements, albeit with limited information, as these are consolidated condensed interim financial statements. For ease of reading, the numbering provided for in the aforementioned Circular has been maintained, although some parts, sections or tables may be omitted for the reasons explained above.

PART A – ACCOUNTING POLICIES

A.1 - General Part

General preparation principles

The Consolidated interim financial report (hereinafter also referred to as the "Report"), prepared in accordance with art. 154-ter of Italian Legislative Decree no. 58 of 24 February 1998 (TUF) and subsequent updates, consists of the consolidated condensed interim financial statements and the interim report on operations containing the significant events of the interim period and the outlook for business operations.

The consolidated condensed interim financial statements consist of the balance sheet, the income statement, the statement of comprehensive income, the statement of changes of shareholders’ equity, the cash flow statement and the explanatory notes.

The financial statements have been prepared in keeping with the provisions of the Bank of Italy in Circular no. 262 of 22 December 2005 “Bank financial statements: layouts and rules for preparation” and the subsequent updates (most recently, the sixth update published on 30 November 2018). Specifically, this was a Circular issued by the Bank of Italy in exercising its powers established by the above-mentioned Italian Legislative Decree 38/2005 (hereinafter also referred to as “Circular no. 262”).

The financial statements provide not only the accounting data as at 30 June 2020, but also the comparative balances relating to the same period in the previous year, with the exception of the balance sheet, which is compared with the last financial statements approved as at 31 December 2019. It should be noted that the balances in the income statement for the first half of 2019 have been restated with respect to those originally published, as explained in the following paragraph "Notes for a proper comparison of the comparative financial statements", to which reference should therefore be made for further details.

The Consolidated condensed interim financial statements, approved by the Board of Directors of Banco BPM on 6 August 2020, are subject to a limited audit by independent auditors PricewaterhouseCoopers S.p.A., in application of the engagement assigned to this company with the shareholders’ resolutions of Banco Popolare Soc. Coop. and Banca Popolare di Milano S.c.a r.l. of 15 October 2016.

This document has been prepared adopting the euro as its main currency; the amounts are stated, unless otherwise specified, in thousands of euro.

Statement of compliance with the international accounting standards

These consolidated condensed financial statements as at 30 June 2020 have been prepared in accordance with IAS/IFRS issued by the International Accounting Standard Board (IASB) and related interpretations of the International Financial Reporting Interpretations Committee (IFRIC), endorsed by the European Union, as established by EU Regulation no. 1606 of 19 July 2002.

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

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

The accounting standards applied in the preparation of these consolidated condensed financial statements are those in force on 30 June 2020 (including the SIC and IFRIC interpretations).
For an overview of the accounting standards and the related interpretations endorsed by the European Commission, whose application is planned for 2020 or future years, please refer to the following paragraph "New accounting standards/interpretations or amendments to existing standards approved by IASB/IFRIC", which also illustrates any impacts for the Group.

The communications of the Supervisory Authorities (Bank of Italy, CONSOB, ESMA, EBA, ECB) issuing recommendations on the information to be included in the Annual Financial Report on aspects of greater importance or on the accounting treatment of particular transactions have also been considered as applicable. With reference to the interpretations provided by the aforementioned Bodies, with regard to the application of certain standards or transactions in the context of the Covid-19 health crisis, reference should be made to the following paragraph "Significant accounting policies and uncertainties regarding the use of estimates in the preparation of consolidated condensed interim financial statements in the context of the Covid-19 pandemic".

The accounting standards used for the preparation of the consolidated condensed interim financial statements are those adopted for the preparation of the consolidated financial statements as at 31 December 2019, to which reference should be made for an explanation of the criteria for the recognition, classification, measurement, derecognition and recognition of income components relating to the items in the financial statements.

With regard to the disclosures provided, it should be noted that the consolidated condensed interim financial statements as at 30 June 2020 have been prepared in summary form, in accordance with the provisions of IAS 34 "Interim Financial Reporting", except for the additions that it was deemed necessary to make in order to provide complete information on the checks carried out on the recoverability of intangible assets with an indefinite useful life and deferred tax assets, as explained in the following paragraph "Significant accounting policies and uncertainties regarding the use of estimates in the preparation of consolidated condensed interim financial statements in the context of the Covid-19 pandemic".

The consolidated condensed interim financial statements as at 30 June 2020 have been prepared on a going concern basis, as 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.

The consolidated condensed interim financial statements are drawn up clearly and provide a true and fair view of the equity and financial situation and economic result of Banco BPM and its subsidiaries as at 30 June 2020, as illustrated in the paragraph "Scope of consolidation and methods".

Significant accounting policies and uncertainties regarding the use of estimates in the preparation of consolidated condensed interim financial statements in the context of the Covid-19 pandemic

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 balance sheet and the disclosures made on contingent assets and liabilities. The assumptions underlying the estimates made take into account all the information available at the date of preparation of the interim financial report as at 30 June 2020, as well as assumptions considered reasonable in light of historical experience.

Due to their nature, it thus cannot be excluded that the assumptions adopted, however reasonable, might not be confirmed by future scenarios in which the Group will operate. The results, which will be achieved in the future could therefore differ from the estimates made for the purpose of drawing up this report and could consequently make adjustments necessary, which at present cannot be foreseen or estimated with respect to the book value of the assets and liabilities recorded in the financial statements. In that regard, note that it may be necessary to adjust the estimates as a result of changes in the underlying circumstances, following new information or increased experience.

Among the main factors of uncertainty that could affect the future scenarios in which the Group will operate, the negative effects on the global and Italian economy directly or indirectly related to the Coronavirus epidemic (Covid-19) and related developments should not be underestimated.

In order to allow for an appreciation of the effects on the financial statements related to the aforementioned elements of uncertainty, this Report provides information on the main items in the financial statements subject to estimates (recoverability of intangible assets with an indefinite useful life, recoverability of deferred tax assets, expected losses on performing exposures), as well as sensitivity analysis with respect to alternative assumptions.

The following is an illustration of the accounting issues relevant to the Covid-19 crisis, as well as the estimation processes that require the use of significant elements of judgement in the selection of underlying hypotheses and assumptions.

Covid-19: significant accounting issues

As explained above, the estimates developed for the purposes of preparing this Report were influenced by the significant uncertainty regarding the negative effects deriving, directly and indirectly, from the current health crisis (hereinafter also "Covid-19").
The spread of the Covid-19 pandemic and its implications for public health, economic activity and trade could, in fact, have a significant downward effect on the growth of the Italian and global economies. At the moment, however, it is not clear what the scale of the phenomenon will be, which will depend on the evolution of the pandemic and how production activities will recover after the "lockdown" phases that characterised the first half-year. This recovery will also depend on the effectiveness of the monetary, fiscal and social support measures put in place by the competent authorities (Governments, ECB, European Union, etc.).
As long as the crisis scenario and national and European interventions do not take on more defined contours, the exercise of incorporating the effects of the Covid-19 crisis into budgetary estimates will be extremely difficult, as these effects will depend on a number of variables that cannot be predicted to date, if not with a certain margin of uncertainty.
The extraordinary nature of the current crisis can be seen in the documents, guidelines, and notifications published since last March by the ECB, EBA, Bank of Italy, Basel Committee, ESMA, CONSOB (hereinafter referred to as the "Authorities"), as well as the IASB and IOSCO, aimed at providing guidance and interpretations on how to apply the provisions of accounting standards in the context of the current crisis, also with the aim of avoiding the development of pro-cyclical effects but at the same time ensuring proper and transparent disclosure and measurement of risks. The aforementioned statements also draw attention to the need to provide updated information on the risks associated with Covid-19 that may have an impact on the Company's financial position and economic result, any actions taken or planned to mitigate those risks and an indication of the potential significant impact on future performance. In detail, with reference to the accounting, the interventions of the Authorities focused, among others, on the following issues:

- classification of loans affected by moratorium interventions, based on the indications provided by the International Accounting Standard Board (IASB), the European Central Bank (ECB), the European Banking Authority (EBA) and the European Securities and Market Authority (ESMA);
- measurement of expected losses on credit exposures that incorporate forecasts of future macroeconomic scenarios and the effects of government guarantees, based on the IASB, EBA, ESMA and ECB;
- information to the market on the effects of the health crisis and on prospective effects, as well as on the measures taken and planned to tackle the crisis, based on the indications provided in the statements and warnings issued by ESMA, the National Commission for the Company and the Stock Exchange (*Commissione Nazionale per la Società e la Borsa* - CONSOB) and the International Organisation of Securities Commissions (IOSCO);
- measurement and determination of impairment for non-financial assets, whose expectations are contained in the ESMA and CONSOB documents.

The following table provides a list of the main documents issued at the date of preparation of this report:

Authority/Document Type	Date	Title
International Accounting Standard Board (IASB)		
Statement	27/03/2020	Accounting for expected credit losses applying IFRS 9 Financial instrument in the light of current uncertainty resulting from the Covid-19 pandemic
European Central Bank (ECB)		
Communication	20/03/2020	ECB Banking Supervisor provides further flexibility to banks in reaction to coronavirus
ECB letter	01/04/2020	IFRS 9 in the context of the coronavirus (Covid-19) pandemic
European Banking Authority (EBA)		
Statement	25/03/2020	Statement on the application of the prudential framework regarding Default, Forbearance and IFRS 9 in the light of Covid-19 measures
Guideline	02/04/2020 25/06/2020	Guideline on legislative and non-legislative moratoria on loan repayment applied in the light of the Covid-19 crisis
European Securities and Market Authority (ESMA)		
Recommendation	11/03/2020	ESMA recommends action by financial market participant for Covid-19 impact
Statement	25/03/2020	Accounting implication of the Covid-19 outbreak on the calculation of expected credit losses in accordance with IFRS 9
Public Statement	20/05/2020	Implication of the Covid-19 outbreak on the half-yearly financial report
Commissione Nazionale per la Società e la Borsa (CONSOB)		
Notification	09/04/2020	Covid-19 - Financial Disclosure Notification
Notification	16/07/2020	Covid-19 - Financial Disclosure Notification
International Organisation of Securities Commissions (IOSCO)		
Statement	03/04/2020	IOSCO Statement on Application of Accounting Standards during the Covid-19 Outbreak

In relation to the issues dealt with by the various Authorities and the IASB, an examination is provided below of the main indications provided and how the Banco BPM Group has taken them into account in preparing this Interim financial report as at 30 June 2020.

Moratorium interventions: classification and accounting treatment

The Group has granted various support measures to families and businesses, both in accordance with government decrees (Italian Decree Law 18/2020 issued on 17 March 2020 "Measures to strengthen the National Health Service and economic support for families, workers and businesses related to the Covid-19 epidemiological emergency", so-called "Cura Italia", and on the basis of initiatives granted on a voluntary basis. The purpose of these measures is to provide support to parties affected by the suspension or limitation of economic activities resulting from the Covid-19 crisis, through the suspension of payments.

In light of the indications of the various Authorities (primarily the EBA, ECB) and the IASB, the aforementioned moratorium interventions:

- have not normally resulted in the classification of the exposure as “subject to concession measures” (so-called “forbearance measures”), as these are interventions aimed at mitigating systemic risks and not the specific needs of an individual debtor, except in limited cases where the pre-crisis debtor's difficulty has been effectively established;
- do not result in an automatic classification of the exposure in Stage 2 for the purposes of IFRS 9 impairment, as these measures do not necessarily express a significant increase in credit risk, with the consequent need to measure expected losses over a "lifetime" period rather than twelve months, as is usually the case for exposures affected by forbearance measures;
- do not represent an automatic trigger for the classification as unlikely to pay; in particular, during the period of suspension, the counting of days past due is interrupted, resulting in an extension of the ninety-day period as an automatic trigger for switching between non-performing loans.

In this regard, it should be noted that, for the purposes of the aforementioned framework, the guidelines published on the subject by the EBA on 2 April 2020, as amended on 25 June 2020 in order to extend the deadline for the application of these guidelines to moratoriums initiated and applied until 30 September 2020 (compared to the date of 30 June 2020 initially planned), have been taken into account. In detail, the EBA specifies that measures that can be traced back to "general moratoriums on payment" are not classified as forborne. In that case, the suspension:

- must be based on a legislative or bilateral initiative. In the latter case, the measure must form part of a shared intervention in the banking sector such as to ensure homogeneity between the moratoriums granted by the various institutions;
- must be applied to a broad spectrum of debtors, determined on the basis of general criteria (belonging to a given customer segment, production sector, geographical area affected by the crisis, etc.);
- must be applied under the same conditions to all persons benefiting from it;
- must take the form of a mere change in payment terms, and therefore not include further changes in the contractual clauses, such as a reduction in the interest rate;
- must not be granted to funding disbursed after the date of announcement of the moratorium;
- is equipped to deal with the emergency caused by the pandemic and applied until 30 September 2020.

However, the EBA draws attention to the need for banks to monitor the credit quality of exposures affected by moratoriums, with a view to correctly classifying the exposure, paying particular attention to customers who, at the end of the moratorium, may show payment difficulties or other signs of deterioration.
With regard to the related accounting treatment, reference should be made to the provisions of IFRS 9 for the case of "renegotiation of financial assets", which occurs when the original contractual conditions are modified at the will of the parties. In this case, 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. More specifically:

- if there is a material change, the entity must derecognise the financial instrument being amended and recognise a new financial asset on the basis of the new contractual provisions (derecognition accounting);
- for non-substantial renegotiations, the entity shall restate the gross value 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 the aforementioned gross value and the gross book value prior to the change is recognised in the income statement under item 140 "Gains (losses) from contractual modification without derecognition" (modification accounting).

The contractual amendments in question, involving a mere deferment of payments, are to be considered as non-substantial and therefore to be treated on the basis of "modification accounting".
In this regard, it should be noted that the moratoriums granted by the Group provide for the application of interest charged on the residual debt for the entire period of suspension of payments. Interest shall also be paid on expiry of the original instalment, in the event of suspension of the principal only, or from the end of the moratorium period, in the event of suspension of the entire instalment. This means that the present value of the post-renegotiation exposure is substantially in line with the present value of the pre-negotiation exposure.
These conclusions are also consistent with the expectations of ESMA, which considers that the changes under consideration are unlikely to be substantial enough to lead to derecognition, given the temporary nature of the support measures and the fact that the economic value of the loan will not change significantly. In addition, for legislative moratoriums, the same explanatory report of the "Cura Italia" Decree states "*the provisions provide that there is no economic loss for the bank as a result of the moratorium. The mechanism, therefore, is actuarially neutral, i.e. it is limited to redistributing payments without resulting in loss for the bank or benefits for the company"*.
For a quantitative analysis of the moratoriums granted by the Group as at 30 June 2020, please refer to the paragraph "Covid-19: moratoriums and other measures granted to customers" contained in "Part E - Information on risks and related hedging policies" of these Explanatory Notes.

Measurement of expected losses on credit exposures
For the purposes of measuring expected losses on credit exposures, the various competent authorities (ECB, EBA) and the IASB highlight the need to incorporate the deterioration in the economic situation caused by the Covid-19 scenario but, at the same time, given the situation of uncertainty, point out the need to take advantage of the flexibility margins provided for by IFRS 9. These margins would allow for - where there is no supporting evidence on macroeconomic forecasts - expected losses to be estimated by giving more weight to historical information on long-

term macroeconomic forecasts. In addition, where reasonable estimates are available, the Authorities highlight the need for expected losses to reflect the positive effects of the support measures granted by the public sector and banks.
In more detail, the IASB in its document of 27 March 2020 does not introduce any amendment to IFRS 9 but states that, using the elements of judgement allowed by that standard, an entity should adjust the approach used to determine expected losses in accordance with new and different circumstances, without applying the existing methodology mechanically. While being aware of the difficulty of this estimation exercise, the IASB notes that the quantification of expected losses must take into account historical, current and prospective information and accepts the possibility of resorting to post-model overlays or adjustments, if the models are not able to fully reflect the effects of the Covid-19 crisis and related government support measures.
In order to improve comparability between banks and avoid pro-cyclical effects, the ECB also recommends that the ECB's own macroeconomic projections, published on a regular basis, be considered as a reference point for model calibration. In particular, taking into account the uncertainty of the context and the difficulty of formulating reasonable and demonstrable forward-looking forecasts on the impact of Covid-19, the ECB:

- encourages banks to give greater weight to long-term forecasting expectations, considering all historical evidence covering one or more entire economic cycles;
- expects the recent macroeconomic projections published on 4 June 2020 provide a solid reference for the inclusion of so-called forward looking factors in the estimate of expected losses as at 30 June 2020, also with a view to promoting consistency among banks.

Finally, ESMA provides clarifications as to whether sovereign State guarantees, provided in conjunction with moratoriums or other support measures, should be taken into account when measuring expected losses. In this regard, it notes that stated in the "Transitional Resource Group for Impairment" document of December 2015, according to which the guarantee does not need to be explicitly established in the contractual clauses.
For a review of the updates as at 30 June 2020 introduced in the calculation of impairment losses on loans, in order to incorporate the Covid-19 effects, please refer to the paragraph "Model for measuring expected losses on performing exposures" contained in "Part E - Information on risks and related hedging policies" of these Explanatory Notes.

Financial information

CONSOB, noting the ESMA statements of March and May and the IOSCO document of April, published two notifications in April and July 2020, aimed at underlining the importance of providing updated information on the risks related to Covid-19 that may have an impact on the economic and financial situation, on the possible actions taken or planned to mitigate these risks and on the potential significant impacts for the estimation of future trends. Directors' attention is also drawn to carefully assessing the impact, including future impact, of Covid-19 on strategic planning and plan targets, economic performance, financial position and cash flows, as well as on the going concern assumption.
To this end, reference should be made to the paragraphs "Banco BPM's initiatives to deal with the international Covid-19 emergency" and "Outlook for business operations" contained in the Interim Report on Operations.
It should also be noted that CONSOB and ESMA point out that the risks related to the pandemic could jeopardise the achievement of the objectives of the plan on which the recoverability analyses of certain assets are based, such as goodwill and other intangible assets with an indefinite life and deferred tax assets. The need to carry out the recoverability checks of the aforementioned assets and to provide adequate information in the financial statements, with particular reference to sensitivity analyses, is therefore reported.
Lastly, with reference to the disclosure of the effects of the crisis, CONSOB and ESMA believe that the creation of alternative ad hoc items or performance indicators will not provide a more accurate representation of the issuer's income statement and balance sheet, given the temporary nature of the effects; instead, they believe it is necessary to focus the reporting on the impact of the epidemic on the economic results for the period, including quantitative information, in a single note to the interim financial statements. To this end, an ad-hoc paragraph "Covid-19: effects on the economic results of the first half-year" has been included in the Interim Report on Operations, to which reference is therefore made. With reference to alternative performance indicators, in line with the indications contained in the update of the document "ESMA 32_51_370 - Question and answer - ESMA Guidelines on Alternative Performance Measures (APMS)" published on 17 April 2020, it should be noted that the Group has not introduced any changes with respect to the indicators in use, aimed at highlighting separately the effects of the Covid-19 crisis.

Impairment of non-financial assets

As explained above, the expectation of ESMA and CONSOB is that the effects of the Covid-19 epidemic will be such as to trigger the impairment test of non-financial assets (goodwill and other intangible assets with an indefinite useful life), since their recoverability could be negatively affected by a revision of the cash flows assumed as the basis for impairment test. Given the current uncertainty, the Authorities point out that particular attention should be paid to the estimate of cash flows, using multiple scenarios, for which it will be necessary to provide detailed information on the basic assumptions used for cash flow projections and the related sensitivity analyses, in line with the information required by the standards for financial statements prepared in full. For a review of the checks carried out and the sensitivity analysis of the Group's intangible assets with an indefinite useful life, reference should be made to the paragraph "Intangible assets – item 100" contained in "Part B – Information on the consolidated balance sheet" of these Explanatory Notes.

Uncertainty in the use of estimates for the preparation of the condensed interim financial statements

The following paragraphs illustrate the estimation processes considered most critical to the truthful and correct representation of the Group's equity, economic and financial situation, both in terms of the materiality of the values in the financial statements affected by said processes and the high level of judgement required for valuations that envisage the use of estimates and assumptions by Company management:

- determining the impairment of credit exposures recognised in assets;
- estimating impairment losses in relation to goodwill, intangible assets with an indefinite useful life and investments in associates and joint ventures;
- determining the fair value of financial assets and liabilities;
- estimating the recoverability of deferred tax assets;
- estimating provisions for risks and charges;
- determination of the fair value of property;
- estimating obligations relating to employee benefits.

Determining the impairment of credit exposures recognised in assets

Loans represent one of the items subject to estimates most exposed to choices made by the Group in terms of disbursement and risk management and monitoring.

More specifically, the Group manages the risk of default of borrowers by continuously monitoring customer accounts in order to assess their ability to repay the amount borrowed, based on their economic-financial situation. This monitoring activity is designed to detect signs of impairment of loans, also with a view to a timely classification within the perimeter of non-performing loans and a precise estimate of the relative total value adjustments. This estimate can be made, depending on the materiality threshold for the exposure being measured, on an analytical basis based on recoverable cash flows, or on a lump-sum basis, considering the losses historically recorded on loans with equivalent characteristics. In this regard, it should be noted that the granting of moratoriums could make it more difficult to intercept signs of deterioration and lead, in the short term, to a delay in the classification among non-performing exposures, due to the freezing of past due days during the moratorium period.

With regard to loans for which no objective evidence of impairment has been individually identified, i.e. for performing loans, the impairment model, based on expected losses, requires the implementation of adequate monitoring systems aimed at identifying whether or not there has been a significant deterioration since the date of initial recognition of the exposure. The IFRS 9 impairment model requires that losses be determined with reference to the time horizon of one year for financial assets that have not suffered a significant deterioration in their credit rating 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 reflect:

- 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 credit rating with respect to the date of initial recognition of the exposure ("SICR") is based on the identification of adequate qualitative and quantitative criteria, which also consider forward-looking information. Thus, it cannot be ruled out that the use of different criteria may result in the definition of a different scope of exposures to be classified under Stage 2, with the resulting impact on expected losses to be recognised in the financial statements;
- the result of the impairment model must reflect an objective estimate of the expected loss, obtained by evaluating a range of possible results. This implies the need to identify possible scenarios, based on assumptions about future economic conditions, to which the relative probability of occurrence must be associated. The selection of different scenarios and probability of occurrence, as well as changes in the set of macroeconomic variables to be considered in the forecast time horizon could have significant effects on the calculation of expected losses;
- the determination of expected losses requires the use of estimation models:
  - for cash flows that individual debtors (or portfolios of debtors that are similar in terms of risk) are expected to be able to generate in order to satisfy, in whole or in part, the obligations undertaken with regard to the Group. With regard to non-performing loans, where a disposal plan exists, it is also necessary to use a multi-scenario approach, estimating the cash flows recoverable from disposal, to be considered as an alternative scenario to those deemed recoverable through work out;
  - for recovery time;
  - for 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, also taking into account the changes in the reference context. For updates introduced in the measurement of expected losses on performing exposures, please refer to the paragraph "Model for measuring expected losses on performing exposures" contained in "Part E - Information on risks and related hedging policies" of these Explanatory Notes.

Given the above, it cannot be excluded that alternative monitoring criteria or different methodologies, parameters or assumptions in determining the recoverable value of the Group's credit exposures - influenced, however, also by possible alternative strategies for their recovery approved by the competent corporate bodies as well as by the evolution of the economic and financial context and reference regulations - may result in valuations different from those conducted for the purposes of the preparation of the consolidated condensed interim financial statements as at 30 June 2020.

<u>Estimating impairment losses in relation to goodwill, intangible assets with an indefinite useful life and interests in associates and joint ventures</u>

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. In addition, the standard establishes that the results of the annual test may be considered valid for subsequent tests, provided that the probability, which the recoverable value is less than the book value of the intangible assets, is considered remote. This opinion may be based on the analysis of the events, which have occurred, and the circumstances, which have changed subsequent to the most recent annual impairment test.

Based on the provisions of this standard, the Banco BPM Group has chosen to carry out an impairment test on intangible assets with an indefinite useful life as at 31 December each year; the results of this test can be considered valid for subsequent interim situations, unless evidence emerges that would require an impairment test to be carried out in advance to ascertain the recoverability of the value of these intangible assets with an indefinite useful life.

In the current market context, the worsening of the economy induced by the Covid-19 crisis and the repercussions on the Group's profitability have made it necessary to carry out, in line with ESMA and CONSOB expectations, an early update of the recoverable value of the assets in question compared with the test conducted last year.

In particular, as at 30 June 2020, the Group's intangible assets with an indefinite useful life amounted to 580.5 million euro, aligned with the figures as at 31 December 2019, and were represented by 76.2 million of goodwill attributable to the "Bancassurance Protection" cash generating unit (CGU) and the "Bancassurance Life" CGU and 504.3 million of trademarks recognised following the business combination with the former Banca Popolare Italiana Group (222.2 million) and the former BPM Group (282.1 million).

The valuation analyses were carried out using a multi-scenario approach in order to consider the risk inherent in the actual realisation of the cash flow projections used to determine value in use, also taking into account that Covid-19

has made the forecasts and objectives of the Business Plan announced to the market on March 3 no longer current and that a new edition of the Plan can only be prepared once the prospective framework is better defined, so that it can be based on new and more up-to-date macroeconomic and sector assumptions, determining the relevant targets on the basis of reasonable assumptions.
The results of the impairment test conducted as at 30 June 2020 confirmed the recoverability of the book values, as illustrated in the section "Intangible assets – item 100" contained in "Part B – Information on the consolidated balance sheet" of these Explanatory Notes, to which reference should be made for further details.
In this regard, it should be noted that the verification of the recoverability of these intangible assets is a complex exercise, the results of which are affected by the valuation methods adopted, as well as by the underlying parameters and assumptions, which may need to be modified to take account of new information or developments that could not be foreseen when this Report was prepared. For this reason, a sensitivity analysis is provided in the aforementioned section of intangible assets in order to assess whether the recoverable value remains unchanged with respect to alternative assumptions and hypotheses.

As regards interests in associates and joint ventures, note that the non availability, as at the date of preparation of the consolidated condensed interim financial statements, of the balance sheets and income statements of the investee companies and of their updated forecast business plans, could introduce further elements of uncertainty in the process of assessing the value of interests in associates and joint ventures. In these circumstances, we can therefore not exclude the possibility that the value attributed to the interests in associates and joint ventures based on the information available may possibly differ from subsequent assessments made in light of different available information. For information on the book value of the main interests in associates and joint ventures, which refer entirely to companies subject to significant influence, please refer to the section "Interest in associates and joint ventures – Item 70" contained in "Part B – Information on the consolidated balance sheet" of these Explanatory Notes.

Determination of the fair value of financial assets and liabilities

In the event of financial instruments that are not listed on active markets or illiquid and complex instruments, adequate valuation processes need to be set in place, characterised by significant elements of judgement as regards the choice of the valuation model and of the relative input parameters, which sometimes cannot be observed in the market.
There are margins of subjectivity in the valuation with regard to whether certain parameters are observable or not, and in the consequent classification in correspondence with the fair value hierarchy levels.
For qualitative and quantitative information on the method adopted to measure the fair value of instruments recognised at fair value in the financial statements, reference should be made to the contents of these Explanatory Notes, "Part A.4 – Fair value disclosures".

Estimating the recoverability of deferred tax assets

The Group has significant deferred tax assets among its assets, mainly deriving from temporary differences between the income statement recognition date of given business costs and the date when said costs may be deducted, and also resulting from tax losses carried forward. The recognition of these assets and the subsequent maintenance in the balance sheet entails a judgement as to their potential recoverability, which must also consider the tax regulations in force at the date of preparation of the financial statements.
In particular, deferred tax assets that meet the requirements established by Law no. 214 of 22 December 2011 can be transformed into a tax credit in the event that a "statutory loss", a "tax loss" for IRES purposes or a "net negative value of production" for IRAP purposes is recorded. The recovery of the DTAs is therefore certain, since it does not depend on their ability to generate future profits.
For the remaining tax assets that cannot be transformed into tax credits, the judgement of their probability of recovery must be based on reasonable income forecast taken from approved strategic plans and projections, also considering that, for IRES purposes, tax regulations permit tax losses to be carried forward without any time limit. That judgment is a complex exercise, specifically when regarding the DTAs on tax losses carried forward, whose existence may be an indicator of the fact that sufficient future taxable income for their recovery will not be earned. Based on that set out in accounting standard IAS 12 and the considerations formulated by ESMA in its document dated 15 July 2019, said judgment of recoverability requires a careful survey of all the evidence supporting the probability that sufficient future taxable income will be generated, also considering the circumstances that generated the tax losses, which must be attributed to specifically identified causes, which are deemed will be recurring in the future. In order to take into account the uncertainties of the macroeconomic scenario and the potential repercussions on the estimate of taxable cash flows, the probability test was carried out, in line with that carried out for the 2019

financial statements, using the "Risk-adjusted profit approach", i.e. discounting the forecasts of future taxable income on the basis of a corrective factor that is expressive of a specific risk, consistent with the risk premium used for the impairment test of intangible assets with an indefinite useful life, which pushes further back the time period of the estimate of taxable income flows.
Lastly, it must be noted that the recoverability of all the DTAs may be negatively influenced by changes in the tax regulations in force, which cannot be forecast at present.
The section entitled "Tax assets – Item 110 and Item 130 of assets", contained in "Part B – Information on the consolidated balance sheet" of these Explanatory Notes, describes the activities carried out to verify the recoverability 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 contingent liabilities difficult even when the provisional rulings relating to the courts of first instance are available. Previous experience demonstrates that in a number of cases, the rulings made by the judges in the courts of first instance were then completely overturned on appeal or in the supreme court, which may be in favour or not in favour of Group companies. On the basis of the above, the classification of contingent liabilities and the consequent valuation of the provisions needed is based on subjective elements of judgement, which require recourse to estimation processes, which can be highly complex. It cannot therefore be ruled out that following the issue of the final ruling, allocations made to provisions for risks and charges on the basis of the contingent liabilities of lawsuits and tax disputes may turn out to be lacking or surplus to requirements.
For information on the Group's main risk positions in relation to legal disputes (actions to void and pending lawsuits) and tax disputes with the tax authorities, reference should be made to section "Liabilities provisions – Items 90 and 100" contained in "Part B – Information on the consolidated balance sheet" of these Explanatory Notes, which also provides an illustration of the risks and uncertainties associated with reporting to the specialist company Intermarket Diamond Business S.p.A. by customers interested in buying diamonds.

Determination of the fair value of property

The fair value of property is determined by using specific appraisals drawn up by qualified, independent experts. As part of a range of possible measurement approaches permitted by the IAS/IFRSs for the purpose of determining fair value, the use of a measurement method or the selection of certain estimation parameters may significantly influence the determination of the fair value of those assets, considering the specifics and distinctive characteristics of the object to be appraised. It should be noted that, starting from the 2019 financial statements, the Group has changed the method of valuing property assets from cost to fair value for property held for investment purposes (IAS 40) and restated value for property used for administrative and commercial activities (IAS 16). In relation to the application of the new valuation criteria, it should be noted that, when preparing the 2019 financial statements, the Group determined the market value of all the properties it owns, using a special appraisal issued by a leading company, on the basis of the RICS Valuation standards.
For properties for investment purposes, the Group's accounting policies require fair value to be updated annually, unless there is evidence that an earlier update is necessary. For properties for functional use, it is possible to update the fair value more frequently than once a year; this frequency may depend on whether there are significant deviations in property market prices, based on a scenario analysis, or on the distinctive characteristics of certain properties.
In the preparation of this Report, it was considered that the evolution recorded in the property market during the first half of the year was not such as to require an update with respect to previous valuations, except for a limited number of property units for investment purposes, for which the assumptions and hypotheses underlying the previous estimate were revised. These are, in particular, those properties for which, in 2020, taking into account the impact that the Covid-19 crisis may have had on the tenant's activities, negotiations were undertaken with the same to grant discounts or renegotiate lease instalments, including those of a temporary nature. For further details, please refer to

the section "Property, plant and equipment – Item 90" contained in "Part B – Information on the consolidated balance sheet" of these Explanatory Notes.
At present, it cannot be excluded that the change in the scenario, also as a result of the repercussions of the current pandemic, may not have a negative impact on the recoverable value of the Group's properties.

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.

The main actuarial assumptions used by the Group as at 30 June 2020, compared with those used as at 31 December 2019, are given below:

Demographic assumptions	**30/06/2020**	**31/12/2019**
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%	

Financial assumptions	**30/06/2020**	**31/12/2019**
Yearly discounting rate (*):		
- Iboxx Euro Corporate AA 7-10 years	0.30%	0.37%
- Iboxx Euro Corporate AA 10+	0.74%	0.77%
Annual inflation rate	1.50%	

(*) Iboxx Euro Corporate AA index, with the time reference corresponding to the average duration of defined benefit plans (social security, employee termination indemnities and seniority bonuses)

It should be noted that 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 may prove more appropriate.

Going concern
This Interim financial report has been prepared on the assumption that the Group will continue as a going concern: the directors, in fact, have a reasonable expectation that the Group will continue its current activity in the foreseeable future and have prepared the interim 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, even considering the effects of Covid-19, are not significant and are therefore not such as to cast doubt on its ability to continue as a going concern.
For information on risks and related controls, reference should be made to "Part E – Information on risks and related hedging policies" in these Explanatory Notes, as well as to the Interim Report on Operations.

Notes for a proper comparison of the comparative financial statements

As explained in the Consolidated Annual Financial Report as at 31 December 2019, as part of the usual options permitted by IAS 16 and IAS 40, Banco BPM Group voluntarily modified the measurement criterion for owned property and valuable works of art, changing from the cost criterion to the revaluation/fair value model.
The balances in the balance sheet as at 31 December 2019, originally published and presented in this Report for comparative purposes, are therefore consistent with those as at 30 June 2020, as they were determined on the basis of the same valuation criteria.
For the income statement as at 30 June 2019, presented for comparative purposes in this report, it was necessary to restate the balances compared to those originally published. More specifically:

- for property used in operations, since the application was made on a prospective basis as from 31 December 2019, the depreciation for the first half of 2019, determined on the basis of the previous cost

criterion and shown under the income statement item "210. Depreciation and impairment losses on property, plant and equipment" is not fully comparable with that of the first half of 2020;
- for property for investment purposes, since the application was made retrospectively by restatement of the balances as at 1 January 2019, the depreciation for the first half of 2019, amounting to 13.6 million, was reversed as the new fair value criterion does not require any depreciation process.

In addition, the valuation effects, a negative 26.8 million overall, previously recognised in the income statement item "210. Depreciation and impairment losses on property, plant and equipment", have been reclassified under item "260. Fair value gains (losses) on property, plant and equipment and intangible assets", which includes the valuation effects of property assets, based on the new valuation criteria. In this regard, it should be noted that this item is also not fully comparable, as the effects of the restatement of the values of property used in operations were recognised as from 31 December 2019, together with the effects of the property for investment purposes following the fair value update campaign that took place during the preparation of the financial statements as at 31 December 2019.
Taking into account the tax effect of the reversal of the aforementioned depreciation, the restatement of the income statement balances for property for investment purposes resulted in a higher contribution from the income statement for the first half of 2019 of 9.8 million; the restated net profit for the first half of 2019 therefore amounts to 603.0 million compared with 593.1 million originally determined. The following table summarises the income statement items affected by the restatement in question (items 210, 260, 300), showing the balances restated and those originally published; for the sake of completeness, the items referring to totals that have been modified accordingly (items 240, 290, 310, 330, 350) are also shown.

Items	**1st half 2019 restated (A)**	**1st half 2019 published (B)**	**Delta (A)-(B)**
210. Depreciation and impairment losses on property, plant and equipment	(97,979)	(138,349)	40,370
240. Operating expenses	**(1,377,832)**	**(1,418,202)**	**40,370**
260. Fair value gains (losses) on property, plant and equipment and intangible assets	(26,782)	-	(26,782)
290. Profit (loss) before tax from continuing operations	**648,931**	**635,343**	**13,588**
300. Taxation charge related to profit or loss from continuing operations	(50,418)	(46,681)	(3,737)
310. Profit (loss) after tax from continuing operations	**598,513**	**588,662**	**9,851**
330. Profit (Loss) for the period	**598,513**	**588,662**	**9,851**
350. Parent Company's profit (loss) for the period	**602,984**	**593,133**	**9,851**

It should also be noted that the restatement in question involved a consistent restatement of the income statement balances contained in the statement of comprehensive income, the statement of cash flows and the statement of changes in shareholders' equity.

New accounting standards/interpretations or amendments to existing standards approved by IASB/IFRIC

An illustration of the new accounting standards or 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 2020 and of those applicable in subsequent years.

IAS/IFRS accounting standards and related SIC/IFRIC interpretations endorsed that must be applied when preparing this Interim Financial Report

<u>Regulation (EU) no. 2075 of 29 November 2019 – "IFRS Conceptual Framework - Amendments"</u>
The Regulation in question approved the document "Amendments to the Conceptual Framework", issued by the IASB in March 2018, in order to change the references contained in certain standards and interpretations to the previous Conceptual Framework, replacing them with the new Conceptual Framework. Those amendments shall apply from 1 January 2020.

<u>Regulation (EU) no. 2104 of 29 November 2019 – "Definition of Material - Amendments to IAS 1 and IAS 8"</u>
With this Regulation, the document "Definition of Material - Amendments to IAS 1 and IAS 8", published by the IASB in October 2018, was approved. The purpose of the amendments is to clarify the definition of "Material" in order to

help companies understand whether a disclosure is material to the decisions of users of financial statements. The amendments shall apply from 1 January 2020.

Regulation (EU) no. 551 of 21 April 2020 - 'Definition of a business' - Amendments to IFRS 3
The Regulation aims to clarify whether a transaction represents an acquisition of a business, according to the definitions contained in IFRS 3. The amendments shall apply from 1 January 2020.

The aforementioned amendments did not have an impact on the Group's balance sheet and income statement as at 30 June 2020.

For the sake of completeness, it should be noted that on 15 January 2020, Regulation (EU) no. 34 was published, which approved the amendments to IFRS 9, IAS 39 and IFRS 7 issued by the IASB on 26 September 2019 as part of the "Interest Rate Benchmark Reform" project. These amendments are aimed at searching for solutions to reduce the effects of the interest rate reform on financial statements, specifically regarding the potential impacts prior to the replacement of benchmarks. In this regard, please note that for the amendments in question, applicable obligatorily from 1 January 2020, the Banco BPM Group has made use of early application as from the financial statements as at 31 December 2019, with the aim of excluding any element of uncertainty in measuring the effectiveness of the hedging relationship related to the interest rate situation (Eonia, Ibor). For further details, reference should be made to the Annual Financial Report as at 31 December 2019.

IAS/IFRS accounting standards and endorsed SIC/IFRIC interpretations, the application of which takes effect after 30 June 2020

There are no endorsed standards and interpretations taking effect after 30 June 2020.

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

The following is a summary of the standards, interpretations or amendments that have been approved by the IASB, but are pending endorsement.

IFRS 17 "Insurance Contracts" and Amendments to IFRS 17
On 18 May 2017, the IASB issued the new accounting standard IFRS 17 governing policies issued by insurance companies, which was expected to be applied from 1 January 2021. On 15 November 2018 the IASB itself proposed deferment of the entry into force of the standard to 1 January 2022 with the simultaneous extension until 2022 of 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.
On 25 June 2020, an amendment to IFRS 17 was issued, which did not affect the basic principles but is an aid to its implementation and simplification in the disclosure of financial performance; the amendment also postponed the first-time adoption of IFRS 17 until 1 January 2023. There are no direct impacts for the Group as it does not carry out insurance activities.

Amendments to IFRS 4 - IFRS 9 deferral
On 25 June 2020 a temporary deferral of IFRS 9 was decided for entities applying IFRS 4. This amendment, which is expected to enter into force on 1 January 2021, following the approval expected in the last quarter, has no impact on the Group, since it does not carry out insurance business.

Amendments to IAS 1 "Classification of current and non-current liabilities"
On 23 January 2020, the amendment to IAS 1 "Classification of current and non-current liabilities" was issued; on 3 June 2020 the IASB approved the deferral of the amendment to 1 January 2023, initially scheduled for 2022. In particular, this amendment clarifies that the classification of liabilities between current and non-current depends on the rights existing at the end of the reporting period. Also in relation to this amendment, no impact is expected for the Group.

Amendments to IFRS 3, IAS 16 and IAS 37 / Cycle of annual improvements (IFRS 3, IAS 16 and IAS 37)
On 14 May 2020, the IASB approved a number of limited amendments to certain standards (IFRS 3, IAS 16 and IAS 37), as well as the annual improvement cycle of certain standards (IFRS 1, IFRS 9, IAS 41 and the illustrative examples to IFRS 16) aimed at correcting oversights or conflicts between standards.
The amendments shall apply from 1 January 2022. Given the content of the amendments under review, there are no impacts for the Group.

Amendments to IFRS 16 "Covid-19 Related Rent Concessions"
On 28 May 2020, the IASB published the amendment to IFRS 16 "Covid-19 Related Rent Concessions", for which endorsement is expected by the end of 2020 with application from financial statements beginning after 1 June 2020, unless early application is adopted. The amendment in question, resulting from the impact of the current epidemiological crisis, allows lessees not to count as "lease modifications", temporary reductions and/or suspensions of payment of leases for the period from the beginning of the epidemic until 30 June 2021, as a direct consequence of Covid-19. In accordance with IFRS 16, in the event of a change in the original contractual terms of a lease, it would be necessary to amend the lease amortisation plan ("lease modification") with consequent restatement of the liability. With the amendment of IFRS 16 in question, on the other hand, as a practical expedient, it is permitted to treat unpaid fees as a variable payment, to be recognised as a lower cost in the income statement, without necessarily having to recalculate the financial liability. At present, given that negotiations with lessors for the reduction or suspension of leases are in progress, it is not possible to estimate the potential impact for the Group resulting from the application of this amendment, which is, however, not expected to be significant.

Application of the Group's accounting policies to transactions completed or events that occurred during the period considered significant for the purposes of the balance sheet and income statement

TLTRO III – Targeted Longer Term Refinancing Operations

As at 30 June 2020, funding operations by the ECB, consisting entirely of TLTRO III loans, amounted to 25.5 billion, fully subscribed by the Parent Company Banco BPM in its three quarterly auctions from December 2019. Each operation lasts three years.
In view of the Covid-19 emergency, the Governing Council of the ECB, at its meetings of 12 March and 30 April 2020, revised the parameters of these loans in an improved manner, with particular reference to the maximum amount that can be financed and the related remuneration.
In particular, following these revisions, the interest rate is set at a level equal to the average rate of the Eurosystem's main refinancing operations (MRO), currently 0%, except for the period from 24 June 2020 to 23 June 2021 (special interest rate period), where a rate 50 basis points below this rate will apply.
There is also an incentive mechanism that allows for access to more favourable rate conditions, depending on the achievement of certain benchmarks. In particular, for counterparties whose eligible net loans between 1 March 2020 and 31 March 2021 (special reference period) are at least equal to the respective benchmark net lending levels, the rate applied will be equal to the average rate on deposits (Deposit Facility), currently -0.5%, for the entire duration of the operation, plus a further reduction of 50 basis points for the "special interest rate period". For counterparties whose net eligible loans increase in the 12 months prior to 31 March 2019, the benchmark net lending is set at zero; otherwise, said benchmark is set at the reduction in net eligible loans in the 12 months prior to 31 March 2019.
For counterparties below the net eligible lending target referred to in the previous point, the remuneration schedule originally envisaged will be applied, i.e.: base rate equal to the average of the Eurosystem's main refinancing rates over the life of the operation, with the possibility of benefiting from a rate reduction if a certain benchmark is exceeded during the period from 1 April 2019 to 31 March 2021 (second reference period), up to a minimum equal to the average deposit rate. In particular, in order to benefit from the maximum reduction in interest, eligible net loans of the "second reference period" must exceed the "benchmark net lending" levels (as defined in the previous point) by 1.15% or more. In the "special interest rate period", it will be possible to benefit from a reduction, which will depend on the benchmark thresholds reached and the levels of the MRO and Deposit Facility.
In light of the various mechanisms described above, considering that the benchmark net lending for Banco BPM is set at zero and that the net eligible loans since 1 March 2020 have evolved to such an extent that it is likely that the benchmark net lending will be exceeded as at 31 March 2021 - i.e. at the end of the observation period for eligible net loans - the interest accruing was recognised, taking into account the minimum deposit rate, currently equal to -

0.5% and the further reduction of 50 bps in the "special interest rate period" on a pro rata-temporis basis.
The fees, recorded in the income statement item "10. interest and similar income", thus amount to 9.3 million. With particular reference to the interest of the "special interest rate period" (24 June 2020 and 23 June 2021), totalling 128.9 million, it should be noted that the amounts recognised as at 30 June 2020 amount to only 0.7 million, obtained by dividing the total benefit over the entire duration of the loans on the basis of the amortised cost mechanism.
With reference to the method of accounting for interest on the transaction in question, it should be noted that, at the date of preparation of this Report, the competent authorities are in the process of investigating, in detail, which are the most relevant accounting references to be applied to the circumstances. It cannot therefore be excluded that, on completion of the above analyses, different guidelines may emerge with regard to the accounting treatment to be adopted with respect to that carried out by the Group as at 30 June 2020.

Issue of Additional Tier 1 instruments

As indicated in the "Significant events during the period" section of the Interim Report on Operations, on 14 January 2020, Banco BPM issued Additional Tier 1 instruments for an amount of 400 million to institutional investors. These were, in particular, subordinated instruments classified in Additional Tier 1 capital, under the terms of Regulation no. 575 of 2013 (CRR).
The securities are perpetual and may be called by the issuer, in accordance with the regulations in force from 21 January 2025; if not called, the call may be exercised every six months thereafter (at the coupon detachment date).
The six-monthly coupon, non-cumulative, was set at 6.125%. If the option of early redemption envisaged, for 21 January 2025, is not exercised, a new fixed-rate coupon will be determined adding the original spread to the mid-swap rate in euro at 5 years to be recorded at the moment of the recalculation date. This new coupon will remain fixed for the next 5 years (until the next recalculation date).
In line with the provisions of the CRR for AT1 instruments, the issuer has full discretion in not paying the coupons, for any reason and for an unlimited period of time. Cancellation is instead obligatory if certain conditions occur, including the occurrence of the triggering event described below. In addition, interest is not cumulative: any amount that the issuer decides not to pay (or would be obliged not to pay) will not be accumulated or payable at a later date. In addition, the regulation of the loan in question states that on the occurrence of a trigger event, that is if Banco BPM's Common Equity Tier 1 (CET1) (or the consolidated CET1) should be lower than the level of 5.125%, there would be – irrevocably and obligatorily – a cancellation of the capital (a write-down) of an amount necessary to bring the CET1 (of Banco BPM or of the Group) back to 5.125%. On fulfilment of certain conditions, and at the issuer's complete discretion, the capital previously written down could be reinstated (write-up). In this regard we can note that the reinstatement of the capital previously written down would be voluntary, also in the case of early redemption by the issuer.
Based on the characteristics of the loan described above, the issue is classifiable as an equity instrument, under the terms of the accounting standard IAS 32. In the financial statements as at 30 June 2020, the price received from the issue - after deducting the directly attributable transaction costs net of the tax effect, which amount to 2.7 million - is shown under equity item "140. Equity instruments", for an amount of 397.3 million. Taking into account the previous issue of an AT1, which took place on 11 April 2019, the book value of the instruments recognised under "Equity instruments" totalled 695.4 million.
In keeping with the nature of the instrument, the coupons are recognised as a reduction of shareholders' equity (shareholders' equity item "150. Reserves"), if and for the amount at which they were paid. As at 30 June 2020 the shareholders' equity decreased by 9.5 million, due to the payment of the coupon relating to the first issue of 2019 (13.1 million) in June, net of the related tax effect. On the other hand, no accounting entry was made for the January 2020 issue, as the first coupon payment is expected to only take place in July 2020.

Contributions to deposit guarantee schemes and resolution mechanisms

Following transposition into the national legislation of Directives 2014/49/EU (Deposit Guarantee Schemes Directive – DGSD) of 16 April 2014 and 2014/59/EU (Bank Recovery and Resolution Directive – BRRD) of 15 May 2014, starting from financial year 2015, credit institutions are obliged to provide the financial resources necessary for the financing of the Interbank Deposit Guarantee Fund and the National Resolution Fund (merged into the Single Resolution Fund starting from 2016), through payment of ex ante ordinary contributions to be paid annually, until a certain target level is reached. If the available financial resources of the Interbank Deposit Guarantee Fund and/or of the Single Resolution Fund are insufficient, respectively to guarantee reimbursement to protected depositors or to fund the resolution, it is envisaged that the credit institutions must then make extraordinary contributions.

The ordinary contribution is recognised under item "190. b) Other administrative expenses” in application of IFRIC 21 interpretation “Levies”, on the basis of which the liability relating to the payment of a levy arises at the time the “obligating event” occurs, namely at the time of the obligation to pay the annual fee. In the case in question, for accounting purposes the contributions are considered similar to a levy and the moment of the obligating event was identified during the first quarter for the Single Resolution Fund and the third quarter for the Interbank Deposit Guarantee Fund.
The ordinary contribution to the Single Resolution Fund, charged to the income statement for the first half of 2020, amounted to 85.2 million (the contribution was 61.7 million for the first half of 2019). In this regard, please note that in 2020, as in the previous year, the Group did not avail itself of the option of fulfilling the request by entering into an Irrevocable Payment Commitment (IPC).
The ordinary contribution to the Interbank Deposit Guarantee Fund will be recognised in the income statement for the third quarter of 2020 (53.4 million was the contribution requested for 2019, recognised in the third quarter of 2019).
Lastly, we can note that in June 2020, the Bank of Italy called in additional contributions to the National Resolution Fund for 26.9 million, in relation to the financial requirements connected with the resolution measures carried out prior to the launch of the National Resolution Fund (310 million is the contribution required in 2020 for the entire system). In detail, these were measures launched in November 2015 by the Bank of Italy, as the national resolution authority - under the terms of Italian Legislative Decree no. 180 of 16 November 2016, - in relation to the following four banks: Cassa di Ferrara S.p.A., Banca delle Marche S.p.A., Banca popolare dell'Etruria e del Lazio - Società cooperativa and Cassa di risparmio della Provincia di Chieti S.p.A. Those contributions were also fully charged to the income statement in the second quarter of 2020 under "Other administrative expenses" (22.6 million was the additional contribution charged in the same quarter of 2019). In accordance with the aforementioned IFRIC 21 interpretation, for the contribution in question, the payment obligation arises when the Bank of Italy, having assessed the financial needs of the National Resolution Fund, gives notice thereof.

Classification of Anima Holding as an interest in associates and joint ventures with significant influence

As indicated in the "Significant events during the period" section of the Interim Report on Operations, during the first half of 2020 the interest held in Anima Holding, which until 31 March 2020 was classified under item "30. Financial assets measured at *fair value* through other comprehensive income” has been reclassified under item "70. Interests in associates and joint ventures", as the facts and circumstances that have occurred have given rise to a situation of considerable influence over the investee company.
In particular, with the Shareholders' Meeting of 31 March 2020 of Anima Holding, for the first time, the new mechanism for the appointment of corporate bodies provided for in the amendments to the Articles of Association approved on 29 March 2019 became operational. In accordance with the rules of the new governance regime, with particular reference to the manner in which lists are presented and the adoption of a proportional criterion, Banco BPM has been able to appoint five directors, including the Chairman and the Chief Executive Officer, to a Board of Directors made up of ten. This representativeness will also be guaranteed if a representative appointed by Banco BPM should leave office.
The representation thus achieved on the Board of Directors was considered evidence of the existence of significant influence as regards the investee company, allowing it to participate in the decision-making processes of Anima Holding, even though it does not have control. This evidence is further supported by the percentage interest in Anima Holding of 19.385%, a percentage substantially close to the 20% threshold considered by IAS 28 to be the threshold for the presumption of significant influence. The strategic nature of the interest to be held on a permanent basis is confirmed by the increase in the interest recorded during the first half of the year (14.27% was the stake held at the beginning of the year), 0.441% attributable to the cancellation of own shares approved by the Extraordinary Shareholders' Meeting of Anima on 31 March 2020, and 4.674% to purchases made on the market between the end of March and the first few days of June.
From an accounting point of view, the acquisition of significant influence was recognised as if it were a disposal of the original investment and a new recognition of the interest, based on the fair value at the acquisition date (1 April 2020). The initial recognition of the equity investment, amounting to 141.5 million, resulted in the recognition of a negative component in the statement of comprehensive income, amounting to 114.2 million, obtained as the difference compared to the book value of the interest previously held. The valuation reserves (item 120), which were negative by 134.1 million (in fact, the negative reserves were 19.9 million as at 31 December 2019) were reclassified to another equity reserve (item 150), without any transfer from the income statement.

During the preparation of the consolidated condensed interim financial statements, the first year of cost allocation was carried out, as required by the accounting standards applicable to the case, which did not show any significant differences between the cost of acquisition of the interests in associates and joint ventures and the fair value of the net assets acquired; the Group reserves the right to complete the cost allocation process within twelve months of the acquisition of significant influence, as allowed by IFRS 3.
In light of the above, starting from the second quarter, the interest is valued using the equity method, in accordance with the specific discipline provided for by IAS 28 and described in the Group's accounting policies contained in the Annual Financial Report as at 31 December 2019; the book value is then increased or decreased to record the Group's share of the profits and losses of the investee companies, while dividends received after the acquisition date are deducted from the book value of the interest in associates and joint ventures.

Hold to Collect Business Model – sales

During 2020, sale transactions were carried out with regard to performing exposures classified in the portfolio of "Financial assets at amortised cost" for a total amount of 335.8 million, mainly attributable to the Parent Company.
In particular, in April, Banco BPM completed a limited number of sales of US government securities with a nominal value of USD 350 million, corresponding to approximately 1.6% of the total nominal value of the securities portfolio classified as financial assets at amortised cost at the start of the year. The economic result of the sales in question is positive for a total of 15.2 million and is recorded under item "100. Gains (losses) on disposal or repurchase of: a) financial assets at amortised cost".
As these are exposures classified under "Financial assets at amortised cost", i.e. in the portfolio held for the purpose of collecting the contractual cash flows (known as the "Hold to Collect" Business Model), based on the accounting standard IFRS 9, their sale must take place in compliance with specific materiality or frequency thresholds, near maturity, in the presence of an increase in credit risk or the occurrence of exceptional circumstances. In that regard, it is noted that the sales carried out by the Group during 2020 occurred in compliance with the materiality and frequency thresholds, outlined in the Group's accounting policies, described in part "A.2. Key financial statement items", paragraph "3- Financial assets at amortised cost" of the 2019 Financial Statements, to which reference should be made for further details. During 2020 and until the date of preparation of this report, there were no changes to the eligibility criteria for sales of financial assets managed with the HTC Business Model.
Lastly, it should be noted that the management of debt securities classified in the "HTC" and "Hold To Collect and Sale" portfolios continues to be in line with the choices made in previous years; there were therefore no changes to the business model during the half-year that led to a reclassification of the portfolio.

Scope of consolidation and methods

(A) Subsidiaries

The consolidated condensed interim 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 30 June 2020, 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 30 June 2020, 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 30 June 2020, there are no arrangements, statutory clauses, or situations able to establish that the Group has the practical ability to unilaterally direct the relevant activities.

Consolidated structured entities

The control of structured entities, namely entities for which voting rights are not considered relevant to establish control, is retained to exist where the Group has contractual rights to manage the relevant activities of the entity and is exposed to the variable returns of the same.
On this basis, the consolidated structured entities recognised by the Group for the purpose of consolidation are represented by the several SPEs for securitisation transactions originated by the Group. For those SPEs, the elements deemed significant for identifying control and the resulting consolidation are:

- the purpose of said SPEs;
- exposure to the outcome of the transaction;
- the ability to structure transactions and to direct the relevant activities and take critical decisions through servicing contracts;
- the ability to arrange for their liquidation.

Line-by-line consolidation method

Controlled entities are consolidated from the date on which the Group acquires control, according to the purchase method, and cease to be consolidated from the moment in which a situation of control no longer exists; for details, please refer to the Annual Financial Report as at 31 December 2019, section "A.2 - Key financial statement items" paragraph "16 - Business combinations, goodwill and changes in interest holdings".

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 interest in associates and joint ventures 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 non-controlling 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 non-controlling interests is indicated as a separate item in the respective schedules of the consolidated financial statements (respectively in items: "190. Non-controlling interests", "340. Profit (loss) for the period attributable to non-controlling interests", "190. Consolidated comprehensive income attributable to non-controlling interests").
In this regard, please note that there is no effect on the balance sheet, the income (loss) or comprehensive income pertaining to non-controlling 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 the Annual Financial Report as at 31 December 2019, part "A.2. Key financial statement items", paragraph "16 - Other information, Securitisations - derecognition from financial statements of financial assets transferred".

The costs and revenues of the subsidiary entity are consolidated from the date on which control was acquired. The costs and revenues of a subsidiary sold are included in the income statement up until the date of the disposal; the difference between the sale price and the book value of the net assets of the same is recognised under the income statement item "280. Gains (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 debiting/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 condensed interim financial statements as at 30 June 2020, all of the exclusively controlled companies have prepared a balance sheet and income statement in accordance with the Group's accounting principles.

Interests in associates and joint ventures 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 disposal groups held for sale" and "70. Liabilities associated with assets classified as 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.

(B) Interests in companies subject to joint control and subject to significant influence

Associated companies, i.e. companies not controlled in which a notable influence is exercised, are considered to be companies subject to significant influence. The company exercises a significant influence in all cases where it holds 20% or more of voting rights in the investee, and, irrespective of the shareholding percentage, whenever it has the power to participate in business and financial decisions of the investees, by virtue of specific legal relations, such as shareholders' agreements, the purpose of which is to ensure that the members of the agreement are represented in the management bodies and to safeguard a consistent management approach, without, however, controlling the same.
Interests 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. Interests in associates and joint ventures" of the 2019 Annual Financial Report.

Interests in exclusively controlled companies

The table below lists the interests in exclusively controlled companies. For information on interests in companies subject to joint control and significant influence by Banco BPM Group please refer to the Interests in associates and joint ventures section of these Explanatory Notes.

	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 Company**			
1.	Agriurbe S.r.l. in liquidation Share capital € 10,000.00	Milan	Milan	1	Banco BPM	100.000%	100.000%
2.	Aletti & C. Banca di Investimento Mobiliare S.p.A. Share capital € 121,163,538.96	Milan	Milan	1	Banco BPM	100.000%	100.000%
3.	Aletti Fiduciaria S.p.A. Share capital € 1,040,000.00	Milan	Milan	1	Banca Aletti & C.	100.000%	100.000%
4.	Banca Akros S.p.A. Share capital € 39,433,803.00	Milan	Milan	1	Banco BPM	100.000%	100.000%
5.	Banca Aletti & C. (Suisse) S.A. Share Capital CHF 35,000,000	CH - Lugano	CH - Lugano	1	Banca Aletti & C.	100.000%	100.000%
6.	Bipielle Bank (Suisse) S.A. in liquidation Share Capital CHF 25,000,000	CH - Lugano	CH - Lugano	1	Banco BPM	100.000%	100.000%
7.	Bipielle Real Estate S.p.A. Share capital € 298,418,385.78	Lodi	Lodi	1	Banco BPM	100.000%	100.000%
8.	BPM Covered Bond S.r.l. Share capital € 10,000.00	Rome	Rome	1	Banco BPM	80.000%	80.000%
9.	BPM Covered Bond 2 S.r.l. Share capital € 10,000.00	Rome	Rome	1	Banco BPM	80.000%	80.000%
10.	BRF Property S.p.A. Share capital € 2,000,000.00	Parma	Parma	1	Banco BPM	65.428%	65.428%
11.	BP Covered Bond S.r.l. Share capital € 10,000.00	Milan	Milan	1	Banco BPM	60.000%	60.000%
12.	BP Trading Real Estate S.r.l. Share capital € 4,070,000.00	Lodi	Lodi	1	Bipielle Real Estate	100.000%	100.000%
13.	Consorzio AT01 Share capital € 100,000.00	Lodi	Lodi	1	Bipielle Real Estate	95.000%	95.000%
14.	FIN.E.R.T. S.p.A. in liquidation Share capital € 103,280.00	Rome	Rome	1	Banco BPM	80.000%	80.000%
15.	Ge.Se.So. S.r.l. Share capital € 10,329.00	Milan	Milan	1	Banco BPM	100.000%	100.000%
16.	Immobiliare Marinai d'Italia S.r.l. in liquidation Share capital € 258,024.00	Lodi	Lodi	1	Banco BPM	100.000%	100.000%
17.	Lido dei Coralli S.r.l. Share capital € 10,000.00	Sassari	Sassari	1	Bipielle Real Estate	100.000%	100.000%
18.	Meleti S.r.l. Share capital € 20,000.00	Lodi	Lodi	1	Perca	100.000%	100.000%
19.	Milano Leasing S.p.A. in liquidation Share capital € 1,541,808.00	Milan	Milan	1	Banco BPM	99.999%	99.999%
20.	Partecipazioni Italiane S.p.A. in liquidation Share capital € 350,000.00	Milan	Milan	1	Banco BPM	99.966%	100.000%
21.	Perca S.r.l. Share capital € 50,000.00	Lodi	Lodi	1	Immobiliare Marinai d'Italia	100.000%	100.000%
22.	P.M.G. S.r.l. in liquidation Share capital € 52,000.00	Milan	Milan	1	Banco BPM	84.000%	84.000%

Company names	Operational headquarters	Registered office	Type of relationship (1)	Investment relationship		Available
				Holder	% held	% of votes (2)
23. ProFamily S.p.A. Share capital € 43,000,000.00	Milan	Milan	1	Banco BPM	100.000%	100.000%
24. Release S.p.A. Share capital € 170,829,901.44	Milan	Milan	1	Banco BPM	85.387%	85.387%
25. Sagim S.r.l. Società Agricola Share capital € 7,746,853.00	Asciano (SI)	Asciano (SI)	1	Agriurbe	100.000%	100.000%
26. Sirio Immobiliare S.r.l. Share capital € 10,000.00	Lodi	Lodi	1	Bipielle Real Estate	100.000%	100.000%
27. Tecmarket Servizi S.p.A. Share capital € 983,880.00	Verona	Verona	1	Banco BPM	100.000%	100.000%
28. Terme Ioniche S.r.l. Share capital € 1,157,190.00	Cosenza	Lodi	1	Bipielle Real Estate	100.000%	100.000%
29. Terme Ioniche Società Agricola S.r.l. Share capital € 100,000.00	Cosenza	Cosenza	1	Bipielle Real Estate	100.000%	100.000%
30. BP Mortgages S.r.l. (*) Share capital € 10,000.00	Milan	Milan	4	-	0.000%	
31. BPL Mortgages S.r.l. (*) Share capital € 12,000.00	Conegliano V. (TV)	Conegliano V. (TV)	4	-	0.000%	
32. Italfinance Securitisation Vehicle S.r.l. (*) Share capital € 10,000.00	Conegliano V. (TV)	Conegliano V. (TV)	4	Banco BPM	9.900%	9.900%
33. ProFamily Securitisation S.r.l. (*) Share capital € 10,000.00	Conegliano V. (TV)	Conegliano V. (TV)	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
(*) 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 2019 are shown in the tables below:

Fully consolidated companies	
Outgoing company due to corporate liquidation	
Leasimpresa Finance S.r.l. (in liquidation)	100.00%
Outgoing SPE due to closure of securitisation transaction	
Italfinance Securitisation Vehicle 2 S.r.l. (in liquidation)	-

Companies consolidated with the equity method	
Incoming company due to change in shareholding	
Anima Holding S.p.A.	19.385%

It should be noted that during the period, as a change in the scope of consolidation, the subsidiary Leasimpresa Finance S.r.l. left the company following its cancellation from the competent Companies' Register upon a liquidation procedure.
The Italfinance Securitisation 2 S.r.l. vehicle also leaves the scope of consolidation of the companies consolidated on a line-by-line basis, due to the early closure of the related securitisation transaction.

In addition, Anima Holding S.p.A., in which Banco BPM holds a 19.385% interest, has joined the group of companies consolidated using the equity method. This interest, considered strategic and intended to be held on a permanent basis, is considered such as to constitute a situation in which Banco BPM exercises considerable influence, also in view of the changes in the governance of the investee company.

For further details, reference should be made to the section on significant events during the period in the Interim Report on Operations and to the previous paragraph "Application of the Group's accounting policies to transactions completed or events that occurred during the period considered significant for the purposes of the balance sheet and income statement".

Significant events after the end of the interim period

The significant events that occurred in the period between the reference date of the interim report (30 June 2020) and the date of its approval by the Board of Directors (6 August 2020) are described in the specific sections of the Explanatory Notes. These events, as they occur after the reference date of the interim report, do not result in any adjustment to the balances in the financial statements in accordance with IAS 10.

A.2 - Key financial statement items

For accounting standards with regard to the classification, recognition, measurement and derecognition of financial statements items, as well as the procedures for recognising revenues and costs, reference should be made to the Banco BPM Group's Annual Financial Report as at 31 December 2019 ("Part A.2 - Key financial statement items").

A.3 – Information 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 period, as in the previous ones, there was no change in Banco BPM Group's business model, i.e. the way in which the Group manages financial instruments.

A.4 – Fair value disclosure

Methodologies for determining the fair value of financial assets and liabilities measured in the financial statements at fair value

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.

In particular:

- debt securities are valued according to the discounted cash flow method, appropriately adjusted to take account of issuer risk;
- loans that do not pass the SPPI test are valued on the basis of the discounting of expected cash flows determined using models that vary according to the status of the counterparty at an interest rate considered representative from the perspective of the potential buyer;
- unlisted equity instruments are measured by referring to direct transactions of the same security or similar securities observed over a suitable time frame as compared to the valuation date, using the market multiples method of comparable companies, and, as an alternative, using financial, income and equity valuation methods;
- investments in UCITs, other than open-ended harmonised UCITs, 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, private debt and similar funds, property funds and hedge funds;
- Bond Repo contracts are valued by discounting the forward contractual flows expected, determined based on the characteristics of the contract, based on the interest rate curve differentiated according to the issuer of the security underlying the contract (government securities and corporate securities).
- OTC derivative contracts 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 the purpose of discounting future cash flows, Banco BPM Group uses the OIS ("Overnight Indexed Swap") curve as a reference, considered to be the expression of a risk-free rate. The values thus obtained are then adjusted to take account of all factors considered relevant by market participants, with the aim of best reflecting the realisable price of a potential market transaction (model risk, liquidity risk, counterparty risk). With regard to the counterparty risk of performing derivatives, referring both to the credit risk of the counterparty "Credit Valuation Adjustment" (CVA) and the risk of failure to fulfil its contractual obligations "Debt Valuation Adjustment" (DVA), the corresponding correction

factor is determined for each individual legal entity of the Group according to the expected future exposure generated by the contracts, the probability of default of the parties and the related losses. In particular, the expected future exposure is variously configured in consideration of the existence or non-existence of netting and collateral agreements capable of mitigating counterparty risk, while the probability of default is estimated using Default Swap Credit quotations, where available, in priority over internal parameters. The model for the quantification of CVA/DVA correctives provides that, for each derivative, counterparty risk is equal to the sum of the components:

- "Bilateral CVA": this is the possible loss if the future exposure is positive for the Group, adjusted to take account of the possibility that the Group may fail before the counterparty;
- "Bilateral DVA": aimed at appreciating the benefit in the event of breach of contractual obligations, if the expected exposure is negative for the Group. This benefit is then mitigated to take into account the probability that, in the course of the transaction, the counterparty may fail before the Group.

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;
- Bond Repo contracts where the input of the pricing models used to determine the fair value are observable in the market or, where not observable, are deemed not to significantly influence the determination of fair value.

The following financial instruments are generally considered level 3:

- hedge funds characterised by significant levels of illiquidity, and for which the process to evaluate the equity of the fund requires a considerable amount of assumptions and estimates. The fair value is measured on the basis of the NAV. Said NAV may be suitably corrected to account for the fund’s diminished liquidity, i.e., the period of time between the date of the request for redemption and that of the actual redemption, as well as for possible exit commissions relating to the investment;
- property funds measured on the basis of the last available NAV;
- private equity, private debt and similar funds measured on the basis of the last available NAV, adjusted if necessary to take into account events that were not recognised in the measurement of the price or to reflect a different valuation of the assets underlying the fund in question;
- illiquid stock for which no recent or comparable transactions have been observed, usually measured on the basis of the equity model;
- debt securities characterised by complex financial structures, for which sources that are not publicly available are typically used. These are non-binding quotations and moreover not corroborated by market data;
- debt securities issued by parties in financial difficulty, for which the management has to use its own judgement to establish the recovery rate, as no significant prices can be observed on the market;
- OTC derivative financial instruments for which the non-observable input parameters used by the pricing model are deemed significant in order to measure the fair value;
- medium/long-term loans (performing and non-performing) measured on the basis of expected cash flows determined using models that vary according to the status of the counterparty and discounted at an interest rate considered representative from the perspective of the potential buyer.

For further details on the methods used to measure the fair value of financial assets and liabilities, on the techniques and inputs used, on how to complete the transfer tables between levels, please refer to the Annual Financial Report as at 31 December 2019 ("Part A - Accounting policies", "A4 - Fair value disclosure").

Hierarchy of the fair value of financial assets and liabilities measured at fair value in the financial statements

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.

Financial assets/liabilities measured at fair value	30/06/2020			31/12/2019		
	L1	L2	L3	L1	L2	L3
1. Financial assets at fair value through profit and loss	4,465,149	3,428,060	1,070,575	3,284,928	2,804,401	1,092,148
a) Financial assets held for trading	4,249,136	3,284,625	4,046	3,049,043	2,668,271	9,500
b) Financial assets designated at fair value	-	-	-	-	-	-
c) Other financial assets mandatorily measured at fair value	216,013	143,435	1,066,529	235,885	136,130	1,082,648
2. Financial assets measured at fair value through other comprehensive income	12,654,525	215,916	241,778	12,052,829	213,602	260,341
3. Hedging derivatives	-	111,092	-	-	103,614	-
Total	**17,119,674**	**3,755,068**	**1,312,353**	**15,337,757**	**3,121,617**	**1,352,489**
1. Financial liabilities held for trading	2,052,566	8,718,416	826	1,031,766	9,334,364	538
2. Financial liabilities designated at fair value	22,625	320,033	-	207,489	213,072	-
3. Hedging derivatives	-	619,506	-	-	552,761	-
Total	**2,075,191**	**9,657,955**	**826**	**1,239,255**	**10,100,197**	**538**

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

Financial assets measured at fair value on a recurring basis

As at 30 June 2020, 81.3% of financial instruments measured significantly on the basis of non-observable parameters (Level 3) were represented by instruments classified in the portfolio of “Other financial assets mandatorily measured at fair value” in the category of “Financial assets at fair value through profit and loss”, and 18.4% by instruments classified in the category of “Financial assets measured 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 1,312.4 million and are represented by the following types of investment:

- unlisted equity instruments of 407.6 million, mostly valued on the basis of internal equity models, transaction prices and multiples implied in transactions involving companies that do not meet the requirements to be assigned to Level 2;
- UCIT units of 422.9 million, represented by private equity, private debt and similar funds (363.5 million), property funds (50.9 million) and hedge funds (8.5 million). 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 377.9 million, measured at fair value, for failure to pass the SPPI test, as the related cash flows do not exclusively represent the payment of interest and principal;
- debt securities amounting to 100.1 million, of which structured credit securities of 48.5 million;
- Over the Counter (OTC) derivatives amounting to 3.9 million, mainly represented by valuations that are significantly affected by the use of non-observable input parameters.

Derivative financial instruments held for trading or hedging, excluding the level 3 portion as illustrated above, are classified in levels 1 and 2 of the fair value hierarchy. More specifically:

- level 1 includes listed derivatives (futures and options), measured on the basis of the prices provided by the Clearing Houses, for a total of 260.1 million;
- level 2 includes Over The Counter (OTC) derivatives measured on the basis of models that use observable market parameters to a significant extent, or on the basis of prices originating from independent sources, for 1,767.9 million.

Financial liabilities measured at fair value on a recurring basis

Level 1 financial liabilities refer to listed trading derivatives for 314.2 million, technical overdrafts listed in active markets for 1,738.3 million, as well as several bond issues of the Group designated at fair value, listed on markets considered active, for 22.6 million.
The remaining financial liabilities are almost entirely classified at level 2 of the fair value hierarchy.

Transfers between fair value levels (Level 1 and Level 2) of financial assets/liabilities measured at fair value on a recurring basis

During the first half of the year, the transfers in question involved a limited number of securities classified in the "Financial assets held for trading" portfolio. More specifically:
- transfers from level 2 to level 1 amounted to 6.6 million (opening value);
- transfers from level 1 to level 2 amounted to 0.3 million (opening value).

Period changes in financial assets designated at fair value on a recurring basis (level 3)

	Financial assets at fair value through profit and loss				Financial assets measured at fair value through other comprehensive income	Hedging derivatives
	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 measured at fair value		
1. Opening balance	**1,092,148**	**9,500**	**-**	**1,082,648**	**260,341**	**-**
2. Increases	**74,227**	**1,215**	**-**	**73,012**	**3,121**	**-**
2.1. Purchases	23,713	1,178	-	22,535	-	-
2.2. Profits charged to:	40,757	-	-	40,757	3,119	-
2.2.1. Income statement	40,757	-	-	40,757	3	-
- of which capital gains	39,424	-	-	39,424	-	-
2.2.2. Shareholders' equity	-	X	X	X	3,116	-
2.3. Transfers from other levels	23	23	-	-	-	-
2.4. Other increases	9,734	14	-	9,720	2	-
3. Decreases	**(95,800)**	**(6,669)**	**-**	**(89,131)**	**(21,684)**	-
3.1. Sales	(26,637)	(314)	-	(26,323)	(1,948)	-
3.2. Redemptions	(16,124)	-	-	(16,124)	(2,236)	-
3.3. Losses charged to:	(32,344)	(95)	-	(32,249)	(17,499)	-
3.3.1. Income statement	(32,344)	(95)	-	(32,249)	(1)	-
- of which capital losses	(32,119)	(88)	-	(32,031)	-	-
3.3.2. Shareholders' equity	-	X	X	X	(17,498)	-
3.4. Transfers to other levels	(12,004)	(2,758)	-	(9,246)	-	-
3.5. Other decreases	(8,691)	(3,502)	-	(5,189)	(1)	-
4. Closing balance	**1,070,575**	**4,046**	**-**	**1,066,529**	**241,778**	**-**

Period 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	**538**	**-**	**-**
2. Increases	**288**	**-**	**-**
2.1. Issues	-	-	-
2.2. Losses charged to:	288	-	-
2.2.1. Income statement	288	-	-
- of which capital losses	211	-	-
2.2.2. Shareholders' equity	X	-	-
2.3. Transfers from other levels	-	-	-
2.4. Other increases	-	-	-
3. Decreases	**-**	**-**	**-**
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	-	-	-
3.5. Other decreases	-	-	-
4. Closing balance	**826**	**-**	**-**

Fair value disclosure on financial assets and liabilities measured at cost

With reference to the fair value disclosure, required by IFRS 7, paragraphs 25 and 26, referred to by standard IAS 34, regarding the fair value of financial assets and liabilities recognised in the financial statements at amortised cost, please refer to the relevant tables showing the breakdown of financial assets and liabilities valued at amortised cost in "Part B – Information on the consolidated balance sheet" (for assets item 40 and liabilities item 10).
For an illustration of the method used to determine fair value, which is relevant for information purposes only, reference should be made to the Annual Financial Report as at 31 December 2019.

A.5 Disclosure on "day one profit/loss"

In accordance with IFRS 7 paragraph 28, in the context of the Group's financial instruments, it should be noted that in the period there were no transactions that led to the recognition of "day one profit/loss" and therefore as at 30 June 2020, as at December 2019, there were no suspended costs or revenues related to the effect.

Disclosure on structured credit products

As at 30 June 2020, the Group's exposure to structured credit instruments amounted to 2,575.0 million and consisted of 2,387.8 million in asset backed securities (ABS) arising from securitisation transactions and 187.2 million in units in mutual funds held as a result of multi-originator sales of impaired loan portfolios in previous years.
The composition of ABSs is as follows:

- 1,188.7 million relating to securities issued by the Leviticus SPV, which the Group holds following the GACS securitisation of bad loans, called "ACE Project", completed in February 2019 (senior tranche of 1,184.2 million; mezzanine tranche of 4.5 million);
- 1,157.1 million relating to securities issued by Red Sea SPV, which the Group holds following the GACS securitisation of bad loans, called "Exodus Project", completed in June 2018 (senior tranche of 1,154 million; mezzanine tranche of 3 million);

- 42.1 million for securities relating to third-party securitisations (junior tranche for 30.3 million; mezzanine tranche for 6.2 million; senior tranche for 5.6 million). It should be noted that the junior tranche is attributable to the security issued by the SPE BNT Portfolio SPV established in 2014 to complete the securitisation of agricultural loans of Banca della Nuova Terra, financed by the issue of a single tranche of securities.

For an examination of mutual funds resulting from multi-originator sales transactions, reference should be made to the "Part E - Section 2 - D. Sale transactions - Financial assets sold and fully derecognised" of the Annual Financial Report as at 31 December 2019. The decrease of 6.9 million compared to the book value as at 31 December 2019 (194.1 million) is mainly attributable to the update of the fair value of the units as at 30 June 2020, as no new sales transactions took place during the first half of the year.

PART B – INFORMATION ON THE CONSOLIDATED BALANCE SHEET

ASSETS

Financial assets at fair value through profit and loss – Item 20

2.1 Financial assets held for trading: breakdown by product

Items/Amounts	Total 30/06/2020			Total 31/12/2019		
	L1	L2	L3	L1	L2	L3
A. Cash assets						
1. Debt securities	3,602,898	13,519	-	1,822,525	14,994	1,613
1.1 Structured securities	116,445	7,879	-	73,069	10,497	1,613
1.2 Other debt securities	3,486,453	5,640	-	1,749,456	4,497	-
2. Equity instruments	386,093	-	27	1,090,054	-	19
3. UCIT units	23	-	144	3,132	-	444
4. Loans	-	1,614,324	-	-	834,324	-
4.1 Repurchase agreements	-	1,614,324	-	-	834,324	-
4.2 Other	-	-	-	-	-	-
Total (A)	**3,989,014**	**1,627,843**	**171**	**2,915,711**	**849,318**	**2,076**
B. Derivative instruments	-	-	-	-	-	-
1. Financial derivatives	260,122	1,655,538	3,875	133,332	1,818,953	7,424
1.1 held for trading	260,122	1,646,092	3,875	133,332	1,811,333	7,424
1.2 connected with the fair value	-	9,446	-	-	7,605	-
1.3 other	-	-	-	-	15	-
2. Credit derivatives	-	1,244	-	-	-	-
2.1 held for trading	-	1,244	-	-	-	-
2.2 connected with the fair value	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total (B)	**260,122**	**1,656,782**	**3,875**	**133,332**	**1,818,953**	**7,424**
Total (A+B)	**4,249,136**	**3,284,625**	**4,046**	**3,049,043**	**2,668,271**	**9,500**

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

2.5 Financial assets mandatorily measured at fair value: breakdown by product

Items/Amounts	Total 30/06/2020			Total 31/12/2019		
	L1	L2	L3	L1	L2	L3
1. Debt securities	41,139	106,333	97,628	42,083	105,622	99,367
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	41,139	106,333	97,628	42,083	105,622	99,367
2. Equity instruments	41,718	37,102	168,249	35,836	30,508	154,227
3. UCIT units	133,156	-	422,769	157,966	-	443,427
4. Loans	-	-	377,883	-	-	385,627
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	377,883	-	-	385,627
Total	**216,013**	**143,435**	**1,066,529**	**235,885**	**136,130**	**1,082,648**

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

Financial assets measured at fair value through other comprehensive income – Item 30

3.1 Financial assets measured at fair value through other comprehensive income: breakdown by product

Items/Amounts	Total 30/06/2020			Total 31/12/2019		
	L1	L2	L3	L1	L2	L3
1. Debt securities	12,625,279	99,982	2,461	11,790,398	100,077	4,698
1.1 Structured securities	6,256	-	2,461	6,510	-	4,698
1.2 Other debt securities	12,619,023	99,982	-	11,783,888	100,077	-
2. Equity instruments	29,246	115,934	239,317	262,431	113,525	255,643
3. Loans	-	-	-	-	-	-
Total	**12,654,525**	**215,916**	**241,778**	**12,052,829**	**213,602**	**260,341**

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

Banco BPM holds, among level 2 equity investments, 4,541 stakes in the Bank of Italy's share capital, corresponding to 1.5137% of the entire share capital. The book value of 113.5 million is obtained by applying the value of € 25,000 to each unit. Note that these shares derive from the capital increase operation carried out by Bank of Italy in 2013 as an effect of Italian Decree Law 133 of 30 November 2013, converted with Italian Law 5 of 29 January 2014, leading to the issuing of new shares, with a value of € 25,000 per unit.

Financial assets at amortised cost – Item 40

4.1 Financial assets at amortised cost: breakdown by product for loans to banks

Transaction type/Amounts	Total 30/06/2020						Total 31/12/2019					
	Book value			Fair value			Book value			Fair value		
	First and second stage	Third stage	of which: originated or acquired impaired	L1	L2	L3	First and second stage	Third stage	of which: originated or acquired impaired	L1	L2	L3
A. Loans to Central Banks	**9,495,915**	**-**	**-**	**-**	**-**	**9,495,915**	**6,556,632**	**-**	**-**	**-**	**-**	**6,556,632**
1. Fixed-term deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Minimum reserve	9,473,358	-	-	X	X	X	6,544,572	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	22,557	-	-	X	X	X	12,060	-	-	X	X	X
B. Loan to banks	**4,184,988**	**29**	**-**	**679,474**	**180,236**	**3,317,695**	**4,277,823**	**63**	**-**	**623,937**	**184,855**	**3,492,670**
1. Loans	3,328,783	29	-	-	-	3,317,695	3,487,732	63	-	-	-	3,492,670
1.1 Current accounts and demand deposits	645,460	29	-	X	X	X	908,802	63	-	X	X	X
1.2. Fixed-term deposits	391,123	-	-	X	X	X	134,493	-	-	X	X	X
1.3. Other loans:	2,292,200	-	-	X	X	X	2,444,437	-	-	X	X	X
- Reverse repurchase agreements	581,391	-	-	X	X	X	971,491	-	-	X	X	X
- Loans for leases	1,499	-	-	X	X	X	1,688	-	-	X	X	X
- Other	1,709,310	-	-	X	X	X	1,471,258	-	-	X	X	X
2. Debt securities	856,205	-	-	679,474	180,236	-	790,091	-	-	623,937	184,855	-
2.1 Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt securities	856,205	-	-	679,474	180,236	-	790,091	-	-	623,937	184,855	-
Total	**13,680,903**	**29**	**-**	**679,474**	**180,236**	**12,813,610**	**10,834,455**	**63**	**-**	**623,937**	**184,855**	**10,049,302**

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

4.2 Financial assets at amortised cost: breakdown by product for loans to customers

Transaction type/Amounts	Total 30/06/2020						Total 31/12/2019					
	Book value			Fair value			Book value			Fair value		
	First and second stage	Third stage	of which: originated or acquired impaired	L1	L2	L3	First and second stage	Third stage	of which: originated or acquired impaired	L1	L2	L3
1. Loans	**100,650,831**	**5,399,460**	**470,357**	**-**	**-**	**112,286,106**	**97,798,968**	**5,544,384**	**533,881**	**-**	**-**	**108,939,965**
1.1. Current accounts	9,448,369	780,531	166,870	X	X	X	10,501,931	844,065	190,742	X	X	X
1.2. Reverse repurchase agreements	4,729,338	-	-	X	X	X	5,724,258	-	-	X	X	X
1.3. Mortgage loans	67,098,589	2,880,673	244,687	X	X	X	62,514,221	2,827,713	281,330	X	X	X
1.4. Credit cards, personal loans and salary-backed loans	1,840,268	18,266	50	X	X	X	1,992,109	27,885	91	X	X	X
1.5. Loans for leases	903,960	741,149	6,126	X	X	X	951,825	763,583	6,082	X	X	X
1.6. Factoring	85,601	90	-	X	X	X	142,082	89	-	X	X	X
1.7. Other loans	16,544,706	978,751	52,624	X	X	X	15,972,542	1,081,049	55,636	X	X	X
2. Debt securities	**23,180,448**	**-**	**-**	**21,108,940**	**222,285**	**2,390,303**	**18,969,247**	**-**	**-**	**16,624,134**	**241,647**	**2,604,688**
2.1. Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2. Other debt securities	23,180,448	-	-	21,108,940	222,285	2,390,303	18,969,247	-	-	16,624,134	241,647	2,604,688
Total	**123,831,279**	**5,399,460**	**470,357**	**21,108,940**	**222,285**	**114,676,409**	**116,768,215**	**5,544,384**	**533,881**	**16,624,134**	**241,647**	**111,544,653**

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

Non-performing loans (third stage) amounted to 5,399.5 million, a further decrease compared to last year (5,544.4 million).

As at 30 June 2020, the breakdown into risk stages of loans to customers is provided in the table below:

Exposure types/risk stages	First Stage	Second Stage	Third stage	Total
Bad loans	-	-	1,549,305	**1,549,305**
Unlikely to pay	-	-	3,738,713	**3,738,713**
Non-performing past-due exposures	-	-	111,442	**111,442**
Non-performing loans	**-**	**-**	**5,399,460**	**5,399,460**
Performing loans	**94,044,676**	**6,606,155**	**-**	**100,650,831**
Total loans to customers	**94,044,676**	**6,606,155**	**5,399,460**	**106,050,291**

For further details on the credit risk of loans to customers, please refer to the "Results" section of the Interim Report on Operations.

Interests in associates and joint ventures – Item 70

Interest in associates and joint ventures as at 30 June 2020 amounted to 1,577.1 million, compared with 1,386.1 million as at 31 December 2019.

The increase of 191.0 million euro recorded in the half-year relates to the purchases of Anima Holding S.p.A. amounting to 191.3 million (of which 141.5 million resulting from the reclassification of the interest held until 1 April 2020 as illustrated in "Part A - Accounting policies" of these Explanatory Notes) and the effects of the valuation of interests in associates and joint ventures using the equity method, a total negative 0.3 million. In detail, the latter effects relate to the share of profits achieved by investee companies in the period (+70.3 million, including 6.6 million relating to the profits for Anima Holding S.p.A. attributable to the second quarter), to the effects of the reductions of capital of Agos Ducato (-69.0 million) and Etica SGR (-0.9 million) following the distribution of dividends, and to changes attributable to the Group in the valuation reserves of those companies (-0.7 million).

In July, the Parent Company Banco BPM made a capital contribution of 17.5 million to its subsidiary Vera Vita S.p.A., against a total capital contribution of 50 million.
Banco BPM has also subscribed to a Tier 2 subordinated loan of 17.5 million in favour of Vera Vita S.p.A., a loan issued for a total amount of 50 million.

7.1 Interests in associates and joint ventures: 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. Anima Holding S.p.A. Share capital € 7,291,809.72	Milan	Milan	1	Banco BPM	19.385%	19.385%
4. Aosta Factor S.p.A. Share capital € 14,993,000.00	Aosta	Aosta	1	Banco BPM	20.690%	20.690%
5. Arcene Immobili S.r.l. in liquidation Share capital € 12,000.00	Lodi	Lodi	1	Banco BPM	50.000%	50.000%
6. Arcene Infra S.r.l. in liquidation Share capital € 12,000.00	Lodi	Lodi	1	Banco BPM	50.000%	50.000%
7. Bipiemme Vita S.p.A. (*) Share capital € 179,125,000.00	Milan	Milan	1	Banco BPM	19.000%	19.000%
8. Bussentina S.c.a.r.l. in liquidation Share capital € 25,500.00	Rome	Rome	1	Bipielle Real Estate	20.000%	20.000%
9. Calliope Finance S.r.l. in liquidation Share capital € 600,000.00	Milan	Milan	1	Banco BPM	50.000%	50.000%
10. CF Liberty Servicing S.p.A. Share capital € 150,000.00	Rome	Rome	1	Banco BPM	30.000%	30.000%
11. Etica SGR S.p.A. (*) Share capital € 4,500,000.00	Milan	Milan	1	Banco BPM	19.444%	19.444%
12. Factorit S.p.A. Share capital € 85,000,002.00	Milan	Milan	1	Banco BPM	39.500%	39.500%
13. 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%
14. HI-MTF SIM S.p.A. Share capital € 5,000,000.00	Milan	Milan	1	Banca Akros	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 interests in associates and joint ventures: 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.	586,276	-	69,030
	Alba Leasing S.p.A.	159,625	-	-
	Anima Holding S.p.A.	197,915	273,548	-
	Vera Vita S.p.A.	233,881	-	-
	Total	**1,177,697**	**273,548**	**69,030**

(*) Dividends received after the date of classification of the interest held as an equity investment.

The "Fair value" column shows the value relating to the stock market listing as at 30 June 2020 of the associate Anima Holding, which is the only listed company.
Also note that dividends received during the half-year were recognised as decreasing the book value of the interest in associates and joint ventures, in that the profits, which gave rise to them, were already indicated in the financial statements as at 31 December 2019, as a result of measuring the investment using the equity method.

Commitments relating to interests in jointly controlled companies and subject to significant influence

The Banco BPM Group's commitments relating to interests in jointly controlled companies and subject to significant influence are described in detail in Section 7 - Interests in associates and joint ventures, in the explanatory notes to last year's financial statements, to which reference should be made, with the additions reported below, to take account of Anima Holding S.p.A.'s inclusion among companies subject to significant influence.

Commitments arising from agreements with Anima on Asset Management

It should be noted that during 2017 and subsequent years, in execution of the agreements signed on 9 November 2017 between Banco BPM and Anima Holding, a series of agreements were signed to regulate:

- (i) the sale to Anima Holding of Aletti Gestielle SGR;
- (ii) the long-term partnership in the asset management sector between the Banco BPM Group and the Anima Group;
- (iii) the sale to Anima SGR of the mandates for the exclusive management of certain insurance assets distributed through the Banco BPM network as part of the existing joint ventures between Banco BPM and the Cattolica Group.

These agreements, which have a total duration of 20 years from their origin, include (i) exclusive preferential access by the Anima Group to the Banco BPM Group's present and future distribution networks, with different characteristics between the "retail" network and the other networks (ii) the distribution of products such as UCITS and Individual Portfolio Management and other products and services of the Anima Group, (iii) the essential economic terms relating to the Partnership, including the minimum expected levels and objectives and certain protection and guarantee mechanisms related to the failure to achieve them.

On 14 May 2020, a renegotiation of the framework partnership agreement took place, which concerned both the redefinition of the expected target levels and the deadline for achieving them.

For the provisions for risks and charges to cover commitments arising from the sale of interests in associates and joint ventures and any related partnership agreements, reference should be made to the contents of the following section "Liabilities provisions - Items 90 and 100".

Property, plant and equipment – Item 90

Property, plant and equipment totalled 3,522.0 million as at 30 June 2020, compared with the amount of 3,624.3 million of the previous year. In detail, the aforementioned assets are represented by:

- property, plant and equipment used in operations valued at cost of 815.5 million, mainly concerning rights of use relating to property rental contracts;
- property used in operations measured on the basis of the restatement of values of 1,426.9 million;
- property held for investment purposes valued at fair value of 1,279.6 million.

For further details on the composition of property, plant and equipment, please refer to the following tables.

As at 30 June 2020, there were no commitments for the purchase of property or other property, plant and equipment of a significant amount.

9.1 Property, plant and equipment used in operations: breakdown of assets designated at cost

Asset/Amounts	Total 30/06/2020	Total 31/12/2019
1. Owned assets	**107,684**	**115,292**
a) land	-	-
b) buildings	-	-
c) furniture	24,948	26,142
d) electronic systems	53,208	54,487
e) other	29,528	34,663
2. Rights of use acquired through leases	**707,786**	**761,543**
a) land	-	-
b) buildings	706,544	760,865
c) furniture	858	55
d) electronic systems	-	-
e) other	384	623
Total	**815,470**	**876,835**
of which: obtained through enforcement of guarantees received	-	-

The change observed during the half-year mainly refers to the normal depreciation process.

9.2 Property, plant and equipment held for investment purposes: breakdown of assets at cost

As at 30 June 2020, similar to 31 December last year, the Group does not hold property, plant and equipment for investment purposes measured at cost following the change in the valuation criterion for property held for investment purposes from cost to fair value made last year.

9.3 Property, plant and equipment used in operations: breakdown of revalued assets

Asset/Amounts	Total 30/06/2020			Total 31/12/2019		
	L1	L2	L3	L1	L2	L3
1. Owned assets	**-**	**-**	**1,426,905**	**-**	**-**	**1,431,706**
a) land	-	-	1,043,038	-	-	1,043,095
b) buildings	-	-	331,760	-	-	336,504
c) furniture	-	-	-	-	-	-
d) electronic systems	-	-	-	-	-	-
e) other	-	-	52,107	-	-	52,107
2. Rights of use acquired through leases	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-
c) furniture	-	-	-	-	-	-
d) electronic systems	-	-	-	-	-	-
e) other	-	-	-	-	-	-
Total	**-**	**-**	**1,426,905**	**-**	**-**	**1,431,706**
of which: obtained through enforcement of guarantees received	-	-	-	-	-	-

The change observed during the half-year mainly refers to the normal depreciation process.

9.4 Property, plant and equipment held for investment purposes: breakdown of assets at fair value

Asset/Amounts	Total 30/06/2020			Total 31/12/2019		
	L1	L2	L3	L1	L2	L3
1. Owned assets	**-**	**-**	**1,279,652**	**-**	**-**	**1,315,771**
a) land	-	-	923,073	-	-	952,657
b) buildings	-	-	356,579	-	-	363,114
2. Rights of use acquired through leases	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-
Total	**-**	**-**	**1,279,652**	**-**	**-**	**1,315,771**
of which: obtained through enforcement of guarantees received	-	-	709,657	-	-	736,737

The changes that occurred during the first half of the year include the following:

- transfers of certain buildings, with a book value of 37.1 million, to assets held for sale;
- net changes in fair value for a total negative amount of 5.4 million euro recognised under item "260. Fair value gains (losses) on property, plant and equipment and intangible assets".

The remaining changes refer to purchases and sales transactions of insignificant amounts.

The negative fair value changes shown above refer for 3 million to fair value updates, carried out with the support of an independent external expert, which became necessary as a result of negotiations undertaken with the tenant to grant discounts or renegotiate rents as explained in the section "Significant accounting policies and uncertainties regarding the use of estimates in the preparation of condensed interim financial statements in the context of the Covid-19 pandemic" contained in the preceding "Part A - Accounting Policies".

Intangible assets – Item 100

10.1 Intangible assets: breakdown by asset type

Asset/Amounts	Total 30/06/2020		Total 31/12/2019	
	Definite life	Indefinite life	Definite life	Indefinite life
A.1 Goodwill	**X**	**76,200**	**X**	**76,200**
A.1.1 attributable to the group	X	76,200	X	76,200
A.1.2 attributable to non-controlling interests	X	-	X	-
A.2 Other intangible assets	**680,313**	**504,272**	**688,888**	**504,272**
A.2.1 Assets at cost:	680,313	504,272	688,888	504,272
a) Internally generated intangible assets	-	-	-	-
b) Other assets	680,313	504,272	688,888	504,272
A.2.2 Assets at fair value:	-	-	-	-
a) Internally generated intangible assets	-	-	-	-
b) Other assets	-	-	-	-
Total	**680,313**	**580,472**	**688,888**	**580,472**

Intangible assets with an indefinite life: impairment testing to determine whether there has been a permanent loss in value

Pursuant to IAS 36, all intangible assets with an indefinite life must undergo impairment testing at least once a year to verify the recoverability of their value. The Group has decided to verify impairment with reference to 31 December of each year and, in any case, every time indicators of losses are identified.

In this regard, the Group considered that the effects of the Covid-19 pandemic, on the economy in general and on the Group's activities, represented objective evidence of impairment such as to require a new test compared to the one conducted as at 31 December 2019.

The impairment test as at 30 June 2020 has taken the following into account:
- the dictates of international accounting standard IAS 36;
- the recommendations issued in the joint letter signed by Bank of Italy, CONSOB and IVASS on 3 March 2010;
- the main suggestions found in the document issued on 14 June 2012 by the Italian Measurement Body (OIV), entitled "Goodwill impairment test under situations of real and financial crises", as well as the Discussion Paper "Guidelines for the impairment test after the effects of the Covid-19 pandemic" issued by the same OIV on 10 July 2020;
- the recommendations issued by CONSOB in communication no. 3907 of 19 January 2015;
- the recommendations published by ESMA on 20 May 2020 "Implication of the Covid-19 outbreak on the interim financial report", set out in "Part A - Accounting policies";
- the Covid-19 financial disclosures published by CONSOB on 9 April 2020 and 17 July 2020, as illustrated in "Part A - Accounting Policies".

Also note that, as requested by the cited supervisory bodies, the procedure and parameters for assessing the impairment test for goodwill and other intangible assets with indefinite useful lives were approved by the Board of Directors, independently and in advance with respect to approval of this Interim Financial Report.

That said, for the purposes of impairment testing of the assets in question, IAS 36 requires that their recoverable value be determined as the higher of fair value and value in use. If it is not possible to directly determine the recoverable value of a specific intangible asset recognised in the financial statements, it is necessary to determine the recoverable value of the cash generating units to which the asset belongs (hereinafter "CGU - Cash Generating Unit"). In order to identify the CGUs to which the assets undergoing impairment tests are allocated, the potentially identified units must generate incoming cash flow in amounts that are clearly independent from those deriving from other identified units.

With specific reference to the verification of the recoverability of goodwill acquired in a business combination, paragraph 80 of the aforementioned accounting standard specifies that it must be allocated, from the acquisition date, to each cash generating unit or groups of cash generating units, which can benefit from the synergies created by the business combination, regardless of whether other assets or liabilities of the business acquired are assigned to said units or groups of units.
Each unit or group of units to which goodwill is thereby allocated must:
(a) represent the minimum level within the entity for which goodwill is monitored for the purposes of internal management;
(b) not be larger than an operating segment, as determined in accordance with IFRS 8.

Based on the regulatory references illustrated above, as at 30 June 2020, the CGUs identified for which intangible assets, with an indefinite life to be tested for impairment, were allocated are as follows:
- Retail CGU, comprised of activities for private individuals and small businesses, for testing the trademarks recognised following the business combination with the former Banca Popolare Italiana Group in 2007 (222.2 million) and with the former Banca Popolare di Milano Group in 2017 (263.5 million);
- Banca Akros CGU, consisting of Banca Akros S.p.A., for testing the corresponding trademark following the business combination with the former Banca Popolare di Milano Group in 2017 (18.6 million);
- 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 (25.1 million);
- 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 (51.1 million).

Evidence is provided below of the method used to conduct the impairment test of the assets under review, the related results and sensitivity analysis.

A. Method for calculating the book value of individual CGUs

The book value of the Retail CGU, in line with the 2019 financial statements, was determined according to management metrics based on regulatory capital absorption. In particular, the reference book value is obtained by considering the Common Equity Tier 1 (CET1) capital allocated to the CGU, i.e. the capital allocated on a management basis in relation to its risk-weighted assets. In detail, the allocated capital is obtained by multiplying the risk-weighted assets of the CGU by the "CET1 fully-phased" capital ratio, equal to 12.43%, defined in terms of "CET1 budget target", as it is considered to be the expressive measure of the actual capital used, under ordinary conditions. Goodwill and other intangible assets with an indefinite and definite useful life associated with the CGU are also added to the capital thus attributed.

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 regard to the "Banca Akros" trademark, in line with the 2019 financial statements, the methodology used is based on the royalties method. This method makes it possible to directly verify the recoverability of the book value of the trademark, without it being necessary to determine the recoverable value of the entire CGU to which this intangible asset is allocated.

The following table shows the reference book values of the CGUs, as determined above, including goodwill and trademarks to be tested for impairment.

CGU	Reference book value	of which: goodwill	of which: trademarks
Retail	3,013	-	486
Banca Akros (*)	19	-	19
Bancassurance Life	259	25	-
Bancassurance Protection	151	51	-
Total	**3,442**	**76**	**504**

(*) Consistent with the royalty valuation methodology, the values of the Banca Akros CGU are to be understood as referring only to the "Banca Akros" trademark.

These CGU reference values are in line with the methods used to determine the respective recoverable values, as illustrated below.

B. Criteria used to determine the recoverable values of the CGUs

On the basis of IAS 36, the amount of any impairment is determined as the difference between the book value of the CGU, determined on the basis of the criteria already described, and its recoverable value, if lower. The recoverable value is defined as the greater of:

- Value in Use, that is the present value of future cash flows expected to originate from continued use of a specific asset or CGU;
- Fair Value, after costs to sell, or the amount which could be obtained by selling an asset, in a free transaction between knowledgeable and willing parties.

For the Retail CGU and for the Bancassurance Life and Protection CGUs, the impairment test was conducted using the Value in Use, obtained through the application of the Dividend Discount Model (DDM).
According to the Dividend Discount Model, the value of a company is a function of the flow of dividends that 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 present value of future cash flows (expected dividends) generated over the pre-selected planning time horizon and distributed to shareholders, while maintaining a level of capitalisation adequate to guarantee future expected development, and the perpetual capitalisation of the dividend normalised for the last forecast year, on the basis of a pay-out ratio, as a function of profitability when fully operational. The application of the DDM involves the use of the following formula:

$$W = \sum_{t=0}^{n} \frac{D_t}{(1+Ke)^t} + TV + SA$$

where:
W = General value of economic capital
Ke = Cost of equity (Ke)
Dt = Dividends distributable during the explicit period, with a level of capitalisation in line with current regulations
n = Number of years in the explicit period
TV = Terminal value, determined as the present value of perpetual income represented by the average sustainable dividend for years following the explicit planning period
SA = value of any surplus assets.

In analytical terms, the Terminal Value is calculated as follows:

$$\mathrm{TV} = \frac{Dn+1}{Ke-g}\left(1+Ke\right)^{-n}$$

where:
Dn+1 = Average sustainable dividend expected after the explicit planning period
g = Expected long-term growth rate for the dividend after the explicit planning period. This rate is placed in relation to the nominal growth rate of the economy over the long term. In fact, it is prudentially assumed over the long term each sector and each company in the sector will converge around a growth rate equal to that of the economy as a whole.
Ke = Cost of own capital.

For the Banca Akros CGU, the methodological approach used to measure the trademark involved valuing the intangible asset on the basis of the royalties, which the owner of the trademark would receive following its sale for use to third parties. The present value of the trademark is therefore expressed as the present value of future royalties, estimated with reference to specific parameters (royalty rate, percentage of revenues) after the relative tax effects.
The measurement also included the Tax Amortisation Benefit for a potential purchaser associated with the deductibility of the amortisation of the asset itself, in the case of a cash-settled transaction. In detail, the following formula has been used to enhance the trademark:

$$W = \left[\frac{\sum_{t=1}^{n} S_t \cdot r \cdot (1-T)}{(1+ke)^t} + TV\right] + \mathrm{TAB}$$

where:
W = Value of the trademark
St = Operating income 2020-2023
R = Royalty rate
T = Tax rate
Ke = Discount rate
TV = Terminal Value obtained through capitalisation in perpetuity of the expected royalty flows during the period following the last forecast, considering a long-term growth rate
TAB = Tax Amortisation Benefit

B.1 - Estimates of cash flows
The estimates of cash flows underlying the determination of the Value in Use is normally made using the latest publicly available plan or alternatively through the formulation of a forecast plan developed internally by management.

With regard to the Retail CGU, it should be noted that the crisis caused by the current health pandemic has made the objectives of the Group's 2020-2023 Strategic Plan, presented to the market on 3 March 2020, no longer relevant because they were developed assuming a macroeconomic scenario that is significantly different from the one that is gradually emerging and whose evolution is characterised by extreme uncertainty. Updating the objectives of the Strategic Plan will be possible only when the outlook takes on a better defined outline, as illustrated in the Interim Report on Operations, to which reference should be made for further details.
In light of the above, for the Retail CGU, starting from the budget for the year 2020, it was necessary to develop cash flow projections for the years 2021, 2022, 2023. These projections represent the best estimate available to date and have been developed in accordance with the main guidelines set out in the 2020-2023 Strategic Plan, as they are still considered current, taking into account the effects of the Covid-19 pandemic. In particular, the projections refer to a scope consisting only of the Group's Retail activities (households and businesses with turnover of less than 75 million), in line with segment reporting.

In light of the above considerations, in accordance with the practice for evaluation exercises to be conducted in contexts characterised by extreme uncertainty, it was considered appropriate to adopt a "multi scenario" approach. The cash flow projections have therefore been prepared using three separate macroeconomic scenarios, to which a different probability of occurrence has been attributed. More specifically, in line with the other valuation processes (probability test of DTAs and expected losses on performing loans), the aforementioned scenarios have been developed on the basis of the macroeconomic forecasts published by the ECB and the Bank of Italy on 4 and 5 June 2020 respectively: in addition to a base scenario considered more likely ("baseline"), a favourable scenario ("favourable") and an adverse scenario ("adverse") have been developed, to which the following respective probabilities of occurrence have been assigned: 50%, 35% and 15%. For further details on macroeconomic scenarios and the related probability of occurrence, please refer to the paragraph "Model for measuring expected losses on performing exposures" contained in "Part E - Information on risks and related hedging policies" of these Explanatory Notes.
The assumptions underlying the scenarios adopted and the cash flows obtained were submitted to Banco BPM's Board of Directors for approval prior to the impairment test.
The main assumptions and hypotheses underlying the development of the aforementioned projections are illustrated below:

- commercial volumes: the development of the most significant technical forms of lending and funding, direct and indirect, have been developed taking into account the expected values for the end of 2020, the development initiatives of the commercial structures and the dynamics of the scenario. The CAGR (compound annual growth rate) of net loans for the period 2020-23 is between 2.3% of the “baseline”/“favourable” scenario and 0.1% of the “adverse” scenario. The CAGR of indirect funding, measured on average volumes, is between 7.3% of the favourable scenario and 6.3% of the adverse scenario, leveraging the large and growing amounts of liquidity present in the accounts of retail and private customers;
- net interest income: starting from the spread and volumes forecast for 2020, the lending and funding spreads for the three-year period 2021-2023 were calculated by incorporating the impacts of the interest rate scenario (Euribor substantially flat at -0.40 and slightly up only in the last year) and assuming a slight contraction in the mark up on lending (from 2% to 1.92%) due to maturities and new business. Overall, net interest income was broadly stable over the 2020-23 period in the "baseline"/"favourable" scenario, while it contracted by 3.3% in the "adverse" scenario;
- income from services: benefits both from the dynamics of volumes and the diversification of the offering towards products with higher added value in line with the guidelines of the Strategic Plan. In particular, in the three-year period 2021-23, the negative "step" generated in 2020 is expected to be recovered for the part attributable to the lockdown, with varying degrees, depending on the type of service and the underlying macro scenario. Overall, operating income shows a CAGR of between 5.5% and 6% in the "baseline"/"favourable" scenario and 3.8% in the "adverse" scenario;
- operating costs: a slight containment of costs is expected in line with the assumption of operational reorganisation and rationalisation of the branch network, with an average annual contraction of 0.4% in the "baseline"/"favourable" scenario;
- value adjustments to loans: the projections were prepared analytically taking into account the development of the assets, the reference macroeconomic scenarios, the evolution of the geo-sector decay rates, the effects of credit risk mitigation resulting from the moratoriums and the various forms of public guarantees put in place by the Government to contain the effects of the pandemic on economic operators. After the 2020 shock, an improvement in the cost of credit is expected from 2023 onwards, consistent with the macroeconomic scenario.

The distributable cash flows in the explicit period (Dt) were thus determined starting with 2020-2023 economic-financial figures, as illustrated above, taking into consideration a minimum estimated capital level based on a Common Equity Tier 1 (CET1), representing the minimum capital level that the ECB has asked the Banco BPM Group to meet on an ongoing basis upon completion of the Supervisory Review and Evaluation Process (SREP), which is 9.505%. The choice of this value is considered to be consistent with the DDM, as it represents the minimum capital threshold below which dividends cannot be distributed.

To estimate the terminal value, the average sustainable dividend after the explicit planning period was calculated as a function of expected profitability in the long term, also obtained by weighting the flows of the above three scenarios. In greater detail, the estimate of long-term profitability was prepared by taking as reference the projections for the last year of the explicit forecast period (2023), appropriately normalised to take into account those components that cannot be repeated in perpetuity. With reference to the cost of credit, the same is assumed to be equal to the average of the last two years of the 2020-2023 Strategic Plan, as it is consistent both with the Group's 2023 market "consensus" and with the average targets of the main Italian banks. Long-term profitability was then estimated using a reference long-term business growth rate of 2%, taken as equal to the nominal growth rate of the economy, in line with the inflation objective in the context of the ECB's long-term monetary stability policy.

In order to verify the recoverability of the "Banca Akros" trademark, the projections were prepared taking into account the effects of the deterioration resulting from Covid-19 on the individual operating segments of the company, with particular reference to the expected slowdown in the placement of third-party network structured products, while preserving the strategic development lines of the Banco BPM Group's 2020-2023 Plan, which remain confirmed. As for the Retail CGU, the projections for the Akros Bank CGU are based on three different scenarios, one more probable, one favourable and one adverse.

For the Bancassurance Life and Protection CGUs, the projections coincide with the forecast cash flows resolved by the individual insurance companies in 2020, in relation to the periodic processing of economic and capital plans. For the purposes of estimating distributable dividends, the maintenance of a target Solvency Capital Ratio (SCR) of 130% for both Bancassurance Protection and Bancassurance Life was considered as a constraint.

<u>B.2 - Cash flow discount rates</u>
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 risk asset is equal to the sum of a risk free rate (R_f) and a risk premium (MRP), determined taking account of the specific risk of the asset:

$$K_e = R_f + \beta \times (MRP)$$

In detail, the risk-free (R_f) component, which in any case encompasses the so-called "Country risk" is determined, using the same methodological approach followed for the 2019 financial statements, by using the 1-year average yield on 10-year Italian government BTPs (1.33% is the value as at 30 June 2020).
With reference to the beta coefficient (ß) - which measures the riskiness of the specific business or operating sector in terms of correlation between the effective return of a share and the overall return of the reference market - the following was used:

a) for the Retail CGU, an indicator relative to a sample of comparable companies (listed Italian banks) obtained from Bloomberg. As at 30 June 2020 the coefficient ß was 1.17;
b) for the Banca Akros CGU, an average indicator relative to a sample of companies in the Private and Investment Banking sector, obtained from Bloomberg. As at 30 June 2020 the coefficient ß was 1.21;
c) for the Bancassurance Life and Bancassurance Protection CGUs: an indicator relating to a comparable sample of companies active in the insurance sector surveyed by Bloomberg. As at 30 June, the ß coefficient was 1.22.

The above coefficients have been measured, on a weekly basis, over a time horizon of 5 years.
Lastly, the risk premium requested from the market (MRP - Market Risk Premium) was determined to be 5.5%, based on the use of sources in line with measurement practices.

C. Summary of methodologies used and the main measurement parameters

In light of that illustrated above, the following table summarises the methodologies used to determine the recoverable value and the quantities of the main parameters represented by the cost of capital (Ke) and the income flows receivables factor (g) for each CGU:

CGU	Criteria used to determine recoverable value	Discounting rates "Ke"	Growth rate "g"
Retail	*Value in use – Dividend Discount Model*	7.75%	2.00%
Bancassurance Life	*Value in use – Dividend Discount Model*	8.06%	2.00%
Bancassurance Protection	*Value in use – Dividend Discount Model*	8.06%	2.00%
Banca Akros	*Fair Value – Royalty Rate*	7.97%	2.00%

D. Summary of results

On the basis of the guidelines outlined above, the impairment test as at 30 June 2020 did not give rise to the need for any write-downs on intangible assets with indefinite useful life, as the value in use of each CGU determined in accordance with the multi scenario approach described in the preceding paragraph, was higher than the book value.
In this regard, it should be noted that the parameters and assumptions underlying the determination of the value in use are significantly influenced by the macroeconomic framework assumed.
As also specified in the paragraph "Significant accounting policies and uncertainties regarding the use of estimates in the preparation of consolidated condensed interim financial statements in the context of the Covid-19 pandemic", contained in "Part A - Accounting Policies" of these Explanatory Notes, given the special and uncertain situation relative to the overall macroeconomic framework, it cannot be excluded that the hypotheses adopted, however reasonable and prudential, might not be confirmed by future scenarios in which the Group finds itself operating. In particular, any worsening of the macroeconomic scenario could adversely affect the projections of estimated cash flows, the cost of capital and the growth factor, resulting in different results from those estimated for the purposes of this Interim Financial Report.

E. Sensitivity Analysis

In compliance with the dictates of IAS 36, for each CGU a sensitivity analysis of the recoverable value was conducted, in order to calculate the variability of this value in relation to reasonable changes in the underlying parameters.

In particular, the figures shown in the tables below represent the differential (in absolute value and percentage) between the recoverable value and the reference book value, in the hypothesis of an increase or decrease in the growth rate (g) and/or the cost of capital (Ke) with respect to the rates effectively used, keeping all the remaining assumptions unchanged. Specifically, the tables show the level that the rate "Ke" should take on in order to decrease to zero the positive delta between the recoverable value and the book value, if the growth rate "g" is kept constant at 2%.

Retail CGU (probability scenario: baseline (50%), favourable (35%), adverse (15%)
Growth rates with terminal value "g"/Discounting rates "ke"
(difference between recoverable value and reference value in millions of euro)
(percentage impact on value in use)

		(Ke)			
		7.75%		8.21%	
(g)	1.50%	140	4.4%	-121	-4.2%
	2.00%	292	8.8%	0	0.0%
	2.50%	473	13.6%	142	4.5%

Banca Akros CGU Growth rates with terminal value "g"/Discounting rates "ke" (difference between recoverable value and reference value in millions of euro) (percentage impact on fair value)					
			(Ke)		
		7.97%		28.3%	
(g)	1.50%	65	77.8%	-0.2	-1.0%
	2.00%	71	79.3%	0	0.0%
	2.50%	79	80.8%	0.2	1.0%

Bancassurance Life CGU Growth rates with terminal value "g"/Discounting rates "ke" (difference between recoverable value and reference value in millions of euro) (percentage impact on value in use)					
			(Ke)		
		8.06%		8.15%	
(g)	1.50%	-15	-6.0%	-18	-7.3%
	2.00%	4	1.4%	0	0.0%
	2.50%	25	8.8%	21	7.4%

Bancassurance Protection CGU Growth rates with terminal value "g"/Discounting rates "ke" (difference between recoverable value and reference value in millions of euro) (percentage impact on value in use)					
			(Ke)		
		8.06%		8.68%	
(g)	1.50%	4	2.3%	-9	-6.2%
	2.00%	14	8.7%	0	0.0%
	2.50%	27	15.1%	10	6.3%

In addition, for the Retail CGU, a sensitivity analysis was conducted with respect to the projected income flows and the CET1 ratio constraint for dividend distribution, while for the Bancassurance Life and Protection CGUs, a sensitivity analysis was conducted with respect to the cost of capital and the constraint on dividend distribution equal to the Solvency Capital Ratio (hereinafter "SCR") target. The results of those analyses are summarised in the tables shown below, which highlight the differential (in absolute value and percentage) between the recoverable value and the reference book value in the event of an increase or decrease in the CET 1 or Solvency Ratio and/or the net income compared to the data actually used. Specifically, the tables show the levels that the CET 1/% change of the profit or Solvency Ratio would have to assume to decrease to zero the positive delta between the recoverable value and the book value.

Retail CGU (probability scenario: baseline (50%), favourable (35%), adverse (15%) % change in net income/target CET1 constraint (difference between recoverable value and reference value in millions of euro) (percentage impact on value in use)					
			CET1		
		9.505%		10.72%	
INCOME	5.00%	478	13.7%	186	5.8%
	0.00%	292	8.8%	0	0.0%
	-5.00%	105	3.4%	-186	-6.6%
	-8.00%	0	0%	-292	-10.7%

Bancassurance Life CGU % Change in net income/Target SCR constraint (difference between recoverable value and reference value in millions of euro) (percentage impact on value in use)					
		SCR			
		130%		135%	
Ke	7.81%	15	5.4%	11	4.1%
	8.06%	4	1.4%	0	0.0%
	8.10%	2	0.7%	-2	-0.7%

Bancassurance Protection CGU % Change in net income/Target SCR (difference between recoverable value and reference value in millions of euro) (percentage impact on value in use)					
		SCR			
		130%		267%	
Ke	7.81%	21	12.2%	7	4.2%
	8.06%	14	8.7%	0	0.0%
	8.30%	8	5.2%	-6	-4.2%

Lastly, with reference to the Retail CGU, the sensitivity analyses illustrated above are formulated in the assumption of changing the probability of occurrence of the macroeconomic scenarios, i.e. attributing to the "favourable scenario" a 25% probability of occurrence (instead of 35%) and to the "adverse scenario" a 25% probability of occurrence (instead of 15%). The probability of the baseline scenario is maintained at 50%.
The following table shows the level that the “Ke” rate should take on in order to decrease to zero the positive delta between the recoverable value and the book value, if the growth rate “g” is kept constant at 2%.

Retail CGU (probability scenario: baseline (50%), favourable (25%), adverse (25%) Growth rates with terminal value “g”/Discounting rates “ke” (difference between recoverable value and reference value in millions of euro) (percentage impact on value in use)					
		(Ke)			
		7.75%		7.83%	
(g)	1.50%	-86	-2.9%	-133	-4.6%
	2.00%	53	1.7%	0	0.0%
	2.50%	219	6.8%	158	5.0%

The following tables show the values that the constraint considered for the distribution of dividends (CET 1 target constraint) or the % change in profits should assume to make the positive delta between the recoverable value and the book value zero.

Retail CGU (probability scenario: baseline (50%), favourable (25%), adverse (25%) % change in net income/target CET1 constraint (difference between recoverable value and reference value in millions of euro) (percentage impact on value in use)					
		CET1			
		9.505%		9.73%	
INCOME	5.00%	228	7.0%	175	5.5%
	0.00%	53	1.7%	0	0.0%
	-2.00%	0	0.0%	-53	-1.8%
	-10.00%	-296	-10.9%	-349	-13.1%

F. External signs of impairment

The measurements expressed for the purposes of preparing these financial statements are the result of an extrapolation of the economic value of the CGUs based on their specific profit capacities, not fully recognised by the financial markets. This measurement goes beyond the period used by the financial community, and operates outside of the details of the current economic/financial situation, even though this is also taken into due account.

As at 30 June 2020, Group consolidated shareholders' equity amounted to 11.5 billion (net of equity instruments), against stock capitalisation of 2.0 billion (based on the stock market prices recorded at the end of June 2020). This situation is certainly not new as it was also present in previous years; the Covid-19 emergency - with the sudden drop in the prices of the main securities in the banking sector - has further increased the impact of this phenomenon. In fact, stock prices indicate significant discounts for all Italian banks, even with respect to tangible shareholders' equity. The justifications continuously provided in the financial statements have always centred around the structural misalignment between the valuations of the financial community that, 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 this Report 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.

Tax assets - Item 110 and Item 130 of assets

Deferred tax assets

A.Deferred tax assets - breakdown

	IRES	IRAP	30/06/2020	31/12/2019
A) As balancing entry in the Income Statement				
A.1) Transformable DTAs pursuant to Italian Law 214/2011	**2,289,831**	**286,553**	**2,576,384**	**2,582,568**
Write-downs of loans deductible in subsequent years	1,728,611	166,430	1,895,041	1,901,224
Costs deductible in subsequent years following release of goodwill and other intangible assets	561,220	120,123	681,343	681,344
A.2) DTA - Other cases	**1,773,747**	**69,642**	**1,843,389**	**1,829,711**
Tax losses carried forward	1,026,766	-	1,026,766	949,642
Other	746,981	69,642	816,623	(*) 880,069
Total A	**4,063,578**	**356,195**	**4,419,773**	**4,412,279**
B) As balancing entry in Shareholders' Equity				
A.2) DTA - Other cases	32,324	11,806	44,130	(*) 47,512
Total B	**32,324**	**11,806**	**44,130**	**47,512**
Total (A+B)	**4,095,902**	**368,001**	**4,463,903**	**4,459,791**

(*)Tax assets relating to IRES tax for 840,961 thousand and IRAP tax for 86,620 thousand.

As at 30 June 2020, deferred tax assets (DTAs), recognised in the consolidated financial statements, totalled 4,463.9 million (4,459.8 million as at 31 December 2019), of which 4,419.8 million recognised as a balancing entry in the income statement, while 44.1 million recognised as a balancing entry in shareholders' equity, in accordance with the entries referred to.

In greater detail, deferred tax assets that meet the requirements of Italian Law no. 214 of 22 December 2011 ("Law 214/2011") for transformation into tax credit amounted to 2,576.4 million (2,582.6 million as at 31 December 2019). The provisions under this law and, subsequently, under Italian Law 147/2013 (2014 Stability Law), provide for the transformation of DTAs to tax credits in the case of a "statutory loss", a "tax loss" for IRES purposes and a "net negative value of production" for IRAP purposes. For the purposes of these regulations, write-downs on loans not yet deducted based on temporal limits in effect at the time pursuant to Article 106, paragraph 3 of the Italian Consolidated Tax Law (TUIR) are included, as are negative components relative to goodwill and other intangible assets, not yet deducted according to the temporal limits in effect at the time (known as "qualified DTAs").

Specifically, as at 30 June 2020, the Group's eligible DTAs derive from:

- temporary deductible differences relative to write-downs on loans exceeding immediate deductibility limits envisaged in the tax regulations solely with reference to credit and financial entities for 1,895.1 million (1,901.2 million as at 31 December 2019);
- temporary deductible differences relative to goodwill and other intangible assets recognised in previous years for 681.3 million (681.3 million as at 31 December 2019).

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 Italian Decree Law no. 59 of 3 May 2016 converted with amendments by Italian Law no. 119 of 30 June 2016. Italian Law no. 15 of 17 February 2017, converting the "Salva risparmio" Decree Law postponed the period for which the fee is due to 31 December 2030. In order to guarantee that the DTAs can be transformed into tax credits and to avoid the negative impacts that would otherwise be suffered in own funds, Banco BPM Group adhered to this option, by paying the cited fee.
The fee for 2020 amounts to 25.4 million.

As at 30 June 2020, residual deferred tax assets (non-transformable DTAs) amounted to 1,887.5 million (1,877.2 million as at 31 December 2019), of which 1,026.8 million deriving from IRES tax losses, which can be carried forward (949.6 million as at 31 December 2019) and 860.8 million deriving from costs and value adjustments deductible in years subsequent to those of recognition in the financial statements (927.6 million as at 31 December 2019).
Not all the unqualified DTAs were recognised in the financial statements by Banco BPM and its subsidiaries; the amount of DTAs not posted as at 30 June 2020 came to 47.2 million, of which 17.4 million of IRES DTAs and 29.8 million of IRAP DTAs.

B.Deferred tax assets - recoverability checks

In accordance with IAS 12 and ESMA's communication of 15 July 2019, the initial recognition of DTAs and their subsequent maintenance in the financial statements require an opinion on the likelihood of recoverability. For the purposes of expressing this opinion, it is necessary to take into account the tax provisions in force, with particular reference to the rules for the convertibility of certain deferred tax assets into tax credits, and the Group's ability to generate future taxable income also taking into account the "tax consolidation" option, as explained in detail below.
As regards eligible DTAs that can be transformed into tax credits, equal to 2,576.4 million - corresponding to 57.7% of the total DTAs posted in the financial statements as at 30 June 2020 - the tax regulations introduced by Italian Law 214/2011, along with the exercise of the option for the annual fee regime illustrated above make their recoverability certain. This treatment is in line with the indications contained in the Bank of Italy/CONSOB/ISVAP document no. 5 of 15 May 2012 "Accounting treatment of deferred tax assets deriving from Italian Law 214/2011".
For the remaining tax assets (non-transformable DTAs), the recognition and subsequent retention in the financial statements strictly depends upon the capacity of the Group and/or the individual companies to generate future taxable income ("tax capability").
To this end, the IRES (corporate income tax) DTAs relating to tax losses carried forward of 1,026.8 million and the remaining IRES DTAs not convertible into tax credits recognised as at 31 December 2019, amounting to 841.0 million, were subject to a recoverability test, based on the forecast of future taxable income (the so-called "probability test").
This test was conducted based on the following information and assumptions:

- Banco BPM and the subsidiaries that have recorded DTAs operate in Italy and, as a result, reference was made to the tax regulations in force in that country;
- said tax regulations do not establish time limits on the recovery of the IRES tax loss (Art. 84, paragraph 1 of Italian Presidential Decree no. 917 of 22 December 1986);
- IAS 12 does not provide a maximum horizon for the forecast of taxable income;
- estimates of future taxable income have been made using a multi-scenario approach, taking as a reference the Banco BPM Group's income flow projections for the period 2020 - 2023 and an annual growth rate of 2% for "normalised" income in the last year of the forecast;
- the estimates referred to in the previous point have been adjusted to take account of the uncertainty that characterises the actual realisation of long-term forecasts, applying a discount factor defined on the basis of a risk premium (so-called Risk-adjusted profit approach), in line with the recommendations set out by ESMA in the aforementioned Communication of 15 July 2019;

- deferred tax liabilities (DTLs) are used to offset DTAs in the case their chargeback is expected to occur during the same year.

Below is detailed information on the assumptions used for probability testing, their outcomes and sensitivity analysis.

B.1 Estimated future taxable income

The estimate of future taxable income was based on the Group's income projections for the years 2020-2023, approved by the Board of Directors on 6 August 2020. These projections represent the best estimate available to date and have been prepared on the basis of the main guidelines set out in the 2020-2023 Strategic Plan and taking into account the effects of the Covid-19 pandemic. As already explained in the Report on Operations and in the previous section "Intangible Assets - Item 100", the objectives of the 2020-2023 Strategic Plan announced on 3 March 2020 are no longer to be considered current because they were developed on the basis of assumptions made before the dissemination of Covid-19, which envisaged a different macroeconomic scenario from the one that is gradually emerging. The review of the Strategic Plan is planned to take place once the prospective framework is better defined, so that it can be based on new and more up-to-date macroeconomic and sectoral assumptions.
Given the current context of uncertainty, these projections have been made with reference to three separate macroeconomic scenarios, to which a different probability of occurrence has been attributed. In detail, the scenarios were developed on the basis of the macroeconomic forecasts published by the European Central Bank and the Bank of Italy on 4 and 5 June 2020 respectively: in addition to a baseline scenario considered more likely, a favourable and an adverse scenario were developed, to which the following respective probabilities of occurrence were assigned: 50%, 35% and 15%. For further details on the macroeconomic projections used as reference, please refer to the paragraph "Model for measuring expected losses on non-impaired exposures" contained in "Part E - Information on risks and related hedging policies" of these Explanatory Notes.
For long-term profitability, starting from 2024, we took as reference the expected income in 2023, determined by weighting the three aforementioned scenarios, appropriately normalised by a number of components considered non-recurring. This income has been projected, from 2025 onwards, at an annual growth rate (g) of 2%, i.e. the expected nominal growth rate of the economy, in line with the ECB's long-term monetary stability policy inflation target.

B.2 Adjustment of future taxable income

In order to take into account the uncertainty that characterises the actual realisation of long-term forecasts, a discount factor of 6.44% has been introduced. This factor has been defined as a function of the risk premium required by the market (MRP - Market Risk Premium), equal to 5.5%, multiplied by the Beta coefficient (ß), equal to 1.17%, i.e. the coefficient that expresses the specific riskiness of the Group's business
In more detail, the adjustment of taxable income is obtained by discounting each year's forecasts for the discount factor of 6.44%, applied according to the compound capitalisation formula, from 2024 onwards. This formula therefore makes it possible to adjust future forecasts according to an increasing abatement factor depending on the time horizon of the estimated taxable flows.

It should be noted that the estimates of income flows, the growth rate (g), and the parameters to factor in the uncertainty of forecasts (MRP and ß) are consistent with those used for the impairment test of intangible assets with an indefinite life; reference should therefore be made to the previous paragraph "Intangible assets - item 100" for further details.

B.3 Outcomes of the probability test and sensitivity analysis

On the basis of the valuation exercise carried out using the model described in points B.1 and B.2 above, the full recovery of the IRES DTAs is expected to take place by the end of the 2038 financial year (19 years); however, by the end of the 2034 financial year (15 years) more than 80% of them are expected to be recovered.
Considering that the model used includes assumptions and hypotheses that could affect the assessments of the recoverability of the DTA, a sensitivity analysis of the main assumptions and hypotheses with respect to the recovery time horizon was carried out. In particular, the sensitivity analyses were developed on the basis of the following factors:

- discount rate of forecasts of future taxable income: any 1.5% increase/decrease in the adjusting factor would result respectively in an extension of the time horizon by 3 years or a reduction of the time horizon by 1 year;
- a growth rate (g) of long-term incomes: a reduction of 0.50% (from 2% to 1.5%) would result in a 1 year longer payback forecast;

- a "normalised" taxable income expected from 2024 onwards: a 10% reduction would lengthen the expected return of the DTAs by 1 year.

Furthermore, in the event that the projections of taxable income developed based on income flows not adjusted using the adjusting factor were confirmed by the results that the Group will generate in the future, the full recovery of the DTAs, including those relating to previous years' tax losses, would be quicker, finishing in 2033 (14 years).

The following table summarises the different time horizons for the return of DTAs in the various alternative scenarios illustrated above, compared with the recovery forecasts as at 30 June 2020 drawn up on the basis of the assumptions and hypotheses described in points B.1 and B.2 above.

Expected time horizon of return of the IRES DTAs recognised	**Risk-adjusted profit approach**					**Income projections (without discount factor)**
		Sensitivity				
	Forecasts as at 30/06/2020	**Discount factor (+1.5%)**	**Discount factor (-1.5%)**	**Growth factor g (-0.5%)**	**Expected taxable income at the end of the plan (-10%)**	
31/12/2024 (5 years)	13.8%	13.8%	13.8%	13.8%	13.8%	13.8%
31/12/2029 (10 years)	48.0%	46.1%	50.1%	47.5%	45.2%	58.3%
31/12/2032 (13 years)	70.2%	65.7%	75.2%	68.9%	65.0%	96.4%
31/12/2033 (14 years)	77.0%	71.5%	83.1%	75.3%	70.9%	100.0%
31/12/2034 (15 years)	83.4%	76.9%	90.8%	81.3%	76.6%	
31/12/2035 (16 years)	89.5%	81.9%	98.2%	87.1%	82.1%	
31/12/2036 (17 years)	95.3%	86.6%	99.9%	92.5%	87.2%	
31/12/2037 (18 years)	99.4%	91.0%	100.0%	97.7%	92.1%	
31/12/2038 (19 years)	100.0%	95.2%		99.6%	96.8%	
31/12/2039 (20 years)		99.0%		100.0%	99.4%	
31/12/2040 (21 years)		99.6%			99.9%	
31/12/2041 (22 years)		100.0%			100.0%	

With specific reference to the DTAs recognised for tax losses that can be carried forward, it should be noted that their recognition is mainly due to the significant extraordinary loan losses recognised as part of the process of reducing the amount of non-performing loans and, to a lesser extent, to the other extraordinary charges attributable to the business combination that gave rise to the Banco BPM Group (e.g. charges relating to the reduction of redundant personnel, the integration of IT systems, the rationalisation of the territorial network, etc.) or deriving from the need to favour the rescue of other banks external to the Group in order to protect the stability of the banking system.

Lastly, it should be noted that the recoverability of the DTAs in question did not take into account the potential opportunities for tax optimisation introduced by the so-called "Cura Italia" Decree (Italian Decree Law 18/2020 issued on 17 March 2020 "Measures to strengthen the National Health Service and economic support for families, workers and businesses related to the Covid-19 epidemiological emergency"). In fact, the aforementioned decree introduced the possibility of transforming the DTAs into tax credits in the event of the completion of transactions involving the assignment, for consideration, of pecuniary claims against defaulting debtors by 31 December 2020. In particular, the aforementioned potential for conversion into tax credits derives from the following components:

- tax losses not yet computed as a reduction in taxable income at the assignment date;
- amount of the notional return exceeding the total net income, not yet deducted or availed of by means of a tax credit at the assignment date (so-called ACE surplus).

Such transformability is allowed for a maximum amount not exceeding 20% of the nominal value of the assigned receivables, with a maximum limit of 2 billion of the value of the assigned receivables determined taking into account all the assignments made by 31 December 2020 by the companies linked by control relationships. The conversion into a tax credit takes place on the effective date of the assignment of the credits and is also allowed for DTAs not recorded in the financial statements.

Other assets: receivables due from tax authorities

Item 130 "Other assets" as at 30 June 2020 includes receivables due from tax authorities mainly represented by:

- receivables for applications for refund of direct taxes for a total of 297.2 million, of which 200.3 million relating to 2018, requested for refund in 2019. The item also includes the IRPEG/ILOR receivables relative to 1995 for the former Banca Popolare di Novara of 91.9 million, repayment of which was partially denied by the Tax Authority - Novara Provincial Office. In the context of the dispute begun by the former Banco Popolare, both the Provincial Tax Commission and the Regional Tax Commission accepted the appeals presented, ordering the Italian Revenue Agency to also pay legal expenses. The appeal to the Supreme Court filed by the Tax Authority is pending;
- receivables for applications for VAT refund for a total of 235.2 million, of which 174.8 million relating to 1998, 1999 and 2000 of the former Banca Italease and 58.6 million relating to 2007 of the former Mercantile Leasing. In relation to the application for refund of receivables of the former Banca Italease for a total of 174.8 million, as part of the dispute initiated against the silent refusal of the Tax Authority, both the Provincial and Regional Tax Commissions accepted the appeals submitted by the Bank. On 21 March 2019, following the appeal of the Tax Authority, the Supreme Court decided to refer to another section of the Regional Tax Commission the verification of the existence of the pending charges highlighted by the Authority to justify the non-refund. Given that said pending charges have been extinguished, the Bank is confident that it will fully recover the receivables in question.
  With reference to the VAT credit relating to the second quarter of 2007 of the former Mercantile Leasing S.p.A. (recorded under tax receivables for a total of 50.3 million) the Tax Authority made a partial repayment of 45.4 million (plus interest) in July. With regard to the difference for which the Italian Tax authority refused to refund 4.9 million, an appeal has been filed with the Provincial Tax Commission, limited to the amount of 0.6 million relating to transactions for which the documentation presented during the preliminary investigation was not deemed sufficient. The remaining amount of 4.3 million, although subject to refusal, has been recognised under internal review as due by the Italian Tax Authority and will be reclaimed again with the tax return for 2019. It should also be noted that the litigation will be activated for the amount due by way of interest in addition to that paid as part of the reimbursement paid, on the basis of incorrect accrual/suspension periods for a total amount of approximately 6.2 million;
  As regards the remaining 2.1 million also referring to the former Banca Italease, as part of the dispute initiated, both the Provincial and Regional Tax Commissions accepted the appeals submitted. The appeal to the Supreme Court filed by the Tax Authority is pending.
- receivables recorded as balancing entries to the provisional payments made pending the final judgment of the pending tax disputes, for a total of 210.2 million, of which 201.9 million relating to the dispute concerning the claimed non-deductibility of the costs incurred in 2005 by the former Banca Popolare Italiana attributable to the attempted takeover of Banca Antonveneta;
- residual receivables deriving from the application for refund of the IRAP deductible from IRES referring to labour costs for the tax periods 2005 to 2011 following the issue of Italian Decree Law no. 185/2008 for a total of 79.7 million;
- receivables deriving from excess advance stamp duty payments, substitute taxes applied to customers during the year and which will be received through settlement during 2020 totalling 267.0 million;
- tax receivables connected with the interest accrued on loans disbursed to customers resident in areas hit by earthquakes for 52.7 million;
- tax receivables relating to withholdings on dividends paid, for which refunds were requested from the tax authorities in the resident countries of the issuer of the securities based on the provisions set out in the Conventions against Double Taxation for a total of 1.7 million.

It should be noted that in June, the receivables that the subsidiary Banca Aletti had recognised with the Swiss Tax Authority were written off, against claims for reimbursement of withholdings incurred in 2008 and 2009 on dividends paid by Swiss companies, amounting to 38.2 million Swiss francs.
Those applications were rejected on 9 March 2008, on the grounds that the Bank is unable to demonstrate that it was the beneficial owner of the dividends subject to withholding tax, which excludes the possibility of invoking the double taxation agreement between Italy and Switzerland.
On 29 May 2020, the Swiss Administrative Court rejected the request for repayment of the loan in question. The judgment issued essentially confirms the general negative case-law position for the appellants, which emerged in 2019, in relation to claims for reimbursement similar to the one presented by Banca Aletti. In a nutshell, the aforementioned court held that the burden of proof of being the beneficial owner of the dividends collected lies with

Banca Aletti, even though the latter is unable to provide the required information. In this regard, the subsidiary had already represented to the Swiss Tax Authority that its shares and futures trading operations had brokers as counterparties and, consequently, it was not in a position to provide information on the counterparties with which these brokers operated.
In view of the impossibility of producing new documentation in support of its claim for reimbursement and the negative development of the case-law position, on 11 June 2020 the subsidiary took the decision not to appeal against the judgment.
As a result of this decision the receivable in question was written off from the balance sheet (35.2 million was the value as at 31 December 2019). For this purpose, the specific provision for risks, allocated in 2019 also in accordance with IFRIC 23, was used to cover the probable outlay resulting from uncertainties in the interpretation of tax regulations. No effect was therefore recognised in the income statement for the first half of the year.

Non-current assets and disposal groups held for sale and associated liabilities – Item 120 in the assets and item 70 in the liabilities

12.1 Non-current assets and disposal groups held for sale: breakdown by type of asset

	Total 30/06/2020	Total 31/12/2019
A. Assets held for sale		
A.1 Financial assets	38,277	93,838
A.2 Interests in associates and joint ventures	-	-
A.3 Property, plant and equipment	63,128	33,594
of which: obtained through enforcement of guarantees received	24,650	220
A.4 Intangible assets	-	-
A.5 Other non-current assets	3,827	3,650
Total A	**105,232**	**131,082**
of which at cost	42,104	97,488
of which at fair value level 1	-	-
of which at fair value level 2	-	-
of which at fair value level 3	63,128	33,594
B. Discontinued operations		
B.1 Financial assets at fair value through profit and loss	-	-
- Financial assets held for trading	-	-
- Financial assets designated at fair value	-	-
- Other financial assets mandatorily measured at fair value	-	-
B.2 Financial assets measured at fair value through other comprehensive income	-	-
B.3 Financial assets at amortised cost	-	-
B.4 Interests in associates and joint ventures	-	-
B.5 Property, plant and equipment	-	-
of which: obtained through enforcement of guarantees received	-	-
B.6 Intangible assets	-	-
B.7 Other assets	-	-
Total B	**-**	**-**
of which at cost	-	-
of which at fair value level 1	-	-
of which at fair value level 2	-	-
of which at fair value level 3	-	-
C. Liabilities associated with assets held for sale		
C.1 Payables	-	-
C.2 Securities	-	-
C.3 Other liabilities	(4,216)	(5,096)
Total C	**(4,216)**	**(5,096)**
of which at cost	(4,216)	(5,096)
of which at fair value level 1	-	-
of which at fair value level 2	-	-
of which at fair value level 3	-	-
D. Liabilities associated with discontinued operations		
D.1 Financial liabilities at amortised cost	-	-
D.2 Financial liabilities held for trading	-	-
D.3 Financial liabilities designated at fair value	-	-
D.4 Provisions	-	-
D.5 Other liabilities	-	-
Total D	**-**	**-**
of which at cost	-	-
of which at fair value level 1	-	-
of which at fair value level 2	-	-
of which at fair value level 3	-	-

As at 30 June 2020 (similarly to 31 December 2019), assets held for sale included the following types:

- owned properties for which sales negotiations in progress as at 30 June 2020 render probable the completion of the sales during the next year (indicated under item A.3 "Property, plant and equipment");
- the remaining exposures are almost fully attributable to the "ACE Leasing" Project.

LIABILITIES

Financial liabilities at amortised cost – Item 10

1.1 Financial liabilities at amortised cost: breakdown by product for amounts due to banks

Transaction type/Amounts	Total 30/06/2020				Total 31/12/2019			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Due to central banks	**25,982,194**	X	X	X	**20,783,964**	X	X	X
2. Due to banks	**6,954,664**	X	X	X	**7,739,371**	X	X	X
2.1 Current accounts and demand deposits	826,794	X	X	X	636,642	X	X	X
2.2 Fixed-term deposits	60,005	X	X	X	113,156	X	X	X
2.3 Loans	5,859,509	X	X	X	6,777,309	X	X	X
2.3.1 Repurchase agreements	5,113,447	X	X	X	5,870,652	X	X	X
2.3.2 Other	746,062	X	X	X	906,657	X	X	X
2.4 Payables for commitment to repurchase own capital instruments	-	X	X	X	-	X	X	X
2.5 Lease payables	7,258	X	X	X	7,650	X	X	X
2.6 Other payables	201,098	X	X	X	204,614	X	X	X
Total	**32,936,858**	**-**	**-**	**32,936,858**	**28,523,335**	**-**	**-**	**28,523,336**

BV = Book value
L1 = Level 1
L2 = Level 2
L3 = Level 3

1.2 Financial liabilities at amortised cost: breakdown by product for amounts due to customers

Transaction type/Amounts	Total 30/06/2020				Total 31/12/2019			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	91,398,925	X	X	X	86,155,794	X	X	X
2. Fixed-term deposits	1,660,919	X	X	X	1,626,230	X	X	X
3. Loans	4,655,854	X	X	X	4,685,184	X	X	X
3.1 Repurchase agreements	3,923,452	X	X	X	3,866,166	X	X	X
3.2 Other	732,402	X	X	X	819,018	X	X	X
4. Payables for commitment to repurchase own capital instruments	-	X	X	X	-	X	X	X
5. Lease payables	674,745	X	X	X	724,886	X	X	X
6. Other payables	1,053,758	X	X	X	907,818	X	X	X
Total	**99,444,201**	**-**	**-**	**99,444,201**	**94,099,912**	**-**	**-**	**94,099,912**

BV = Book value
L1 = Level 1
L2 = Level 2
L3 = Level 3

1.3 Financial liabilities at amortised cost: breakdown by product for debt securities in issue

Security type/Amounts	Total 30/06/2020				Total 31/12/2019			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. Bonds	16,171,502	14,334,933	2,046,553	-	15,635,158	13,816,992	2,139,139	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	16,171,502	14,334,933	2,046,553	-	15,635,158	13,816,992	2,139,139	-
2. Other securities	57,541	-	-	57,541	75,554	-	-	75,554
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	57,541	-	-	57,541	75,554	-	-	75,554
Total	**16,229,043**	**14,334,933**	**2,046,553**	**57,541**	**15,710,712**	**13,816,992**	**2,139,139**	**75,554**

BV = Book value
L1 = Level 1
L2 = Level 2
L3 = Level 3

Debt securities in issue as at 30 June 2020 amounted to 16.2 billion (15.7 billion as at 31 December 2019).

As indicated in the section "Significant events during the period" of the Interim Report on Operations, in February a senior non-preferred bond issue of a nominal amount of 750 million with a 5-year maturity was carried out, which is part of the Group's EMTN Programme. The bond, intended for institutional investors, provides for a fixed coupon of 1.625%.

During the half-year, bonds amounting to approximately 107 million matured or were repaid in advance.

Financial liabilities held for trading – Item 20

2.1 Financial liabilities held for trading: breakdown by product

Transaction type/Amounts	Total 30/06/2020					Total 31/12/2019				
	NV	Fair Value			Fair Value *	NV	Fair Value			Fair Value *
		L1	L2	L3			L1	L2	L3	
A. Cash liabilities										
1. Due to banks	1,675	7,306	-	-	7,306	1,424	5,306	-	-	5,306
2. Due to customers	5,080,733	1,731,022	3,577,489	-	5,308,511	4,249,510	898,778	3,581,206	-	4,479,984
3. Debt securities	3,141,788	-	3,022,364	-	3,027,901	3,225,246	-	3,239,661	-	3,207,220
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	3,141,788	-	3,022,364	-	3,027,901	3,225,246	-	3,239,661	-	3,207,220
3.2.1 Structured	3,141,788	-	3,022,364	-	X	3,225,246	-	3,239,661	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total A	**8,224,196**	**1,738,328**	**6,599,853**	**-**	**8,343,718**	**7,476,180**	**904,084**	**6,820,867**	**-**	**7,692,510**
B. Derivative instruments										
1. Financial derivatives	-	314,238	2,118,054	826	-	-	127,682	2,512,331	538	-
1.1 Held for trading	X	314,238	2,114,223	826	X	X	127,682	2,511,881	538	X
1.2 Connected with the fair value option	X	-	3,710	-	X	X	-	289	-	X
1.3 Other	X	-	121	-	X	X	-	161	-	X
2. Credit derivatives	-	-	509	-	-	-	-	1,166	-	-
2.1 Held for trading	X	-	509	-	X	X	-	1,166	-	X
2.2 Connected with the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	**X**	**314,238**	**2,118,563**	**826**	**-**	**X**	**127,682**	**2,513,497**	**538**	**-**
Total (A+B)	**X**	**2,052,566**	**8,718,416**	**826**	**8,343,718**	**X**	**1,031,766**	**9,334,364**	**538**	**7,692,510**

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 credit risk with respect to the issue date*

Financial liabilities designated at fair value – Item 30

3.1 Financial liabilities designated at fair value: breakdown by product

Transaction type/Amounts	Total 30/06/2020					Total 31/12/2019				
	NV	Fair value			Fair Value *	NV	Fair value			Fair Value *
		L1	L2	L3			L1	L2	L3	
1. Due to banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Structured	-	-	-	-	X	-	-	-	-	X
1.2 Other	-	-	-	-	X	-	-	-	-	X
of which:										
- commitments to disburse funds	-	X	X	X	X	X	X	X	X	X
- financial guarantees given	-	X	X	X	X	X	X	X	X	X
2. Due to customers	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Structured	-	-	-	-	X	-	-	-	-	X
2.2 Other	-	-	-	-	X	-	-	-	-	X
of which:										
- commitments to disburse funds	-	X	X	X	X	X	X	X	X	X
- financial guarantees given	-	X	X	X	X	X	X	X	X	X
3. Debt securities	**342,554**	**22,625**	**320,033**	**-**	**348,364**	**416,988**	**207,489**	**213,072**	**-**	**424,907**
3.1 Structured	109,979	-	107,503	-	X	-	-	-	-	X
3.2 Other	232,575	22,625	212,530	-	X	416,988	207,489	213,072	-	X
Total	**342,554**	**22,625**	**320,033**	**-**	**348,364**	**416,988**	**207,489**	**213,072**	**-**	**424,907**

FV = Fair value
FV = FV calculated excluding changes in value due to changes in the issuer's credit risk with respect to the issue date.*
NV = nominal value
L1 = Level 1
L2 = Level 2
L3 = Level 3

Structured debt securities refer to capital guaranteed certificates. At the end of the half-year, the first issue of a certificate was made directly by the Parent Company for 107.5 million.

The use of the fair value option is due to the fact that it is a complex contract containing one or more embedded derivatives capable of significantly modifying the cash flows of said contract.

The remaining positions refer to certain bond issues, carried out in previous years and hedged using derivatives, for which recourse to the fair value option was used to eliminate or significantly reduce an accounting asymmetry with respect to the valuation criteria of management hedging derivatives, as an alternative to the accounting treatment of hedge accounting.

During the first half of the year, 184 million in bonds issued or redeemed early were recognised as financial liabilities designated at fair value.

Liability provisions – Items 90 and 100

As at 30 June 2020, liability provisions amount to 1,277.8 million (1,486.7 million as at 31 December 2019) and include the provisions for employee severance pay of 382.0 million (384.9 million at the end of last year), retirement plans of 143.7 million (150.9 million as at 31 December 2019), risk provisions for commitments and guarantees given of 114.6 million (116.0 million as at 31 December 2019) and other provisions of 637.4 million (834.9 million at the end of 2019).

The latter include:
- provisions for legal and tax disputes amounting to 112.3 million;
- provisions for personnel expenses of 260.5 million, primarily attributable to allocations to the Solidarity Funds relating to agreements for voluntary personnel redundancy plans;
- other provisions amounting to 264.7 million, which include foreseeable charges connected with certain transactions linked with operations with customers and possible developments in the interpretation of certain regulations governing banking activities. Considering that a precise indication of the allocations could seriously prejudice the position of the company in the management of disputes connected with potential liabilities subject to valuation, as permitted by paragraph 92 of the international accounting standard of reference (IAS 37), for some cases no analytical indication has been provided regarding the amount of the allocations existing within the provisions for risks and charges and the allocations charged to the income statement.

10.1 Provisions for risks and charges: breakdown

Items/Components	Total 30/06/2020	Total 31/12/2019
1. Provisions for credit risk relating to commitments and financial guarantees given	37,573	40,367
2. Provisions for other commitments and guarantees given	77,023	75,623
3. Company pension funds	143,690	150,910
4. Other provisions	637,436	834,897
4.1 legal and tax disputes	112,253	156,944
4.2 personnel expenses	260,471	368,835
4.3 other	264,712	309,118
Total	**895,722**	**1,101,797**

10.6 Provisions for risks and charges – other provisions

10.6.1 Other provisions - legal and tax disputes

The Group operates in a legal and regulatory scenario, which exposes it to a wide variety of legal proceedings, relating, for example, to the conditions applied to its customers, to the nature and characteristics of the products and financial services it sells, to administrative irregularities, to clawback actions for bankruptcies, and to labour law disputes.

Banco BPM, the companies that merged to form the Group, the incorporated subsidiaries and the subsidiaries underwent various inspections by the Tax Authority in 2020 and in previous years. These activities concerned the taxable income declared for the purpose of income tax, VAT, registration tax, and more generally the manner in which the tax legislation in force at the time was applied. As a consequence of said inspections, Banco BPM Group is involved in numerous legal proceedings.

Legal and tax disputes are analysed by the Group to identify those for which the use of economic resources intended to produce economic benefits are likely to conclude the case and which consequently require the allocation of provisions for the rest of the "contingent liabilities". The term "contingent liabilities" is used for disputes against which no provisions have yet been made which correspond with:

i) possible obligations, in that it is still to be confirmed whether the entity has a present obligation that could lead to an outflow of resources embodying economic benefits;
ii) present obligations that, nonetheless, do not meet the recognition criteria established under IAS 37 (because either it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or a sufficiently reliable estimate of the amount of the obligation cannot be made).

Note that the information provided below involving the claims associated with the main disputes represent the maximum exposure to risk, regardless of the Group's opinion regarding the relative possibility of losing. For some of these disputes, the Group holds that the risk is quite limited and therefore, as they are possible liabilities, has not made any provision.

For liabilities judged probable, the information on the amount of the allocation is not provided in order to not harm the Group relative to developments in the disputes with the counterparty, whether in court or through a settlement. As indicated in the paragraph "Significant accounting policies and uncertainties regarding the use of estimates in the preparation of consolidated financial statements", to which the reader is referred, the complexity of the situations and of corporate operations which are behind disputes imply considerable elements of subjective judgement, which may regard both what may be due and whether it is due and how much time will elapse before liabilities materialise. In this regard, although the estimates made by the Group are retained reliable and compliant with the reference accounting standards, we cannot however exclude that the costs that will emerge to settle disputes may be different, also in regard to significantly higher amounts, than the allocations made.

The provisions allocated against all existing legal and tax disputes, including cases associated with enforcement actions, total 112.3 million.

Legal disputes with customers

The high number of cases makes it difficult to provide a detailed list, while their varying nature makes it extremely difficult if not impossible to group them into similar types. Below we provide a brief description of the main legal disputes pending as at 30 June 2020, for which conclusion could involve a probable or possible use of financial resources.

- On 14 April 2014, Maflow S.p.A., in extraordinary receivership, summoned the former Banco Popolare before the court, requesting: (i) a court order, together with others, to pay compensation for damages of 199 million, corresponding to the financial difficulties of Maflow, as calculated by the counterparty; (ii) a court order to return the amount allegedly received by the bank unlawfully from loans granted to Maflow from establishment to default. The aforementioned is all based on the assumption that the bank had played a dominant role by influencing the financial management of Maflow.
  The Court of Appeal of Milan, with a ruling dated 22 July 2020, rejected the counterparty's appeal, confirming in full the first instance ruling with which the Court of Milan had rejected all the opposing claims, and ordered the Procedure to pay to the bank the costs of the litigation, including those at the level of appeal.
- On 10 July 2019 a customer summoned Banco BPM before the court to obtain total compensation for damages of around 21 million for having allowed a proxy/delegate of the customer to carry out a series of unauthorised transactions on various current accounts and securities portfolios. The lawsuit is pending before the Court of Milan.
- On 18 July 2019, the heirs of a customer summoned Banco BPM before the court to request the cancellation of several transactions, mainly financial in nature, which were allegedly carried out on

accounts held by the customer without authorisation and in violation of the MiFID regulations. The counterparties requested that the Bank be ordered to return a total amount of around 37 million. The lawsuit is pending before the Court of Milan.

- On 28 October 2019 a customer company summoned Banco BPM before the court to verify the liability of the Bank which, based on the reconstruction by the adversary, allegedly demanded excess guarantees in providing several agricultural loans, initiated repayment of one of the loans granted in advance and forced the company to cease operating its own plant. The counterparty also submitted claims for damages for 40 million relating to the alleged damages incurred due to the claimed negligent business conduct carried out and requested that the loan contracts and related mortgages be declared null and void. The lawsuit is pending in the initial stage before the Court of Latina.
- On 4 February 2020, Malenco Srl summoned Banco BPM before the court, together with another bank that led the pooled operations, in relation to the granting of loans for the construction and completion of a property complex. A request has been made to ascertain the invalidity of the loans for allegedly exceeding the usury threshold rate and the invalidity of the IRS derivatives taken out to hedge the loans granted, with a request to order Banco BPM to pay the sum of 31 million, 10 million of which together with the other bank. The lawsuit is pending in the initial stage before the Court of Rome. The Bank considers the counterparty's claims to be unfounded at this stage.
- On 20 December 2019, Banco BPM was summoned, along with a pool of banks, by the receivership of Privilege Yard for alleged unlawful disbursement of a loan, which, according to the counterparty, was granted based on a business plan defined as improbable, due to the clear inability to repay the loan, and lacking appropriate guarantees. The receivership requested that the liability of the banks be verified for collusion in the *mala gestio* (poor management) by the directors of Privilege Yard, ordering them to jointly pay compensation for the damages of around 97 million (Banco BPM share 27 million). The lawsuit is pending in the initial stage before the Court of Rome.
- The subsidiary Partecipazioni Italiane in liquidation, as the former owner of land located in Pavia that was the industrial site of the former Necchi S.p.A., (which ceased business operations many years ago), was the subject of an order of the Province of Pavia which requested that the subsidiary, as the party "historically" responsible, along with another party, carry out the reclamation and containment of that area, which for many years now has been owned by third parties outside Banco BPM Group.
  As part of the legal dispute initiated by the subsidiary against that order, on 2 December 2019, the Lombardy Regional Administrative Court rejected the appeal of Partecipazioni Italiane, ordering the company to carry out all the works necessary to reclaim or contain the area. Since the Regional Administrative Court neglected to consider the evidence produced by the subsidiary in the proceedings, the latter, considering the judgment of the Regional Administrative Court to be seriously prejudicial to its rights and legitimate interests, decided to lodge an appeal before the Council of State and, therefore, on 7 July 2020 it notified the appellant and the other parties to the appeal to be lodged with the Council of State within 30 days of the aforementioned notification.
  The subsidiary also appointed a consulting firm to carry out the requirements of Italian Legislative Decree no. 152/06 ("Environmental Code") and subsequently made contact with the company PV01.RE S.r.l., which became the owner of a disused portion of the former Necchi area, a company that initiated environmental proceedings for the part of the area it owned and filed the characterisation plan for the same on 20 February 2020.
  Partecipazioni Italiane, as part of the environmental procedure that it is involved in, on 22 May 2020, sent its plan for the characterisation of the former Necchi area to the entities involved. The same was prepared without being able to carry out preliminary on-site inspections due to the lack of approval of one of the owners of the area to carry out the inspection and will therefore be reviewed and resubmitted once this approval has been obtained.
  Irrespective of the possible future developments of the dispute in question, in relation to the obligation deriving from said ruling, it is likely that the subsidiary may be required to commit financial resources to bear the charges for the reclamation and containment works. Based on a technical report by the expert assigned by the subsidiary, considering the continuing uncertainty of the works to be carried out on the area (which could be defined only after a characterisation plan has been drawn up and the related administrative proceedings for approval of any reclamation plan have concluded), it remains impossible to quantify a reliable estimate of any reclamation costs, even within a range of a certain size. Therefore, in relation to the potential liability described, no allocations were made to provisions for risks and charges in the subsidiary's financial statements or, as a result, in these consolidated financial statements.

In 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 760.3 million.
Claims classified as probable amount to a total of 293.8 million euro, against which 71.8 million has been allocated under the item Provisions for risks and charges.

Clawback actions and lawsuits begun against bad loans

The high number of cases makes it difficult to provide a detailed list, while their varying nature makes it extremely difficult if not impossible to group them into similar types. Below we provide a brief description of the main legal disputes pending as at 30 June 2020, for which conclusion could involve a probable or possible use of financial resources.

- Ittierre S.p.A. - The company in extraordinary receivership submitted a petition requesting the return of 30.9 million pursuant to Art. 67 of the Bankruptcy Law. The court-appointed expert witness in accounting deemed remittances of only Euro 35,000 revocable. The proposed settlement, aimed at settling all the disputes of the Ferrè Group, entails the payment of 3.5 million, and has been accepted by the three Administrators of the proceedings and authorised by the Italian Ministry of Economic Development. The payment was made on 3 April with the consequent definitive closure of the proceedings
- Tecnogas S.p.A. - The proceedings are requesting the return of amounts of 11.2 million. The bankruptcy clawback proceedings in first instance were favourable to the bank, a judgement opposed by the receivership.

In 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 5.6 million.

Tax disputes

The total amount of claims made by the Tax Authority with regard to tax disputes underway that involve Banco BPM and its subsidiaries amount to 228.1 million as at 30 June 2020, of which 226.5 million related to notices of assessment, tax demands and settlement notices and 1.6 million related to formal reports on findings served or to be served (based on the daily reports on findings for the inspection currently underway)[1].

This amount is net of the risk associated with the disputes closed in 2019 pursuant to the Italian Decree Law no. 119 of 23 October 2018 converted by Italian Law no. 136 of 17 December 2018 on the facilitated definition of pending tax disputes (84.2 million), for which the Italian Tax Authority did not notify any refusal of the definitions by the deadline of 31 July 2020.

No new disputes arose during the first half of 2020 and no disputes were settled.

Details of pending disputes as at 30 June 2020

The main tax disputes pending as at 30 June 2020 (with claims equal to or exceeding 1 million), which represented the totality of the disputes, 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. An appeal has been submitted for this tax demand. The Provincial Tax Commission partially admitted the appeal and declared that the fines imposed were not due. The Regional Tax Commission confirmed the ruling of the court of first instance, therefore cancelling the tax claim relating to higher IRAP regarding the Tuscany Regional Authority. An appeal submitted to the Supreme Court is still pending.
- Banco BPM (former Banca Popolare Italiana Soc. Coop.) - notices of assessment relating to tax year 2005

[1] Note that, with the exception of the assessments relating to 2005 of the former Banca Popolare Italiana and liabilities classified as probable, the estimate of potential liabilities relating to the notices of assessment does not include any interest to be paid in the event of losing the lawsuit. The estimate of contingent liabilities relating to formal reports on findings served or being served other than those classified as probable does not include interest or fines.

regarding the claimed non-deductibility for IRES and IRAP purposes of costs and value adjustments to receivables relating to facts or actions classified as offences (regarding offences of false corporate reporting, obstacles to supervision and market turbulence alleged to have been committed by Banca Popolare Italiana with relation to the attempted takeover of Banca Antonveneta). The claims amount to 199.8 million (including interest and tax collection fees). In separate rulings filed on 15 October 2014, no. 8562 (IRES) and no. 8561 (IRAP), the Provincial Tax Commission of Milan, Section 22, fully rejected the appeals submitted by the Bank, although providing no reasons underlying its confirmation of the tax claim. The above ruling was appealed before the Regional Tax Commission of Lombardy. On 6 May 2015, the appeals lodged on 3 February 2015 were heard before the Milan Regional Tax Commission, Section 2. By ruling no. 670, handed down on 19 May 2015, the Commission rejected the combined appeals submitted and confirmed the challenged rulings, also without adequate reasoning. An appeal has been submitted to the Supreme Court of Cassation.

- Banco BPM (former Banca Popolare Italiana Soc. Coop.) - notices of assessment served on 22 December 2014 relating to the formal report on findings dated 30 June 2011 for tax years 2006-2009. These notices also regard the claimed non-deductibility for IRES and IRAP purposes of costs retained as relating to facts or actions classified as offences. More specifically, they regard value adjustments 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 3 of Italian Presidential Decree no. 917 of 22 December 1986; The notices of assessment serviced therefore dispute the claimed non-deductibility of the quotas of the above-cited adjustments to loans deducted in 2006, 2007, 2008 and 2009. Total claims amount to 15.8 million. An appeal was presented to the Provincial Tax Commission. The commission suspended the proceedings until the judgement of the Supreme Court of Cassation on the crime costs for 2005, which were referred to in the previous point, has become final.
- Banco BPM - the audit report delivered on 7 August 2017 regarding the 2013, 2014 and 2015 financial years containing findings regarding the failure to pay IRES and IRAP with reference to certain economic relationships between Banca Italease S.p.A. and the subsidiary Banca Italease Funding LLC as part of the capital enhancement operations implemented through the issue of preference shares. The total claim amounts to 1.6 million.
- Banca Aletti S.p.A. - notice of adjustment and settlement regarding the registration tax served by the Tax Authority – Provincial Headquarters 1 of Milan, with regard to the certified private agreement drawn up on 28 June 2017 for the sale of the private banking activities by Banca Popolare di Milano S.p.A. to Banca Aletti S.p.A. The total claim amounts to 3.9 million. An appeal submitted to the Provincial Tax Commission is still pending.

Classification and assessment of the claims of the Tax Authority in accordance with IAS 37

Potential liabilities 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 potential liabilities, which amount to a total of 215.6 million, were carefully assessed in light of the negative rulings made in the courts of the first two instances.
It is deemed that the decisions taken during the first and second instances are unlawful.
First and foremost, it should be noted that, in the parallel criminal proceedings initiated against the signatories of the tax declarations for the crime of false tax declaration (a crime based on the same charges contained in the assessment notices in question), the judge acquitted the defendants "due to lack of evidence". While the criminal proceedings are separate from administrative disputes, it should be noted that, in the operative part of the judgement, the criminal judge used the same arguments to justify their decision as those put forward by the bank in its defence in the appeals presented in the administrative proceedings described above.
Furthermore, an analysis of the order and the content of the ruling of the Regional Tax Commission shows that the Commission's decision on the merits of the case contains no specific justification and is based on a mere reference to the Italian Revenue Agency's claims, with no express indication of the reasons for its decision not to accept the precise arguments laid out by Banco Popolare s.c. in support of its appeal.
In light of these analyses and considerations, on 18 December 2015, the appeal was lodged with the Supreme Court, considering the judgment to be well-founded, since it could in fact re-propose in court all the defensive arguments concerning aspects of legitimacy not considered by the judges of first and second instance.

The detailed analyses carried out on this situation with the support of the advisers engaged to prepare the appeal, as well as the additional opinions requested from other authoritative experts on the topic, have confirmed the conviction that the Tax Authority's claim is illegitimate and that it is still possible for the defensive arguments to be considered and accepted in the case before the Supreme Court. These same analyses led the Board of Directors to confirm the classification of the potential liability as possible but not probable.
In light of the evaluations carried out, no provision has been recognised for the potential liabilities in question in the financial statements as at 30 June 2020.

Potential liabilities associated with other pending disputes

The remaining potential liabilities associated with tax disputes amount to a total of 12.5 million.

In 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 potential liabilities classified as possible but unlikely amount to a total of 5.8 million.
The potential liabilities classified as probable amount in total to 6.7 million 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 Other provisions.

<u>Audits under way as at 30 June 2020</u>

On 5 December 2019, as part of a larger tax audit of a third party company external to Banco BPM Group, the Tax Police launched a verification of Banco BPM for the purposes of direct taxes and VAT for the tax year 2017. Based on the results of the reports of the audit, which is still under way, no findings have been stated.

On 2 March 2020, the Italian Tax Authority - Regional Department of Lombardy had informed, in compliance with the principles set forth in the taxpayers' statute, that it intends to initiate a tax audit for the purposes of IRES, IRAP, VAT and withholding tax obligations for the year 2016 of the subsidiary Banca Aletti. By subsequent communication of 6 March, the Authority decided to postpone the opening of the verification until a date to be defined in relation to the emergency related to the Coronavirus.

10.6.2 Other provisions - personnel expenses

These amounted to 260.5 million and are mainly represented by residual charges to be paid to finance the Solidarity Fund for redundancy incentive plans for personnel begun in previous years (165.7 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 - other

This residual category of provisions amounts to a total of 264.7 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 (200.0 million);
b) estimated liabilities against probable reimbursements of fees consequent to the possible early termination by customers of insurance policies (20.7 million);
c) risks associated with guarantees granted against the disposal of interests in associates and joint ventures or other assets or groups of assets (12.5 million);
d) risks associated with guarantees given for the sale of bad loans, attributable to the Exodus and ACE projects (8.5 million)

Category a) includes the provision made against risks associated with reporting activities carried out of customers interested in purchasing diamonds to the specialised company Intermarket Diamond Business S.p.A. ("IDB"). This was carried out in almost all years between 2003 and 2016, prior to the merger, which gave rise to Banco BPM. The activities were suspended from the initial months of 2017 and then definitively stopped.

To that end, note that the in April 2017 the Antitrust Authority (AGCM) extended the proceedings initiated against IDB to the reporting banks, including Banco BPM, and on 30 October 2017, by finding an allegedly incorrect commercial practice under the Consumer Code, imposed an administrative fine on IDB and the reporting banks (amounting, in the case of Banco BPM, to 3.35 million). The Bank paid the amount of the fine and challenged the AGCM's decision before the Regional Administrative Court. Following the rejection of the challenge by the Regional Administrative Court, the Bank submitted an appeal to the Council of State, which is still pending.

In relation to those operations, criminal proceedings are also pending. As part of these, on 19 February 2019 the Public Prosecutor's Office of Milan served to the Bank (i) a pre-judgement attachment order for a total of 84.6 million and (ii) a notice of investigation to Banco BPM and Banca Aletti under the terms of Italian Legislative Decree 231/2001 for an administrative offence for the predicate crimes of self-laundering and to Banco BPM for the allegation of obstructing the performance of the functions of the public supervisory authorities. In the notice of closing of the preliminary investigations, the Public Prosecutor's Office also charged several former managers of the Group with the crimes of aggravated fraud, self-laundering, obstructing the performance of the functions of the public supervisory authorities and corruption between private parties.

These situations resulted in the receipt of a high number of complaints from the Group customers involved and the launch of disputes in civil court. In that regard, also with a view to being close to customers, the Group implemented a large-scale customer care initiative. This entails a case-by-case analysis of the aspects reported by customers in their complaints, for the purpose, if necessary, of finalising settlements that envisaged the customer maintaining ownership of the gem along with the disbursement of economic relief by the Group banks involved. Moreover, following the bankruptcy of IDB, declared in January 2019, the Group further strengthened its customer care oversight, providing a free service to support customers in submitting their claims for return of the gems to the bankruptcy proceedings. As at 31 July 2020 (the date nearest to the date of approval of the Interim Financial Report), approximately 23,300 complaints had been received for a total remedy sought of approximately 690 million, of which approximately 1,200 million gave rise to civil proceedings in which the bank was a defendant, for a total remedy sought of approximately 55 million.
In relation to this management of complaints and disputes, both pending and potential, in the preceding financial statements, the Group recognised allocations to specific provisions to cover disputes with customers, for a total amount of 383.3 million (43 million in 2017, 275.3 million in 2018 and 65 million in 2019).

A total of 194.3 million has been used out of those financial resources (33.1 million in 2018, 115.5 million in 2019 and 45.7 million in the first half of 2020) for reimbursements provided, in the meantime, to customers with which settlements were finalised.

Therefore, as at 30 June 2020, the total amount of the fund available for potential additional reimbursement claims was 189.0 million.

During the first half of 2020 no adjustment to this provision was necessary following the substantial confirmation of the estimates of the variables underlying the amount of economic resources that the Group is forecast to commit to settle the disputes with customers, illustrated below:

- total amount of complaints deemed to have legal grounds (also considering the times of accrual of the statute of limitations), which are expected to be received (amounts of the complaints already received and the estimate of those to be received in the future) and the disputes these have caused;
- estimate of relief that shall be paid to customers that have submitted the above complaints and the financial resources to be committed to settle the pending disputes.

The first variable is that which is most difficult to estimate, in that it is in large part independent of the managerial actions executed and closely dependent on unforeseeable events such as, for example, repeating media focuses over time on the issue in question. To that end, we also note that the Group banks do not have information about which customers have already sold their diamonds through IDB after purchase. When determining the provision, the lawsuits already launched against the Group, complaints received, and an estimate of complaints, which can be assumed to arrive in the future were all taken into consideration, without considering any decrease in the risk of complaints against possible sales of gems already completed by customers over time. During the first half of 2020, the flow of new complaints was significantly lower than in previous years. Since this reduction may have been impacted by the reduced commercial operations resulting from the lockdown during the period, the statistical model

used to determine the flow of new complaints did not take this into account, assuming an extension of the period in which complaints may be received in the future.
The second variable is also difficult to determine. In the face of the very peculiar issue of diamonds, the Group has had to progressively acquire, as the issue evolves, the information needed to structurally organise the process to deal with complaints. The methods used to determine reimbursements for customers, to resolve complaints with an eye to settlement, has also been refined over time. This has necessarily influenced and will continue to influence the amount of reimbursements proposed. Hence, the average percentage value of reimbursements proposed and accepted may vary over time.
During the first half of 2020, the average percentage of compensation paid to customers increased slightly compared to previous transactions but was substantially in line with the assessments made during the preparation of the 2019 financial statements.

Note that in estimating this provision, discounting factors were not considered, given that it is held that most complaints will be settled over a limited period of time. No assets for unexpected indemnities were recognised against this provision.
Considering all the aspects of uncertainty illustrated, it cannot be ruled out that the amount of the provision for risks and charges recognised in the financial statements at 30 June 2020 is revealed to be greater or smaller than the financial resources effectively paid out by the banks of the Group relative to disputes and complaints with their customers. Consequently, the possibility that additional allocations or recoveries will have to be made in future income statements also cannot be ruled out.
As permitted under paragraph 92 of the reference international accounting standard (IAS 37), the information above does not include information which if provided could prejudice the position of the involved Group banks (Banco BPM and Banca Aletti) in actions to protect their own third party position with respect to the issue and existing legal cases.

Point a) also includes allocations of 11.0 million recognised against the bank's decision to recalculate the conditions applied to customers relative to investigation fees and the granting of credit availability relative to previous years, based on metrics recently defined under more severe regulations and interpretation notes issued by the supervisory bodies. No further provisions were required in the income statement during the first half of the year. Therefore, the change compared to the provision in place as at 31 December 2019 (which amounted to 17.5 million) is related to the refunds actually disbursed to customers during the half-year.

Point b) represents the provision allocated in application of that established under accounting standard IFRS 15 against the risk of having to return a portion of commissions received for the placement of insurance policies with customers, in the case that these customers decide to close the insurance coverage in advance.

Point c) represents the provision allocated against risks associated with certain guarantees granted to the buyer at the time of disposals of interests in associates and joint ventures, asset and groups of assets, which have already been completed, as better specified below.

To this end, we can note that, in the context of the contracts signed at the time of the disposal of interests in associates and joint ventures or business segments in 2019 and in the previous years, as well as in any correlated partnership agreements, there are investment protection and guarantee mechanisms for the buyer. Specifically, these mechanisms provide for the payment of indemnities to the buyer in the case that certain sales objectives are not met, with the establishment of maximum amounts, fixed amounts, grace periods and exceptions in favour of Banco BPM Group. These investment protection and guarantee mechanisms remain in place through the end of the partnerships.
Below is a list of the main operations carried out relative to which the disposal contracts and/or associated partnership agreements include obligations for Banco BPM Group to pay indemnities, when applicable:

- the sale of the controlling shareholding in Aletti Gestielle SGR to Anima Holding in 2017;
- the sale of contracts relative to delegated insurance asset management mandates placed through Banco BPM Group to Anima SGR in 2018;
- the sale of a 65% shareholding in the insurance companies Popolare Vita and Avipop Assicurazioni (now respectively called Vera Vita and Vera Assicurazioni) to Società Cattolica Assicurazioni in 2018;
- sale completed in 2018 of the depository banking business unit to BNP Paribas Securities Services and subsequent review of the obligations established at the time of the transfer in 2010 of the depository banking unit from the former Banca Popolare di Milano to the same acquiring counterparty;

- the sale in 2015 by the former Banco Popolare of the subsidiary B.P. Luxembourg S.A. to Banque Havilland;
- the sale of 81% of the shareholding held in Bipiemme Vita to Covéa in 2011.

If on the basis of the final objectives achieved and forecasts relative to developments in the same the payment of an indemnity to the buyer is deemed likely, the estimate of the relative liability is allocated to the provisions for risks and charges in question.
In that regard, the amount allocated as at 31 December 2019, equal to 12.5 million, referred to the sale finalised in 2018 by the subsidiary Banca Aletti of the contracts relating to the delegated management of insurance assets placed through the Banco BPM Group network to Anima SGR. During the half-year, a renegotiation of the overall agreements between Banco BPM, Banca Aletti and Anima Holding took place, which involved a revision of the objectives and the related deadlines for their achievement, as a result of which the aforementioned provision for risks and charges was released, since the obligation in question has become no longer probable.

With reference to the Agreements with Cattolica Assicurazioni, the monitoring of the achievement of the target on life insurance policies written revealed the need to make a provision of 12.5 million, entirely charged during the first half of the year.

Point d) refers to the amount allocated during the first half of 2020, amounting to 8.5 million, to cover probable future financial disbursements for guarantees granted to Prelios and Credito Fondiario as part of the securitisation of bad loans (securitisations known as the Exodus and ACE projects).

Group Equity – Items 120, 130, 140, 150, 160, 170 and 180

13.1 "Share capital" and "Own shares": breakdown

As at 30 June 2020, share capital was 7,100 million, consisting of 1,515,182,126 ordinary shares subscribed and fully paid up.

The "own shares" item is represented by 6,202,799 shares of the Parent Company, fully held by the same, for a book value of 14.2 million.

13.2 Share capital – Number of shares of the Parent Company: annual changes

	Ordinary	Other
A. Outstanding shares at the beginning of the year	**1,515,182,126**	**-**
- fully paid up	1,515,182,126	-
- not fully paid up	-	-
A.1 Own shares (-)	(3,657,792)	-
A.2 Shares issued: opening balance	**1,511,524,334**	**-**
B. Increases	**619,993**	**-**
B.1 New issues	-	-
for a fee:	-	-
- business combinations	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- other	-	-
without compensation:	-	-
- to employees	-	-
- to directors	-	-
- other	-	-
B.2 Sale of own shares	619,993	-
B.3 Other changes	-	-
C. Decreases	**(3,165,000)**	**-**
C.1 Cancellation	-	-
C.2 Purchase of own shares	(3,165,000)	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	-
D. Shares issued: closing balance	**1,508,979,327**	**-**
D.1 Own shares (+)	6,202,799	-
D.2 Outstanding shares at the end of the year	1,515,182,126	-
- fully paid up	1,515,182,126	-
- not fully paid up	-	-

Item B.2 includes shares assigned during the period to employees, implementing remuneration and incentive policies as detailed in Part L of the Explanatory Notes.
As resolved by the Shareholders' Meeting of 6 April 2019, in March 2020 the Parent Company completed the purchase of 3,165,000 Banco BPM shares to service the share-based compensation plan envisaged in the aforementioned remuneration policies.

Information relating to issues and purchases/sales of shares issued by the Bank

During the half-year, there were no changes in the breakdown of the share capital.

Information relating to issues and purchases/sales of convertible bonds issued by the Bank

As at 30 June 2020, no convertible bond instruments issued by the bank were in circulation.

Equity instruments: breakdown

Equity instruments outstanding as at 30 June 2020 amounted to 695.4 million (298.1 million at the end of the previous year) and consisted entirely of two issues of Additional Tier 1 securities, the first in 2019 for a nominal amount of 300 million and the second, completed in January 2020, for a nominal amount of 400 million.
These were, in particular, subordinated instruments classified in Additional Tier 1 capital, under the terms of Regulation no. 575 of 2013 (CRR).

Such issues are classifiable as equity instruments under the terms of the accounting standard IAS 32. The price received from the issue, after deducting the directly-attributable transaction costs net of the tax effect was recognised in the item "140. Equity instruments".
In keeping with the nature of the instrument, the coupons are recognised as a reduction of shareholders' equity ("150. Reserves"). As at 30 June 2020 the shareholders' equity decreased by 9.5 million, as a result of the payment of the coupons net of the related tax effect. For further details, please refer to the prior "Part A - Accounting Policies".

Valuation reserves: breakdown

The following table shows the breakdown of valuation reserves.

(thousands of euro)	30/06/2020	31/12/2019
Hedges of equity instruments designated at fair value through other comprehensive income	-	-
Financial assets measured at fair value through other comprehensive income	(14,684)	(2,715)
Property, plant and equipment	249,658	249,658
Intangible assets	-	-
Foreign investment hedges	(129)	206
Cash flow hedges	(1,262)	(6,905)
Hedging instruments (non-designated items)	-	-
Exchange rate differences	12,557	11,604
Non-current assets and disposal groups held for sale	-	-
Financial liabilities designated at fair value through profit and loss (changes in own credit risk)	4,202	3,292
Actuarial gains/(losses) on defined benefit pension plans	(101,398)	(102,344)
Share of valuation reserves related to interests in associates and joint ventures carried at equity	9,040	9,726
Special revaluation laws	2,314	2,314
Total	**160,298**	**164,836**

PART C – INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

Interest – Items 10 and 20

1.1 Interest and similar income: breakdown

Items/Technical forms	Debt securities	Loans	Other transactions	Total 1st half 2020	Total 1st half 2019
1. Financial assets at fair value through profit and loss:	16,063	2,530	1,644	20,237	33,135
1.1 Financial assets held for trading	10,460	-	1,644	12,104	23,747
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value	5,603	2,530	-	8,133	9,388
2. Financial assets measured at fair value through other comprehensive income	78,287	-	X	78,287	151,785
3. Financial assets at amortised cost:	127,145	948,457	X	1,075,602	1,103,287
3.1 Loans to banks	5,402	19,795	X	25,197	8,915
3.2 Loans to customers	121,743	928,662	X	1,050,405	1,094,372
4. Hedging derivatives	X	X	(53,730)	(53,730)	(82,855)
5. Other assets	X	X	2,428	2,428	3,105
6. Financial liabilities	X	X	X	58,533	65,895
Total	**221,495**	**950,987**	**(49,658)**	**1,181,357**	**1,274,352**
of which: interest income on impaired financial assets	92	67,718	-	67,810	114,630
of which: interest income on finance leases	-	11,907	-	11,907	16,282

1.3 Interest and similar expense: breakdown

Items/Technical forms	Payables	Securities	Other transactions	Total 1st half 2020	Total 1st half 2019
1. Financial liabilities at amortised cost	(79,669)	(161,589)	X	(241,258)	(254,811)
1.1 Due to central banks	-	X	X	-	-
1.2 Due to banks	(44,913)	X	X	(44,913)	(74,523)
1.3 Due to customers	(34,756)	X	X	(34,756)	(34,245)
1.4 Debt securities in issue	X	(161,589)	X	(161,589)	(146,043)
2. Financial liabilities held for trading	(3,137)	-	-	(3,137)	(2,923)
3. Financial liabilities designated at fair value	-	(2,150)	-	(2,150)	(4,072)
4. Other liabilities and provisions	X	X	(111)	(111)	(349)
5. Hedging derivatives	X	X	22,632	22,632	22,202
6. Financial assets	X	X	X	(13,477)	(14,401)
Total	**(82,806)**	**(163,739)**	**22,521**	**(237,501)**	**(254,354)**
of which: interest expense related to lease payables	(4,909)	-	-	(4,909)	(4,986)

Fees and commissions – Items 40 and 50

2.1 Fee and commission income: breakdown

Service type/Amounts	Total 1st half 2020	Total 1st half 2019 (*)
a) guarantees given	36,647	39,058
b) credit derivatives	-	-
c) management, brokerage and advisory services	399,600	420,179
1. financial instrument trading	16,571	15,754
2. foreign currency trading	1,854	1,554
3. portfolio management	11,813	12,132
3.1 individual	11,813	12,132
3.2 collective	-	-
4. securities custody and administration	4,702	4,337
5. custodian bank	717	683
6. placement of securities	30,009	2,734
7. receipt and transmission of orders	22,746	19,921
8. advisory activities	2,573	6,243
8.1 concerning investments	1,796	3,933
8.2 concerning financial structure	777	2,310
9. distribution of third party services	308,615	356,821
9.1 portfolio management	229,229	252,057
9.1.1. individual	1,070	1,260
9.1.2. collective	228,159	250,797
9.2 insurance products	50,474	67,722
9.3 other products	28,912	37,042
d) collection and payment services	76,517	87,756
e) servicing for securitisation transactions	-	-
f) services for factoring transactions	-	-
g) tax collection and treasury services	-	-
h) management of multilateral trading facilities	-	-
i) keeping and managing current accounts	99,756	107,647
j) other services	252,973	264,203
Total	**865,493**	**918,843**

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

2.2 Fee and commission expense: breakdown

Services/Amounts	Total 1st half 2020	Total 1st half 2019
a) guarantees received	(4,744)	(2,610)
b) credit derivatives	-	-
c) management and brokerage services:	(21,996)	(14,467)
1. financial instrument trading	(5,685)	(4,868)
2. foreign currency trading	(4)	(4)
3. portfolio management:	-	-
3.1 own	-	-
3.2 delegated to third parties	-	-
4. securities custody and administration	(4,721)	(4,478)
5. placement of financial instruments	(7,961)	(529)
6. off-site offer of financial instruments, products and services	(3,625)	(4,588)
d) collection and payment services	(5,011)	(5,078)
e) other services	(29,149)	(27,621)
Total	**(60,900)**	**(49,776)**

Net trading income – Item 80

4.1 Net trading income: breakdown

Transactions/Income components	Capital gains (A)	Profits on trading (B)	Capital losses (C)	Losses on trading (D)	Net result [(A+B) - (C+D)]
1. Financial assets held for trading	**34,566**	**52,704**	**(48,230)**	**(130,165)**	**(91,125)**
1.1 Debt securities	22,777	23,540	(6,808)	(34,414)	5,095
1.2 Equity instruments	11,777	28,267	(41,353)	(95,667)	(96,976)
1.3 UCIT units	1	549	-	(81)	469
1.4 Loans	11	-	(69)	-	(58)
1.5 Other	-	348	-	(3)	345
2. Financial liabilities held for trading	**142,687**	**8,090**	**(13,868)**	**(31,148)**	**105,761**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	6,314	3,489	(13,830)	(15,614)	(19,641)
2.3 Other	136,373	4,601	(38)	(15,534)	125,402
Financial assets and liabilities: exchange rate differences	**X**	**X**	**X**	**X**	**35,181**
3. Derivative instruments	**914,205**	**1,833,416**	**(965,383)**	**(1,757,336)**	**10,742**
3.1 Financial derivatives:	911,719	1,828,030	(964,798)	(1,750,293)	10,498
- On debt securities and interest rates	575,871	1,188,486	(526,069)	(1,175,842)	62,446
- On equity instruments and share indices	328,079	551,529	(431,365)	(487,624)	(39,381)
- On currencies and gold	X	X	X	X	(14,160)
- Other	7,769	88,015	(7,364)	(86,827)	1,593
3.2 Credit derivatives	2,486	5,386	(585)	(7,043)	244
of which: natural hedges associated with the fair value option	X	X	X	X	-
Total	**1,091,458**	**1,894,210**	**(1,027,481)**	**(1,918,649)**	**60,559**

Fair value gains/losses on hedging derivatives – Item 90

5.1 Fair value gains/losses on hedging derivatives: breakdown

Income components/Amounts	Total 1st half 2020	Total 1st half 2019
A. Income from:		
A.1 Fair value hedging derivatives	107,820	102,200
A.2 Hedged financial assets (fair value)	336,076	386,341
A.3 Hedged financial liabilities (fair value)	476,120	17,921
A.4 Cash flow hedging derivatives	-	-
A.5 Assets and liabilities in foreign currency	683	610
Total income from hedging activities (A)	**920,699**	**507,072**
B. Charges related to:		
B.1 Fair value hedging derivatives	(187,699)	(277,520)
B.2 Hedged financial assets (fair value)	(189,819)	(167,082)
B.3 Hedged financial liabilities (fair value)	(551,855)	(62,957)
B.4 Cash flow hedging derivatives	-	-
B.5 Assets and liabilities in foreign currency	(181)	-
Total charges from hedging activities (B)	**(929,554)**	**(507,559)**
C. Fair value gains/losses on hedging derivatives (A - B)	**(8,855)**	**(487)**
of which: profit/(loss) of hedging on net positions	-	-

Gains (losses) on disposal/repurchase - Item 100

6.1 Gains (losses) on disposal/repurchase: breakdown

Items/Income components	Total 1st half 2020			Total 1st half 2019		
	Profits	Losses	Net result	Profits	Losses	Net result
Financial assets						
1. Financial assets at amortised cost	36,729	(32,553)	4,176	540,132	(501,456)	38,676
1.1 Loans to banks	-	-	-	-	-	-
1.2 Loans to customers	36,729	(32,553)	4,176	540,132	(501,456)	38,676
2. Financial assets measured at fair value through other comprehensive income	39,499	(4,802)	34,697	165,470	(140)	165,330
2.1 Debt securities	39,499	(4,802)	34,697	165,470	(140)	165,330
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**76,228**	**(37,355)**	**38,873**	**705,602**	**(501,596)**	**204,006**
Financial liabilities at amortised cost	-	-	-	-	-	-
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Debt securities in issue	42,817	(42,698)	119	91	(2,328)	(2,237)
Total liabilities (B)	**42,817**	**(42,698)**	**119**	**91**	**(2,328)**	**(2,237)**

Net gains (losses) from other financial assets and liabilities measured at fair value through profit and loss – Item 110

7.1 Net change in value of other financial assets and liabilities measured at fair value through profit and loss: breakdown of financial assets and liabilities designated at fair value

Transactions/Income components	Capital gains (A)	Profits on disposal (B)	Capital losses (C)	Losses on disposal (D)	Net result [(A+B) - (C+D)]
1. Financial assets	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-
1.2 Loans	-	-	-	-	-
2. Financial liabilities	**3,356**	**486**	**(52)**	**(28)**	**3,762**
2.1 Debt securities in issue	3,356	486	(52)	(28)	3,762
2.2 Due to banks	-	-	-	-	-
2.3 Due to customers	-	-	-	-	-
3. Financial assets and liabilities in foreign currency: exchange rate differences	**X**	**X**	**X**	**X**	**-**
Total	**3,356**	**486**	**(52)**	**(28)**	**3,762**

7.2 Net change in value of other financial assets and liabilities at fair value through profit and loss: breakdown of other financial assets mandatorily measured at fair value

Transactions/Income components	Capital gains (A)	Profits on disposal (B)	Capital losses (C)	Losses on disposal (D)	Net result [(A+B) - (C+D)]
1. Financial assets	**47,629**	**994**	**(46,410)**	**(1,773)**	**440**
1.1 Debt securities	331	789	(4,660)	-	(3,540)
1.2 Equity instruments	31,154	205	(5,623)	(14)	25,722
1.3 UCIT units	2,640	-	(23,919)	(1,759)	(23,038)
1.4 Loans	13,504	-	(12,208)	-	1,296
2. Financial assets in foreign currency: exchange rate differences	**X**	**X**	**X**	**X**	**391**
Total	**47,629**	**994**	**(46,410)**	**(1,773)**	**831**

Net credit impairment losses/recoveries – Item 130

8.1 Net credit impairment losses related to financial assets at amortised cost: breakdown

Transactions/Income components	Impairment losses (1)			Recoveries (2)		Total 1st half 2020	Total 1st half 2019
	First and second stage	Third stage		First and second stage	Third stage		
		Write-offs	Other				
A. Loans to banks	**(1,709)**	**-**	**-**	**267**	**135**	**(1,307)**	**(1,216)**
- loans	(1,490)	-	-	12	135	(1,343)	(697)
- debt securities	(219)	-	-	255	-	36	(519)
of which: originated or acquired impaired credit	-	-	-	-	-	-	-
B. Loans to customers	**(119,093)**	**(55,617)**	**(627,690)**	**1,506**	**331,911**	**(468,983)**	**(368,653)**
- loans	(112,894)	(55,617)	(627,690)	1,052	331,911	(463,238)	(367,708)
- debt securities	(6,199)	-	-	454	-	(5,745)	(945)
of which: originated or acquired impaired credit	-	-	-	-	-	-	-
Total	**(120,802)**	**(55,617)**	**(627,690)**	**1,773**	**332,046**	**(470,290)**	**(369,869)**

8.2 Net credit impairment losses related to financial assets measured at fair value through other comprehensive income: breakdown

Transactions/Income components	Impairment losses (1)			Recoveries (2)		Total 1st half 2020	Total 1st half 2019
	First and second stage	Third stage		First and second stage	Third stage		
		Write-offs	Other				
A. Debt securities	(2,561)	-	-	1,230	-	(1,331)	2,186
B. Loans	-	-	-	-	-	-	-
- to customers	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-
of which: originated or acquired impaired financial assets	-	-	-	-	-	-	-
Total	**(2,561)**	**-**	**-**	**1,230**	**-**	**(1,331)**	**2,186**

Other operating expenses/income – Item 230

16.1 Other operating expenses: breakdown

	Total 1st half 2020	Total 1st half 2019
Expenses on leased assets	(12,105)	(11,561)
Other	(18,396)	(20,703)
Total	**(30,501)**	**(32,264)**

16.2 Other operating income: breakdown

	Total 1st half 2020	Total 1st half 2019
Income on current accounts and loans	6,473	10,955
Recoveries on tax	119,806	125,545
Recoveries on expenses	5,957	3,894
Rents receivable on real estate	19,899	17,565
Other	35,728	40,120
Total	**187,863**	**198,079**

Gains (losses) on disposal of investments – Item 280

No appreciable gains (losses) on the disposal of investments were recorded during the half-year. In the corresponding period of last year there were gross capital gains achieved through reorganisation of the consumer loan segment (189.5 million) and establishment of the partnership with Credito Fondiario to manage recovery activities for non-performing loans (142.7 million).

Earnings per share

	30/06/2020		30/06/2019 (*)	
	Basic EPS	**Diluted EPS**	**Basic EPS**	**Diluted EPS**
Weighted average of ordinary shares (number)	1,509,807,137	1,509,807,137	1,511,191,858	1,511,191,858
Attributable income (loss) (thousands of euro)	105,231	105,231	602,984	602,984
EPS (euro)	**0.070**	**0.070**	**0.399**	**0.399**
Attributable annualised income (loss) (**) (thousands of euro)	210,462	210,462	1,205,968	1,205,968
EPS (euro)	**0.139**	**0.139**	**0.798**	**0.798**

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

(**) The annualised result does not represent a forecast of profits for the year.

As at 30 June 2020, Basic EPS coincides with Diluted EPS as there were no financial instruments with potential dilutive effects.

PART E – INFORMATION ON RISKS AND RELATED HEDGING POLICIES

Introduction

The Banco BPM Group implements the process for managing risks originated by banking and financial activities to pursue stable and sustainable growth objectives over time, in line with the general policies established by the Board of Directors.

Risk profile and risk management and measurement systems

During the first quarter of 2020, the Board of Directors of the Parent Company Banco BPM approved the new Risk Appetite Framework (hereinafter, also "RAF"), both at consolidated level and at the level of the most important individual Legal Entity, through which the Body with Strategic Supervision Functions approves the level of risk that the Group is willing to accept in pursuing its strategic objectives.
The new framework consists of the following basic elements:

1. Governance, which defines the roles and responsibilities of the players involved and the information flows between them;
2. the system of metrics, which summarises risk exposure;
3. the system of thresholds, which defines the risk appetite;
4. the escalation process, activated with different levels of intensity and players involved when the various thresholds defined are exceeded;
5. the Risk Appetite Statement (RAS), in which the metrics and methods for calculating the thresholds are analysed;
6. the instruments and procedures, which support the representation and operational management of the RAF, including Significant Transactions (ST).

In addition, greater alignment between the RAF and the Recovery Framework was pursued during the half year, both in terms of monitoring indicators and escalation processes.

The RAF is the tool that makes it possible to establish, formalise, communicate, approve and monitor the risk objectives that the Group and the individual relevant Legal Entities intend to assume. To this end, it is divided into thresholds and risk areas that make it possible to identify in advance the levels and types of risk that the Group intends to assume, stating the roles and responsibilities of the corporate bodies and functions involved in the process of managing these risks. The Group must ensure that the RAF, in its operational version, is used and internalised and constitutes an element of guidance for the preparation of processes such as, for example, the Strategic Plan and the Budget, as well as the internal processes of self-assessment of capital adequacy (ICAAP) and liquidity adequacy (ILAAP). The framework is also used as an operational tool within the Recovery Plan and when defining Remuneration Policies.
The general principles that guide the Group's risk assumption process can be summarised as follows:

- the activities carried out take into account the risks assumed and the measures set in place to mitigate them over the short and medium-long term;
- particular attention is paid to capital and liquidity adequacy and to the credit quality of the portfolio, also in the light of the introduction of new legislation and regulatory restrictions imposed by the Supervisory Body.

The RAF's set of indicators leverages the Risk Identification process and takes into account recent legislative provisions relating to Risk Governance. All significant risks identified at the end of this process are considered when the Risk Appetite Framework is drawn up and specific indicators to monitor them are identified. In particular, the Group's RAF has identified a set of indicators for the main risk areas: First and Second Pillar Capital Adequacy, Adequacy of Liquidity/Funding & IRRBB, Credit Quality, Profitability, Operational/Conduct and Other Significant Issues.
The indicators that summarise the Group's risk profile in these areas have been divided into 3 levels, differentiating them between strategic indicators, which allow the Board of Directors to guide the Group's strategic choices,

operational indicators, in order to integrate and anticipate the dynamics - where possible - of the strategic indicators, and Early Warning indicators (hereinafter also EWI), which cover the risk areas of the Operational RAF perimeter allowing for anticipation of the dynamics of the indicators belonging to the Strategic and Operational RAF. More specifically:

- the Strategic RAF is a set of metrics and thresholds that enable the Group's risk strategy to be defined and monitored. It includes a limited and exhaustive number of indicators, which express the risk appetite approved by the Board of Directors and represent the summary performance of the overall risk profile;
- the Operational RAF is a set of metrics that supplement and provide more detail on the strategic indicators and anticipate the trend of the risk profile. These metrics enable specific aspects of the main business processes to be encompassed and are usually monitored with greater frequency in line with their task of anticipating critical situations;
- the Early Warning Indicators are a set of metrics useful for predicting signs of deterioration of the indicators included in the Strategic and Operational RAF. These metrics enable specific aspects of the main business processes to be encompassed and are usually monitored with greater frequency in line with their task of anticipating critical situations.

The system of thresholds for the strategic indicators envisages the definition of the following limits:

- Risk Target (Medium to Long Term Objective): normally the risk objective defined in the Industrial Plan at Group level. It indicates the level of risk (overall and by type) to which the Group is willing to be exposed to pursue its strategic objectives.
- Risk Trigger: this is the threshold, differentiated by indicator, the exceeding of which activates the various escalation processes envisaged by the Framework. The Risk Trigger is also determined with stress tests. The system of limits used for operational purposes is defined in accordance with the Risk Limits.
- Risk Alert: this is the threshold for Early Warning Indicators, the exceeding of which does not activate the various escalation processes envisaged by the Framework, but an information flow to the Committees and Corporate Bodies. The Risk Alert is also determined by the use of stress tests, and in line with the Trigger values of the Operational or Strategic Indicators, which anticipate their trends.
- Risk Tolerance: this is the maximum permitted deviation from the Risk Appetite; the tolerance threshold is set in such a way so as to ensure that the Group has sufficient margins to operate, even in conditions of stress, within the maximum risk that may be assumed.
- Risk Capacity: this is the maximum level of risk that the Group is able to assume without infringing regulatory requirements or other restrictions imposed by the shareholders or by the Supervisory Authority.

As regards the Operational Indicators, only the Risk Trigger is established: exceeding the risk limits triggers the prompt activation of specific escalation processes.
On the other hand, as regards the Early Warning Operational indicators, only the Alert threshold is established, and exceeding the risk limits does not trigger the activation of specific escalation processes, but a prompt information flow is prepared for the Committees and Corporate Bodies.

The Risk Function, in collaboration with the Planning and Control Function and the other relevant Functions, develops the RAF, providing support to the Managing Body (MB), from a legislative and operating perspective, consistent with strategy, business plans and capital allocation in ordinary conditions and in stress situations. The RAF is updated at least once a year, also in the event of changes in the internal and external conditions in which the Group operates.
From an operating perspective, ex ante risk management activities are also found in the process to manage the Significant Transactions (relating to credit, finance, disposal of loans, etc.) and the leveraged transactions, which primarily involve the Risk Function, which must express a prior and non-binding opinion on all transactions categorised as such based on criteria established and regulated internally. In more detail, the scope of application of Significant Transactions in the credit area has been extended to include the issue of ex ante opinions of a non-binding nature in relation to proposals for changes in classification, provisions and the granting of forbearance measures.

The Group also provides specific and dedicated training activities and courses with a view to disseminating and promoting a solid and robust risk culture within the Bank. Particular mention should be made of certain initiatives, in recent years, aimed at all Group personnel, carried out through specific courses (in the classroom and online) concerning, for example, operational risks, compliance, safety, the banks' administrative responsibilities, the MiFID regulation, anti-money laundering, health and safety at work and work-related stress.

During the first months of the year, the Group launched the EU-wide Stress Test 2020 exercise led by EBA/ECB aimed at testing the business model and the resilience of banks on the basis of 2 scenarios, baseline and adverse, developed by the Regulator. Following the Covid-19 pandemic, the EBA decided to suspend it, postponing it until 2021, in order to allow banks to focus their efforts on business continuity. Therefore, it ended with the "Advanced Data Collection" phase, in which banks provided the Regulator with the Starting Points for the year, which formed the basis for the "Vulnerability analysis" carried out by the ECB between April and July in order to estimate the impact of the Covid-19 crisis on the banks' financial and equity position. The aggregated results for that year were published by the ECB on 28 July.

In light of the current macroeconomic context caused by the Covid-19 pandemic, the Group has decided to update its Risk Identification process, which also aims to highlight potential areas of greater vulnerability arising from the current crisis. This updating process, which has just been completed, led to the identification of the current and emerging risk factors/main risks to which the Group is or could be exposed, both under normal and adverse scenario conditions, taking into account that the current baseline scenario already has a strong stress component due to the effects of the pandemic on the economy.

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 periodic reports for the Corporate Bodies in line with the Group’s internal policies. As part of integrated risk reporting prepared at Group and individual Legal Entities level, the Risk Function analyses the main risks to which the Group and the individual Legal Entities are exposed, and conducts a periodic assessment of the risk profile of the RAF indicators by comparing it with the thresholds defined in the framework, providing historic and detailed analyses that explain the trends, the areas that need attention 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.
A verification of current and future capital adequacy, both from a Pillar I (regulatory) perspective and from a Pillar II (economic) perspective, in accordance with the provisions of the ECB ICAAP Guidelines, is also reported quarterly to the Committees and Corporate Bodies.
It should be pointed out that the Covid-19 pandemic has manifested its effects, resulting in a sudden health crisis and, at the same time, in an unprecedented socio-economic crisis, with a strongly deteriorated domestic and global macroeconomic framework, impacting in particular the performance of banking institutions and their credit quality.
Although in a situation of serious difficulty, the Group and specifically the Risk Function continued to carry out the activities for which it was responsible. In fact, the controls that have not undergone negative changes in terms of frequency and scope of control have not been loosened, but rather refinements have been defined in order to make them more synergistic within the pandemic context, aimed at carefully monitoring the development of the economic situation and the impact on the bank's indicators, promptly and constantly informing the Corporate Bodies.

First and second pillar capital adequacy

To provide its management team and the Supervisory Authority with a complete and informed disclosure, which confirms the adequacy of its own funds, the first defence against the risks assumed, Banco BPM Group assesses its capital situation from a current and future perspective, both as regards Pillar I and Pillar II, based on Basel III rules (which are applied through CRR/CRD IV) and the specific guidelines that the banks receive from the Supervisory Authority.
As regards Pillar I, the Group’s capital adequacy entails continuously monitoring and managing the capital ratios, calculated on the basis of the information provided by the Administration and Financial Statements Function through the application of the rules established by Supervisory Regulations, in order to verify compliance with regulatory limits and to ensure that the minimum capitalisation levels required are maintained. These ratios are also estimated during the Budget or Strategic Plan preparation process and their consistency with the thresholds established in the Risk Appetite Framework and the estimates made in the Capital Plan is verified.
As regards Pillar II, the Risk Function is tasked with coordinating the internal process to determine the Group’s capital adequacy, in accordance with regulatory provisions, and with making the current and forward-looking estimates, in

both a baseline and stressed scenario, reported quarterly to the Corporate Bodies and included annually in the ICAAP (Internal Capital Adequacy Assessment Process) report submitted to the Supervisory Authorities alongside the ICAAP package.
Within ICAAP, capital adequacy is assessed by verifying compliance with both Pillar I and Pillar II capital constraints (capital reserve calculated as the ratio between Available Financial Resources (AFR) and capital requirements (ECAP), calculated using advanced methods developed internally and validated by the competent corporate function), using the Risk Appetite Framework, as well as qualitative elements.
The outcome of the self-assessment of capital adequacy, conducted on a multi-year basis, takes into consideration both the simulations made from a regulatory perspective and via the application of internal management methods (economic perspective). The simulations are conducted under normal operating conditions and also consider the results of the application of stress scenarios.
In accordance with the purposes of analysis and the principle of proportionality, the Group regularly conducts stress tests with specific purposes concerning the main company processes, specifically:

- Risk Identification, as regards defining the materiality of risks, which is verified under ordinary and stressed conditions
- Drafting the Risk Appetite Framework (RAF)
- Strategic and operational planning
- Quantifying operational limits in stress scenarios (where envisaged)
- Calculation of IFRS 9 ECL
- Internal Capital Adequacy Assessment Process (ICAAP)
- Internal Liquidity Adequacy Assessment Process (ILAAP)
- Liquidity Contingency Plan
- Recovery Plan.

Vertical stress tests are also included in these tests and conducted at the portfolio and individual risk level, based on sensitivity or scenario analyses, also aimed at identifying potential concentrations of risks.
The Scenario Council, set up in 2019, is tasked with confirming or proposing a review of the scenarios used in Group processes, in light of external events or the bank's specific vulnerabilities, also taking account of any considerations from top management deriving, for example, from substantial changes in the risk and profitability estimates, changes in the market or reference context, the introduction of new regulatory standards or specific indications of the Supervisory Authority, also identifying the related processes impacted and assessing their potential update.

The adequacy check is carried out quarterly and reported to the Corporate Bodies, guaranteeing the continuous execution of the ICAAP process and making it possible to take account of the changes in the external context and the bank's specific vulnerabilities.

Outcomes of the internal validation activity

The Internal Validation Function conducts qualitative and quantitative analyses to assess the soundness and accuracy of the Pillar I and Pillar II risk estimates used for the purposes of calculating the capital requirements.
Furthermore, as regards ICAAP, the Function expresses an opinion on the regular functioning, on the predictive capacity, on the performance and on the prudence of the internal Pillar I and Pillar II risk measurement methods.

Credit risk

Banco BPM Group pursues lending policy objectives that seek to:

- support the growth of the business activities operating in its market territories, with the goal of overseeing and governing the evolution of the Group's positioning, in line with the policies of the RAF and budget and business plan objectives, focusing on the support and development of customer relationships;
- diversify its portfolio, limiting loan concentration on single counterparties/groups and on single sectors of economic activity or geographical areas;
- adopt a uniform and unique credit management model based on rules, methods, processes, IT procedures and internal regulations harmonised and standardised for all Group banks and companies.

With the aim of optimising credit quality and minimising the global credit risk cost for both the Group and the single companies, under the organisational model the Parent Company's Loans Function is in charge of lending policy guidelines for both the banks and companies of the Group.
Guidelines have also been set at Group level, defining conduct with respect to assuming credit risk, to avoid excessive concentrations, limit potential losses and guarantee credit quality. In particular, in the loan approval phase, the Parent Company exercises the role of management, direction and support for the Group.
The loan portfolio monitoring, carried out by the Function, is focused on the performance analysis of risk profile of economic sectors, geographical areas, customer segments and types of granted credit lines, as well as on other analysed spheres of action, allowing the definition of possible corrective actions at central level.
The role of the Parent Company's Risk Function is to support Top Management in planning and controlling the risk of exposure and capital absorption, in order to maintain the stability of the Group, checking capital adequacy forecasts and in stress conditions and compliance with the RAF thresholds, the Group's risk limits and its propensity for risk. In particular, the Function's task is to develop, manage and optimise internal rating models (Pillar I), the loan portfolio model (Pillar II) over time, and to supervise - as part of second level controls - the calculation of risk-weighted assets using advanced methods.
Portfolio risk monitoring is based on a default model that is applied on a monthly basis to credit exposures of Banco BPM Group.

Credit quality

The Bank of Italy Circular no. 262 and the IFRS 3 accounting standard require that, in the case of business combinations, the assets acquired are stated at their fair value on the acquisition date; as a result, the acquired loans should be recognised at their purchase price, which represents the gross value of the relevant exposure.

As shown in the financial statements from previous years, this provision applies, in theory, to receivables acquired as a result of the business combination with the former 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 as gross value the nominal value of receivables, including the difference with respect to the purchase value in the adjustment funds ("open balances").
The latter method of presentation ensures a more immediate understanding of the current loan coverage ratios, particularly non-performing loans.
Taking into account the provisions of the IAS/IFRS accounting standards, it is considered that, in this case, there is an exceptional circumstance that allows a derogation from the expected method of presentation, as it is excessively burdensome and not useful for the readers of the financial statements.
In addition to the considerations above, it is noted that, following the de-risking transactions carried out in the period starting from the merger, the "closed balances" representation is not particularly significant.
In that regard, it can be estimated that the remaining share as at 30 June 2020 of the adjusting provisions on non-performing loans within the scope of the former BPM, already in place as at 1 January 2017, is less than 10% of the opening amount.

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 performance management processes. In particular, it plays a role in defining the Credit policy guidelines and in deciding on the competent bodies to approve loans, influences the mechanism for the automatic renewal of uncommitted credit facilities, and contributes to determining automatic interception in the monitoring and management process (Watchlist).
The methodologies underlying the risk parameters PD (Probability of Default), LGD (Loss Given Default) and EAD (Exposure at Default), is used not only to assess the counterparty when granting, monitoring and renewing credit lines, but also to collectively write down receivables in the financial statements, in compliance with the IFRS 9 accounting standard that has been in force since January 2018.
The credit assessment made to establish the amount of expected loss relating to non-performing loans establishes different procedures depending on the status and the size of the exposure. Expected losses evaluated analytically by the manager are periodically reviewed.

The situation of the Group's non-performing loans as at 31 December 2019 has already been illustrated in the previous section, which commented on the Results for the period.
Portfolio risk monitoring is also based on a default model that is applied on a monthly basis to credit exposures of Banco BPM Group. For more information on the general features of this model, please refer to the following paragraph "Methods for measuring credit risk".
For exposures - other than performing loans with ordinary and financial resident customers - risk is controlled through the use of supervisory regulatory metrics (Standard).

Methods for measuring credit risk for prudential purposes

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.
The model allows for, through the use of Credit-VaR metrics, the definition of the probability distribution of losses in the loan portfolio. This distribution is used to measure the maximum potential loss over a yearly time period and with a specific level of confidence.
Specifically, in order to obtain this distribution, the model's processing engine uses a Monte Carlo simulation, which simulates a sufficiently high number of scenarios as to provide a good empirical approximation of the theoretical distribution of loan portfolio losses.
The calculation of the maximum potential loss, which can be broken down into the classic measures of Expected Loss and Unexpected Loss (Economic Capital), is affected by concentration risk and systematic risk, respectively.
Concentration risk derives from large exposures to single counterparties – name concentration – or types of peer counterparties in terms of industries, whose credit risk depends on one or more systematic factors – industry concentration. On the other hand, systematic risk derives from the impact of unexpected changes in macroeconomic factors on risk parameters (PD and LGD) of the single accounts, using the elasticity estimated using satellite models capable of linking PD and LGD of peer counterparties and accounts and a set of (international and domestic) economic-financial factors.
Lastly, the portfolio model periodically undergoes stress testing to evaluate the credit risk sensitivity of the Group's portfolio to extreme changes in economic and financial factors.

As at 30 June 2020, the expected loss of the performing portfolio, 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 0.64% of the exposure to default, while the overall loss (best estimate expected and unexpected loss measured by the C-VaR method with a 99.9% confidence level) amounted to 3.06% 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.

Outcomes of the internal validation activity

In order to calculate capital requirements against Credit Risk and only on the scope of the Parent Company, Banco BPM Group adopts internal estimates of PD and of LGD for Corporate and Private Customer portfolios and EAD for the retail segment.
The comparison between estimates and empirical data is made separately for PD, LGD and CCF, by means of backtesting conducted by the Internal Validation function.

With reference to the PD models, Banco BPM Group adopts performance measurements to check the accuracy ratio (AR) of the estimates and calibration tests ("classical" binomial tests on a multi-period and single period basis) to compare the decay rates (DRs) recorded over an annual time horizon with the estimated PD values.
Regarding the Corporate segment, the latest backtesting showed a good discriminatory range of models, both in terms of single modules and final integrating ratings, which produced values comparable and at times superior to those obtained during the development phase. With regard to the calibration, satisfactory values were found for all models.
Overall, the model performed well for the Private customer segment. In several modules there are better performances than those obtained in the development phase. With regard to calibration, the results of the binomial tests were satisfactory.

With regard to the parameter LGD, testing was conducted on both the performing and in default components. Internal Validation did not detect significant problems with the estimated generated for the private and corporate models.
Testing was conducted in relation to retail CCF. Internal Validation did not detect significant problems with the estimated generated for the retail models.

Methods for measuring IFRS 9 expected losses for financial reporting purposes

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.

Covid-19: moratoriums and other measures granted to customers

Information on financing affected by Covid-19 moratoriums in accordance with EBA guidelines

As a result of the health emergency, during the half year Banco BPM completed moratoriums in favour of approximately 70 thousand customers for a total amount of capital of 12.9 billion, either under legal provisions (the "Cura Italia" Decree) or under bilateral initiatives within the framework of ABI agreements. The amount of the suspended instalments is approximately 2.0 billion. The amount of government guarantees on suspended instalments amounts to 0.6 million. As of the date of this Report, the activities necessary to process further requests for moratoriums granted to customers are continuing. For details of the moratoriums granted as at 31 July 2020, reference should be made to the paragraph "Banco BPM's initiatives to deal with the international Covid-19 emergency" contained in the Interim Report on Operations.

The following table shows the residual debt, the amount of the suspended instalments and the government guarantees relating to the moratoriums completed as at 30 June 2020, with separate evidence of those in favour of households and non-financial companies and of exposures secured by property as collateral.

Financing affected by Covid-19 moratoriums in accordance with EBA guidelines ***figures in millions of euro***	**Residual debt**	**Amount of suspended instalments**	**Public guarantees received**
A Total financing affected by Covid-19 moratoriums	**12,939**	**2,017**	**622**
A.1 of which: to households	**2,207**	**147**	**9**
A.1.a of which: secured by residential property as collateral	*1,303*	*23*	
A.2 of which: to non-financial companies	**10,645**	**1,859**	**612**
A.2.a *of which: to small and medium-sized enterprises*	*9,243*	*1,445*	
A.2.b *of which: secured by non-residential property as collateral*	*4,690*	*328*	

With reference to the moratoriums completed as at 30 June 2020 in favour of non-financial companies, the distribution of the residual debt for the main sectors of customer activity is shown below.

Financing affected by Covid-19 moratoriums in accordance with EBA guidelines - Breakdown by business segment ***in millions of euro***	**Residual debt**
Manufacturing activities	3,282
Property activities	1,865
Wholesale and retail trade	1,457
Construction	1,225
Accommodation and catering activities	884
Other	1,932
Total	**10,645**

As at 30 June 2020, approximately 70% of exposures had a residual period of suspension of no more than 6 months; for almost all exposures the residual period of suspension is less than 12 months.

More than 70% of the moratoriums are granted in favour of small and medium-sized enterprises, almost exclusively attributable to the measures provided for by art. 56 of the Italian “Cura Italia” Decree.
The exposures in question do not appear to be classified as exposures subject to concession measures (so-called "forbearance measures"), as they are general moratoriums that meet the conditions set out in the EBA guidelines of 2 April 2020 ("Guidelines on legislative and non-legislative moratorium on loan repayments applied in the light of the COVID-19 crisis").

All moratoriums are interest-bearing, i.e. during the period of suspension of payments, interest is due to the bank and is calculated on the residual debt.

From an accounting point of view, the moratoriums in question, involving a mere deferment of payments, have been treated according to the rules of "modification accounting". Taking into account the mechanism for the functioning of the suspensions granted by the Group - which provide for the accrual of interest on the residual debt for the entire moratorium period - no effect on the income statement following renegotiation has been calculated, since the aforementioned mechanism is such as to ensure a substantial correspondence between the present value of the post-renegotiation and pre-renegotiation exposures.

For further details on the classification and evaluation of the moratoriums in question, please refer to the paragraph "Moratorium interventions: classification and accounting treatment" contained in "Part A - Accounting Policies" of this Report.

For the sake of completeness, it should be noted that, during the first half of the year, the moratoriums completed by the Group in connection with the Covid-19 crisis that do not meet the EBA's guidelines on moratoria amounted to 5.6 million. These exposures are classified as exposures subject to forbearance measures.

Information on funding subject to public guarantee schemes introduced in response to the Covid-19 crisis

In addition to the moratoriums described in the previous paragraph, customer support activities continued through the disbursement of new loans with a public guarantee, which are attributable in particular to loans granted on the basis of Italian Decree Law no. 23 of 8 April 2020 (Liquidity Decree) converted into Italian Law no. 40 of 5 June 2020.

Loans of this nature that were completed as at 30 June 2020 amounted to 2.8 billion, referring to approximately 63 thousand customers. The amount of the public guarantee received comes to 2.1 billion, equal to about 75% of the disbursement.

Figures in millions of euro	**Gross book value**		**Maximum amount of guarantee**
		of which: subject to forbearance measures	**Public guarantees received**
A New loans subject to Covid-19 public guarantee schemes	**2,829**	**12**	**2,112**
A.1 of which: to households	366		
A.1.a of which: secured by residential property as collateral	*2*		
A.2 of which: to non-financial companies	2,300	9	1,765
A.2.a of which: to small and medium-sized enterprises	*1,578*		
A.2.b of which: secured by non-residential property as collateral	*41*		

With reference to the new loans subject to public guarantee schemes in the context of the Covid-19 crisis, finalised as at 30 June 2020, in favour of non-financial companies, the following table shows the distribution of the gross book value for the main sectors of customer activity.

New loans subject to Covid-19 public guarantee schemes in millions of euro	**Gross book value**
Manufacturing activities	1,008
Wholesale and retail trade	639
Construction	190
Accommodation and catering activities	177
Transport and storage	97
Other	350
Total	**2,463**

As at the date of this Report, work is continuing to finalise the loan applications received from customers.
For an explanation of the loans of this type, granted or in progress as at 31 July 2020, please refer to the paragraph "Banco BPM's initiatives to deal with the international Covid-19 emergency" contained in the Interim Report on Operations.

Model for measuring expected losses on performing exposures

The basic method of determining expected losses on performing loans, both with reference to the functioning of the "Stage Assignment Framework" and with reference to the calculation model based on "PD, LGD, EAD" risk parameters, is the same as that used for the 2019 financial statements, revised with refinements and corrections introduced during the first half of the year to reflect the necessary updating of the estimation parameters as well as in a more precise manner, the effects of the COVID-19 crisis, also through "post model overlay or adjustment", in line with the interpretations provided by the various Authorities illustrated in "Part A - Accounting Policies" of this Report.
These interventions were necessary in order to include the so-called forward-looking factors and to reflect the effects of the State guarantee measures, as explained below.

Inclusion of forward-looking factors

In accordance with IFRS 9, when estimating expected losses it is necessary to take forward-looking information into account, conditioning the risk parameters according to the different macroeconomic scenarios in which it is expected to operate.
In particular, in the three years following the reference date, specific scenarios were applied, the main features of which are shown below, while from the fourth year the M/L term scenario was applied.
In particular, the approach followed by the Group up to 31 December 2019 provided for the use of so-called "satellite" models, through which was estimated, using statistical regression techniques, the relationship between a limited number of significant macroeconomic variables and the decay rates of different sectors of activity (e.g. "industry", "financial companies", "consumer households"). As from 30 June 2020, the use of these models was abandoned because, partly in light of the macroeconomic scenarios assumed, it was considered that they were not sufficiently granular to reflect the effects of Covid-19, which are significantly differentiated according to the different sectors of economic activity of the customers ("geo-sector" approach). As a result, as at 30 June 2020, the inclusion of forward-looking factors in the PD (Probability of Default) parameters was achieved by conditioning them using the decay rates referred to the Italian banking system, provided by an external provider and differentiated according to the different sectors in which the Group operates.
In this regard, it should be remembered that, in line with the methodology used for the 2019 financial statements, the Group's calculation model provides for the development of different macroeconomic scenarios; in addition to the baseline scenario (hereinafter also referred to as "Baseline"), which is considered more likely, two alternative scenarios should be produced, namely an adverse scenario (hereinafter also "Adverse") and another positive scenario (hereinafter referred to as "Favourable").
In line with the ECB's letter dated 1 April 2020, the preparation of the three macroeconomic scenarios referred to above took as reference, the macroeconomic forecasts published by the latter for the Eurozone on 4 June 2020 and by the Bank of Italy (for Italy) on 5 June 2020. Considering that the Bank of Italy did not publish the favourable scenario, its determination was conducted in accordance with the Favourable scenario published by the ECB for the Eurozone, based on a proprietary econometric model of a primary external provider.

The "Baseline" scenario considered most likely was assigned a 50% probability of occurrence, while the "Adverse" and "Favourable" scenarios were assigned a probability of 15% and 35% respectively.

Given that statistically the probability of extreme scenarios occurring should be much lower than the median scenario, being at the extremes of a normal distribution, it should be noted that as at 30 June 2020 the weighting of the various scenarios was based on expert judgement, taking into account the current positioning in the economic cycle and the uncertainties regarding future developments. In greater detail, after attributing an occurrence rate of 50% to the baseline scenario, as it is more likely, the remaining probability was attributed to the remaining scenarios taking into account, on the one hand, the deviations observed with respect to the baseline scenario and, on the other hand, the deviations of the favourable scenario developed internally with respect to the one published by the ECB for the Eurozone.

In particular, on the basis of the projections shown in the table below, it can be seen that the evolution recorded in the favourable scenario at the end of 2023 is not significantly different from the baseline scenario; the main differentiation is the speed of return to the situation existing prior to Covid-19, anticipated in the favourable scenario. The adverse scenario, on the other hand, is significantly more distant from the baseline scenario and shows a significant deviation from the Covid-19 situation even at the end of the three-year period, in which GDP is 6.7% lower overall than at the beginning of 2020.

In addition, in 2020, the adverse scenario for Italy shows a GDP 3.9% lower than the one of baseline scenario, in line with the "Severe" macroeconomic projections published by the ECB for the Eurozone; for the same year 2020, the internally developed favourable scenario for Italy shows a GDP 1% higher than the baseline scenario, compared to an increase of 2.8% in the "Favourable" scenario published by the ECB for the Eurozone.

In conclusion, in light of these observations, it was decided to attribute to the "favourable" scenario a 35% probability of occurrence, since the underlying assumptions are considered, on an expert basis, more likely than those underlying the "adverse" scenario considered more extreme and therefore with a lower probability of occurrence. For this reason, the "adverse" scenario was given a residual probability of occurrence equal to 15%.

The following table shows the values of the main macroeconomic indicators for the period 2020-2023 for each of the three scenarios assumed:

Scenario	Macroeconomic indicators	2020	2021	2022	2023
Favourable	GDP Italy	-8.2%	6.1%	2.6%	1.2%
Baseline	GDP Italy	-9.2%	4.8%	2.5%	1.0%
Adverse	GDP Italy	-13.1%	3.5%	2.7%	1.0%
Favourable	Unemployment rate	10.4	10	9.5	9
Baseline	Unemployment rate	10.6	11	10.9	10.6
Adverse	Unemployment rate	11.1	11.9	11.9	11.6
Favourable	Index of residential property prices	-0.7%	0.6%	1.5%	2.2%
Baseline	Index of residential property prices	-1.2%	-0.7%	0.2%	0.9%
Adverse	Index of residential property prices	-1.7%	-2.0%	-1.1%	0.1%
Favourable	Household consumption	-8.4%	5.4%	1.6%	1.1%
Baseline	Household consumption	-8.9%	4.7%	1.5%	1.0%
Adverse	Household consumption	-13.1%	4.1%	2.1%	1.0%
Favourable	Construction investments	-10.9%	5.4%	6.7%	2.7%
Baseline	Construction investments	-13.3%	1.6%	5.8%	1.7%
Adverse	Construction investments	-15.9%	-4.2%	5.6%	1.7%
Favourable	3-month Euribor	-0.4	-0.46	-0.36	-0.07
Baseline	3-month Euribor	-0.4	-0.45	-0.44	-0.33
Adverse	3-month Euribor	-0.4	-0.46	-0.44	-0.33
Favourable	ECB rate	0	0	0.08	0.3
Baseline	ECB rate	0	0	0	0.05
Adverse	ECB rate	0	0	0	0.05
Favourable	Return on Italian 10-years government bonds	1.83	1.98	2.17	2.69
Baseline	Return on Italian 10-years government bonds	1.8	2.2	2.4	2.69
Adverse	Return on Italian 10-years government bonds	2.3	2.7	2.9	3.19
Favourable	BTP/Bund Spread	2.06	1.89	2.03	2.11
Baseline	BTP/Bund Spread	2.29	2.6	2.7	2.66
Adverse	BTP/Bund Spread	2.81	3.13	3.21	3.17
Favourable	Italian consumer price index	0.0%	0.4%	1.1%	1.7%
Baseline	Italian consumer price index	-0.1%	0.0%	0.8%	1.4%
Adverse	Italian consumer price index	-0.3%	-0.3%	0.5%	1.4%
Favourable	Imports	-15.6%	11.6%	5.0%	3.7%
Baseline	Imports	-17.4%	9.5%	4.8%	3.4%
Adverse	Imports	-27.0%	4.5%	6.2%	3.4%
Favourable	Exports	-13.6%	10.0%	5.0%	3.2%
Baseline	Exports	-15.9%	7.9%	5.4%	3.0%
Adverse	Exports	-20.3%	4.8%	3.9%	2.9%
Favourable	Public administration expenditure	1.4%	0.5%	2.4%	0.5%
Baseline	Public administration expenditure	1.4%	0.5%	2.4%	0.5%
Adverse	Public administration expenditure	1.1%	0.4%	2.4%	0.5%

Under the “Baseline” scenario, the pandemic will remain under control at both global and national level and there will be a gradual removal of containment measures. In detail the following is expected:

- GDP contracting by -9.2% in 2020 followed by a rebound of +4.8% in 2021;
- an unemployment rate of 10.6% in 2020 with further growth to 11.0% in 2021;
- a return on Italian 10-year government bonds at 1.8% in 2020 and estimated at 2.2% in 2021;
- a fall in consumption, caused by a contraction in the labour market and lower disposable income; a 13.3% drop in construction investments;
- no estimated impact for ECB Recovery Fund measures and recent Quantitative Easing measures.

The "Adverse" scenario anticipates a continuation of the epidemic with two revivals of "hotspots" with lockdown and a slower revival, in particular:

- GDP contracting by -13.1% in 2020 followed by a rebound of +3.5% in 2021;
- Unemployment rate at 11.1% in 2020 and rising further to 11.9% in 2021
- Return of Italian 10-year government bonds at 2.30% in 2020 and estimated at 2.70% in 2021.

The "Favourable" scenario assumes a temporary shock that in 2022 sees the European Union return in line with the trend assumed before the pandemic. More specifically:

- GDP contracting by -8.2% in 2020 followed by a rebound of +6.1% in 2021;
- Unemployment rate at 10.4% in 2020, falling to 10% in 2021;
- Return of Italian 10-year government bonds at 1.83% in 2020 and estimated at 1.98% in 2021.

Inclusion of State guarantees

As from 30 June 2020, the calculation of expected losses has been refined in order to enhance the value of the credit support actions introduced by the Italian Government towards businesses and households, through the banking system, in favour of which first application guarantees on new loans granted to businesses are provided (art. 13 of the Liquidity Decree) rather than subsidiary guarantees on 33% of the amount of suspended instalments (art. 56 of the Liquidity Decree).

Sensitivity analysis of expected losses

As illustrated in the paragraph "Significant accounting policies and uncertainties regarding the use of estimates in the preparation of consolidated condensed interim financial statements in the context of the Covid-19 pandemic", contained in "Part A – Accounting policies", the determination of expected losses on performing loans entails significant judgments, with specific reference to the model used to measure losses and the related risk parameters, the triggers deemed expressive of significant loan impairment, and the selection of macroeconomic scenarios.
In particular, the inclusion of forward-looking factors is a highly complex exercise, as it requires formulating macroeconomic forecasts, selecting scenarios and their probability of occurrence and defining a model capable of expressing the relationship between said macroeconomic factors and the default rates of the exposures assessed, as illustrated in the paragraph above.
In order to assess how the forward-looking factors can influence the expected losses, it is deemed reasonable to conduct a sensitivity analysis in the context of various scenarios based on forecasts consistent with the development of the various macroeconomic factors. The numerous interrelations between single macroeconomic factors effectively render a sensitivity analysis of the expected loss based on single macroeconomic factor insignificant.
To that end, for performing exposures (Stage 1 and Stage 2) relating to loans granted to customers, evidence is provided below:

- of total value adjustments as at 30 June 2020, quantified based on the scenarios/probability of occurrence reported in the table above;
- of the percent changes that would be recorded in the above losses assuming a 25% probability of occurrence for both the "Adverse" and the "Favourable" scenarios;
- of the percent changes that would be recorded in the above losses assuming a 35% probability of occurrence for the "Adverse" scenario and 15% for the "Favourable" scenario:

Performing loans to customers (Stage 1 and Stage 2)	***Figures in millions of euro***
Total value adjustments as at 30/06/2020	439.8
% Change in value adjustments assuming:	
25% adverse scenario and 25% favourable scenario	+2.8%
35% adverse scenario and 15% favourable scenario	+5.9%

Counterparty Risk

With regard to counterparty risk, defined as the risk that the counterparty in a transaction defaults before the final settlement of the cash flows of said transaction (EU Regulation no. 575/2013), for operating purposes and to provide support for capital adequacy assessment processes (ICAAP process), the Parent Company and Banca Akros use internal methods to estimate exposures to the risk of possible default of counterparties in OTC derivative transactions.
These methods are mostly based on statistical-quantitative approaches, partially linked to the techniques used for VaR (Value at Risk) estimates, which assess the impact that market risk factors may have on the positive future market value of the overall derivatives portfolio.

In particular, for the Parent Company and Banca Akros, the estimate of exposure to counterparty risk for positions in OTC derivatives for counterparties with whom a collateral agreement has been signed (Credit Support Annex – CSA) is carried out using the simplified Shortcut Method simulation and assessed based on possible changes to the Mark to Market of the individual contracts underlying the same reference CSA, with a time horizon provided by the risk margin period for each contract. The measurement is also implemented in the Parent Company and Banca Akros lending process chain, together with a daily monitoring and reporting system.
For the remainder of the derivative exposures, the management estimate is carried out using another method, EPE - Expected Positive Exposure (analytical or simplified formula).

The indirect membership (through Clearing Brokers) of Clearing Houses for operations in OTC and credit derivatives enabled the following objectives to be achieved:

- the mitigation of counterparty risk with a reduction of credit facilities to market counterparties;
- the reduction of capital requirements;
- compliance with the European Directive - European Market Infrastructure Regulation (EMIR);
- mitigation of operational risk.

In accordance with the Basel III Framework Regulation, additional capital requirements regarding the following are to be calculated:

- own funds for the CVA Risk 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 or the IMM for Incremental Risk Charge (IRC);
- exposures relating to operations with Qualifying Central Counterparties (QCCP) by adopting the methods envisaged by arts. 306-308 of EU Regulation no. 575/2013.

In calculating exposure to counterparty risk, for Supervisory Reporting, the Group uses the standardised approach on the entire scope of reference (derivatives, repurchase agreements, securities lending and medium- and long-term loans).

Financial risks

Trading books

The organisational model adopted by Banco BPM Group for the trading books exposed to interest rate risk and price risk requires:

- the centralisation of the management of Treasury and of Proprietary Portfolio positions in Parent Company Finance;
- 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.

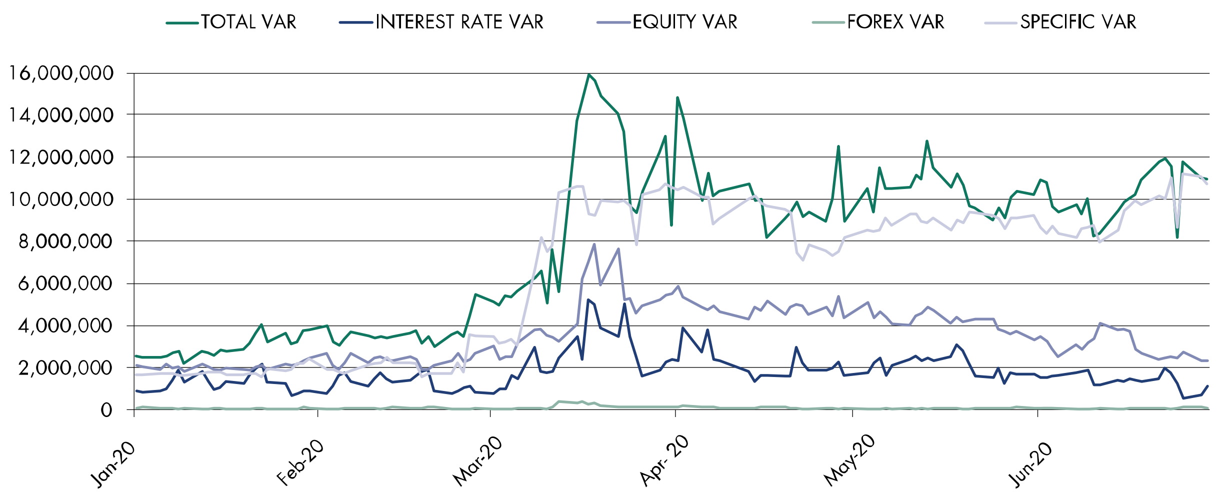
The function in charge of controlling the financial risk management, with the aim of identifying the types of risk, define the methods to measure risks, control limits at the strategic level and verify the consistency between trade limits and the risk/return targets assigned, is centralised in the Parent Company under the responsibility of the Risk Function for all Group banks.

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 depends particularly on government securities positions existing in Banco BPM's proprietary portfolio, which generate interest rate risk as well as specific risk on debt securities.
The capital requirement relating to the specific risk component is calculated using the standardised method for all Group banks.
Operationally, trading portfolio risks are measured using the Global Historical VaR, which includes all the risk factors to which the bank is exposed, and also extends to issuer risk.
Below is the portfolio risk, in which the precise data as at 30 June 2020 also include the risk positions present in the Banco BPM Group trading portfolio.

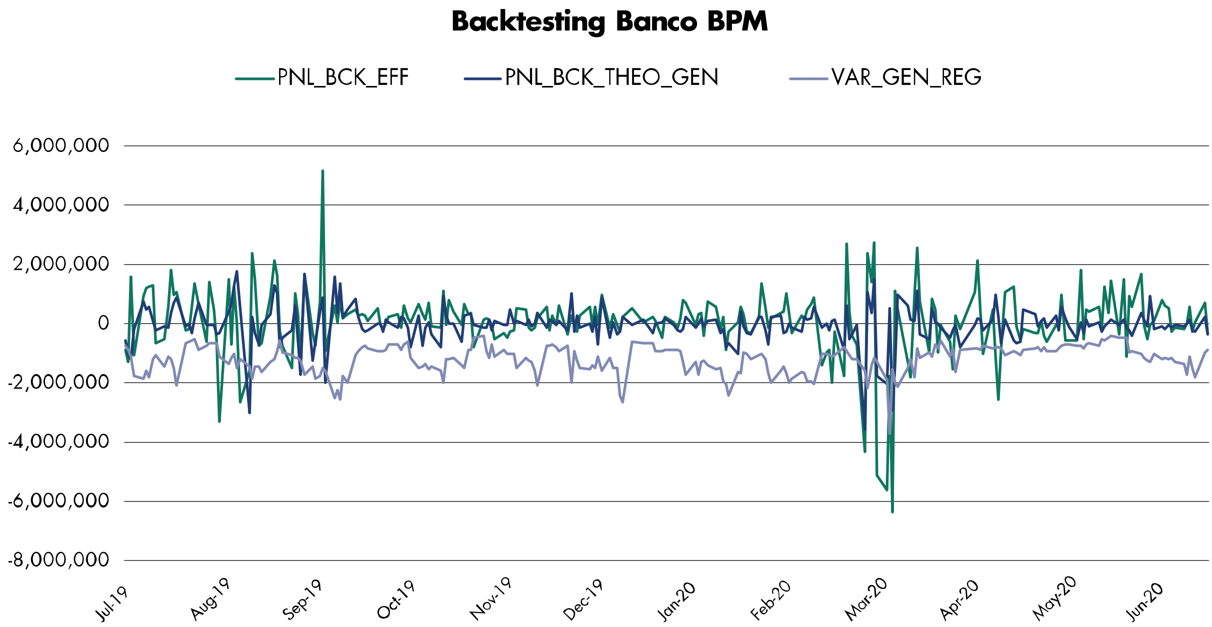
Regulatory trading book *(in millions of euro)*	**1st half 2020**			
	28 June	**average**	**maximum**	**minimum**
Interest rate risk	1.127	1.823	5.221	0.552
Exchange rate risk	0.072	0.094	0.379	0.030
Equity risk	2.355	3.514	7.848	1.793
Dividends and Correlations	1.161	1.662	2.597	0.829
Total uncorrelated	**4.714**			
Diversification effect	-2.019			
Total Generic Risk	**2.695**	**4.484**	**9.838**	**2.285**
Specific debt securities risk	**10.735**	**6.537**	**11.203**	**1.547**
Combined Risk (*)	**10.940**	**7.871**	**15.944**	**2.221**

(*) Overall operational VAR

Daily VaR and VaR by risk factor
BANCO BPM GROUP: Regulatory trading portfolio



Following the validation of the internal model for the calculation of the capital requirement relating to market risks, backtesting is conducted on a daily basis, with a view to verifying the solidity of the VaR model adopted. These tests are conducted on the regulatory trading book of the Parent Company Banco BPM and of Banca Akros.
The graphs below show the backtesting of the Parent Company Banco BPM relating to the VaR method, calculated on the generic risk of debt securities, generic and specific equity risk, interest rate risk and exchange rate risk. For backtesting purposes, as established by supervisory regulations in force, we used the equal-weighted VaR measurement instead of using a decay factor used in operational approaches. Backtesting P&L also includes the P&L component resulting from changes in credit spreads even though it is not a risk factor included in the VaR model.
On 30 April 2019, an Application document was formally submitted for the extension of the internal model to the specific risk of debt securities and to the exchange rate risk of the Banking Book. On 19 July 2019, the inspection by the Supervisory Authority to carry out the validation activities was completed. The outcome of the validation was initially scheduled for October 2019. Following the 6-month postponement granted by the ECB in a communication dated 20/3/2020, the final decision on the extension of the internal model to the specific risk and to the exchange rate risk of the banking book is expected in September 2020.



Outcomes of the internal validation activity

Banco BPM Group adopts internal models to quantify capital requirements for Market Risk, on which the Internal Validation function conducts qualitative and quantitative analyses to assess their soundness and the accuracy of the estimates for all significant risk components. Additionally, it expresses an opinion on the regular functioning, on the predictive capacity, on the performance of internal risk measurement methods and on the adequacy of operating processes to ensure, on a continuous basis, the compliance of internal methods with company needs and the evolution of the market and reference regulations.
With reference to backtesting overruns, the data produced to support overruns is analysed, as well as specific statistical tests (Proportion of Failures test, Time Until First Failure test, Christoffersen Interval Forecast test, Mixed Kupiec test and Conditional Coverage test) that are conducted in regard to different portfolio hierarchical levels and time horizons for Banca Aletti, Banca Akros and the Parent Company. The results of the analysis showed that the model has a good ability to predict the number of backtesting overruns with the same scope of risks considered.
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 methodology.
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.

Banking book

The interest rate risk relating to the banking book is eminently associated with the core activity performed by the bank acting as an intermediary in the process of transformation of maturities. In particular, the issue of fixed rate bonds, the granting of fixed rate commercial loans and mortgages and funding from demand current accounts represent a fair value interest rate risk, while floating rate financial assets and liabilities represent a cash flow interest rate risk.
The Asset & Liability Management unit of the Parent Company's Finance Function is responsible for managing interest rate risk and operates in compliance with the limits for exposure to interest rate risk defined by the RAF and the indications of the Finance Committee.
The Parent Company's Risk Function is in charge of monitoring and controlling the interest rate risk of the banking book, also for the financial subsidiaries. This activity is performed on a monthly basis to verify that the limits in terms of changes in net interest income or the economic value of the banking book are complied with, as regards own funds.

In particular, as part of the monitoring of interest rate risk, the risk measures used internally and subject to the RAF limit are:

- the change in the expected net interest income following a parallel shock of the spot rate curves of +/- 40 bps over a time horizon of twelve months (income perspective);
- the change in economic value following a parallel shock of the spot rate curves of +/-200 bps in relation to own funds (capital perspective);
- the value at risk of the banking book based on the VaR method over 12 months and with a confidence interval of 99.9% (capital perspective).

In these analyses, starting from the reference date 30/6/2020, the TLTRO III take-ups are modelled as variable rate transactions indexed to ECB rates including a cap, valid from June 2020 to June 2021, on the overall rate of -1%.

In accordance with normal management practice and internal regulations, Banco BPM Group conducts periodic stress tests, applying instant shocks, both parallel or non-parallel, to the interest rate curves of the currencies in which the banking book items are denominated. Additionally, during the ICAAP exercise, the impact of extreme yet plausible changes in risk factors on VaR is assessed from a capital adequacy perspective.

In the first half of 2020, interest rate risk exposure, from income and capital perspectives, continuously remained within the Risk Appetite Framework and operational risk limits.

The table below shows exposure to interest rate risk at the end of the first half of 2020 in accordance with operational risk measurements.

Risk ratios (%)	2020				2019	
	30 June	average	maximum	minimum	30 June	average
For shift of + 100 bps						
Financial margin at risk/Financial margin	17.9%	14.7%	17.9%	12.3%	20.1%	19.7%
For shift of - 100 bps (EBA floor)						
Financial margin at risk/Financial margin	-5.6%	-8.3%	-5.6%	-9.9%	-8.5%	-10.5%
For shift of + 100 bps						
Economic value at risk/ Economic value of capital	0.0%	-0.9%	0.1%	-2.1%	-1.4%	-0.1%
For shift of - 100 bps (EBA floor)						
Economic value at risk/ Economic value of capital	0.2%	0.2%	1.6%	-1.3%	-1.9%	-3.6%

Outcomes of the internal validation activity

The Banco BPM Group adopts behavioural models in order to capture idiosyncratic elements of customer segments and produce rate risk estimates that are more appropriate to the characteristics of the banking book. In this context, Internal Validation carries out reperforming, benchmarking and backtesting analyses in order to verify the robustness of rate risk estimates.

Operational Risk

Operational risk is defined as the risk of losses suffered as a result of inadequacy or malfunction of procedures, human resources and internal systems, or from external events. Losses resulting from fraud, human error, interruption of operations, non-availability of systems, contractual breaches and natural disasters are included in this type of risk. Operational risk also encompasses legal risk, while strategic and reputational risks are not included. Banco BPM Group was authorised by the European Supervisors to use for regulatory purposes a combination of the AMA (Advanced Measurement Approach), relating to the validated scope of the former Banco Popolare Group (former Banco Popolare segments of the Parent Company, Banca Aletti, SGS BP and BP Property Management), the TSA (Traditional Standardised Approach) on the scope of the former Banca Popolare di Milano Group (segments of the former Parent Company BPM Scarl, former BPM SpA, ProFamily and Banca Akros) and the BIA (Basic Indicator Approach) for the other remaining companies making up Banco BPM Group. The capital requirement, according to the AMA method, is determined by combining the risk measurement obtained by the model based on previous operating losses, both internal and external, with that obtained based on the model that uses elements of scenario analyses. Both of the models adopt an approach known as the Loss Distribution Approach, which is based on the modelling of aggregate annual loss, defined as the sum of loss amounts (severity) associated to each loss event that occurs over one year (frequency). The risk is estimated by measuring the Value at Risk with a confidence interval of 99.9% for one year. The capital requirement relating to the AMA scope takes into account any benefits from diversifying exposure to the different types of operational risk and envisages the deduction of provisions transferred to the income statement to the extent of the expected loss. Banco BPM Group is adopting a reporting model, consisting of a management IT system for the Corporate Bodies and Top Management (significant losses and related recoveries, overall assessment of the risk profile, capital absorption and risk management policies implemented and/or planned) and an operational reporting system, for the purposes of adequate risk management in the relevant areas.

Outcomes of the internal validation activity

Banco BPM Group adopts internal models to quantify capital requirements for Operational 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 market and reference regulations.
With reference to the assessment of the operational risk management framework, internal validation carries out qualitative (in relation to loss data collection, continuous assessment, risk self assessment) and quantitative (reperforming and benchmarking) analyses in order to verify the robustness of the internal model estimates. Also contributing annually is the European benchmarking exercise on internal models requested by the ECB, which for the last year analysed showed positive results in the model's predictive capacity.

Liquidity Risk

Liquidity risk means the risk that the Group is not able to meet its payment commitments, which are certain or envisaged with reasonable certainty. Usually, two types of Liquidity Risk are identified: Liquidity and Funding Risk, namely the risk that the Group is not able, in the short term (liquidity) and long term (funding), to meet its payment commitments and its obligations in an efficient manner due to the inability to obtain funds without prejudicing its core business activities and/or its financial situation; Market Liquidity Risk is the risk that the Group is not able to liquidate an asset, without generating losses in the capital account due to the poor depth of the reference market and/or due to the timing required to conduct the transaction.

In 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 as part of the Internal Liquidity Adequacy Assessment Process (ILAAP), which is the process the Group uses to identify, measure, monitor, mitigate and report the Liquidity risk profile of the Group. As part of said process, the Group makes an annual self-assessment regarding the adequacy of the overall liquidity risk management and measurement framework, which also covers governance, methodologies, information systems, measurement tools and reporting. The results of the risk profile adequacy assessment and the overall self-assessment are reported to the Corporate Bodies and submitted for the attention of the Supervisory Authority.
Liquidity governance is centralised within the Parent Company.
Liquidity risk monitoring and control is conducted on a daily basis (short-term liquidity) and a monthly basis (structural liquidity); its objective is to monitor the evolution of the risk profile by verifying its adequacy with respect to the Risk Appetite Framework and the operating limits envisaged. Stress tests are conducted on a monthly basis, in order to test the Group's ability to withstand unfavourable scenarios and the estimates of the liquidity that can be generated with the countermeasures (so-called action plan, an integral part of the Liquidity Contingency Plan) that can be activated when a stress scenario occurs, are updated.
More specifically, the Group uses a monitoring system that includes short-term liquidity indicators (with a time horizon from infra-day to twelve months) and long-term ones (beyond twelve months). To this end, both regulatory metrics (LCR, NSFR, ALMM) and metrics processed internally, which include the use of estimation models of behavioural and/or optional parameters, are adopted.
In the first half of 2020, 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.

Outcomes of the internal validation activity

The Internal Validation Function conducts qualitative and quantitative analyses to assess the soundness and accuracy of liquidity risk estimates. Furthermore, as regards ILAAP, the Function expresses an opinion on the regular functioning, on the predictive capacity, on the performance and on the prudence of the internal methodologies for measuring liquidity and funding risks.

Covered bond transactions and securitisations

Significant events during the period

As part of the BP CB1 Programme, with reference to the Eleventh Retained Series of CB issued (i) on 4 March 2020, the Final Terms were amended in order to ensure the possibility of exercising the right to early redemption, even of part of the nominal value, at any time and not exclusively on an interest payment date (ii) on 11 March 2020, a partial early redemption of 350 million was made and (iii) on the maturity date of 30 June 2020, the remaining 1.15 billion was repaid in full, by natural settlement. Furthermore, on the Guarantor Payment Date of 30 June 2020, the SPE BP Covered Bond S.r.l. repaid part of the subordinated loan granted by Banco BPM for an amount of 1.3 billion in advance.

As part of the BPM CB1 Programme, with reference to the Sixth Series of CBs issued, a partial early repayment of 150 million was made on 9 January 2020 and, subsequently, on 16 March 2020, the remaining portion of 600 million was repaid in full, by natural settlement. In addition, the subordinated loan granted by Banco BPM to the SPE BPM Covered Bond S.r.l. was repaid for 500 million on the Interest Payment Date of 15 April 2020.

As part of the BPM CB2 Programme, the subordinated loan granted by Banco BPM to the SPE BPM Covered Bond 2 S.r.l. was repaid for 300 million on the Interest Payment Date of 18 January 2020 and for 250 million on the Interest Payment Date of 18 April 2020.

With regard to the "BPL Mortgages 5" securitisation, on 24 February 2020 the rating agency DRBS increased the rating of the A1, A2 and A3 Senior Securities from "A" to "A (high)".

With reference to the "BP Mortgages 2007-1" and "BP Mortgages 2007-2" securitisations, on 14 May 2020 Fitch lowered the rating of A2, B and C securities for both transactions from "AA" to "AA-", following the downgrading of the sovereign rating on Italy.

Following the early closure, in January 2020, of the last outstanding securitisation ("ITA11"), the Shareholders' Meeting of Italfinance Securitisation Vehicle 2 S.r.l. of 24 April 2020 resolved the early dissolution and liquidation of the Company with effect from 30 April 2020.

Significant events after the end of the interim period

On the occasion of the Interest Payment Dates in July 2020, the SPEs BPM Covered Bond S.r.l. and BPM Covered Bond 2 S.r.l. repaid the subordinated loan to Banco BPM for 190 million and 250 million respectively.

PART G – BUSINESS COMBINATIONS REGARDING COMPANIES OR DIVISIONS

Transactions achieved during the period

During the half-year, no business combinations occurred involving companies external to the Group.

Business combinations between companies in the Group (so-called "business combination under common control")

During the half-year, no business combinations occurred involving companies belonging to the Group.

Business combinations after the reporting period

No business combination transactions were carried out outside the Group after the end of the half-year.

Business combinations between companies in the Group (business combination between entities under common control)

No business combination transactions between companies in the Group were completed after the end of the half-year.

Retrospective adjustments

It was not necessary to make any retrospective adjustments.

PART H - TRANSACTIONS WITH RELATED PARTIES

In line with the requirements set out in the accounting standard IAS 24, an illustration of the criteria followed by Banco BPM Group to identify related parties, outlined in specific company regulations, is provided below:

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 - "Interests in associates and joint ventures - Item 70" of these Explanatory 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) equity investments attributable to executives with strategic responsibilities and their close relatives: the following entities are considered to be related parties, those in which executives with strategic responsibilities or their close relatives have control pursuant to art. 2359, paragraph 1 of the Italian Civil Code, or joint control or exercise significant influence which is presumed when they hold, directly or indirectly, at least 20% of the voting rights which can be exercised during ordinary shareholders' meetings, or 10% if the company has shares listed on organised markets;
e) group pension funds: the pension funds for Group employees and any other related body;
f) holders of a significant interest: shareholders and the relative corporate groups (legal entities which are parent companies, subsidiaries or subject to joint control) which control the Parent Company, even jointly, or which exercise significant influence over Banco BPM, are considered related parties. As a minimum, a situation of significant influence is deemed to exist when the shareholder holds an interest with voting rights exceeding 10% of the share capital of Banco BPM. Parties not belonging to the Group who hold an interest in other Group companies greater than 20% of the voting rights that may be exercised in the shareholders' meeting, or 10% if the company has shares listed in organised markets, are also considered to be related parties;
g) parties who themselves are in a position to appoint members of the Board of Directors by virtue of the articles of association or shareholders' agreements.

Financial and commercial transactions between subsidiaries and companies subject to significant influence and joint control.

Financial and commercial transactions with related parties fall within the sphere of ordinary operations and have been conducted as arm's length transactions.

The tables below indicate the balance sheet and income statement transactions as at 30 June 2020 with the companies subject to significant influence, 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	-	5,811	-	-	5,424	11,235	0.15%
Financial assets measured at fair value through other comprehensive income	-	-	-	-	40,991	40,991	0.31%
Loans to banks	-	-	-	-	179,147	179,147	1.40%
Loans to customers	-	3,060,637	-	11,340	90,422	3,162,399	2.98%
Debt securities at amortised cost	-	-	-	-	15,176	15,176	0.06%
Other assets	-	8,605	-	-	93	8,698	0.06%
Due to banks	-	-	-	-	232,731	232,731	0.71%
Due to customers	-	458,357	-	26,096	50,284	534,737	0.54%
Debt securities in issue	-	-	-	726	2,113	2,838	0.02%
Financial liabilities held for trading	-	994	-	-	273	1,267	0.01%
Other liabilities	-	2,246	-	140	44	2,430	0.04%
Guarantees given and commitments	-	774,061	-	2,201	96,045	872,307	1.46%

(1) Authorised parties who own a stake of more than 10% of the share capital.

(thousands of euro)	Entities exercising significant influence (1)	Associated companies	Joint ventures	Executives with strategic responsibilities	Other related parties	Total	% of consolidated total
Net interest income	-	10,515		27	884	11,426	1.21%
Net fee and commission income	-	218,406	-	7	86	218,499	27.16%
Administrative expenses/recoveries of expenses	-	801	-	(7,488)	(3)	(6,690)	0.49%
Other costs/revenues	-	841	-	-	-	841	0.27%

(1) Authorised parties who own a stake of more than 10% of the share capital.

Other transactions with other related parties

The table below discloses other transactions (supplies of goods and services and transactions on real estate) entered into with related parties, shown in the above table under "Executives with strategic responsibilities" and "other related parties".

	Purchases and sales of goods and services	Rentals receivable	Rentals payable
a) Directors	-	-	-
b) Executives with strategic responsibilities	-	-	-
c) Close family members of the parties in letters a) and b)	-	-	-
d) Subsidiary, associated company or subject to significant influence by the parties in letters a) and b)	89	150	-

Other information

In regard to paragraph 8 of art. 5 "Disclosures to the public on related party transactions" of the CONSOB Regulation containing provisions for related-party transactions (adopted by CONSOB with resolution no. 17221 of 12 March 2010 and then amended with resolution no. 17389 of 23 June 2010), the following paragraphs illustrate the most important transactions conducted in the first half of 2020, as well as those that are less important yet particularly significant.

Issue of Banca Akros S.p.A. certificates placed by Banco BPM S.p.A. and Banca Aletti & C. S.p.A. Issue of "special-purpose bonds" by Banco BPM S.p.A., to be subscribed by Banca Akros S.p.A., with use of the liquidity from funding activities through the issue of the aforementioned certificates to be placed by Banco BPM S.p.A., Banca Aletti & C. S.p.A. and third-party networks

At its meetings held on 16-17 December 2019 and 10 March 2020, the Board of Directors approved (i) for the year 2020 the issuance of so-called "special-purpose" bonds, to be offered entirely in subscription to the subsidiary Banca Akros S.p.A. for a maximum total amount of up to 1.2 billion (of which up to 800 million relating to placements by the Group's Network to be made in the first half of 2020 and up to 400 million relating to placements by third-party networks to be made in the entire 2020 financial year), without prejudice to the powers of the Chief Executive Officer regarding the approval of the properties, conditions and amount of the individual bond issues made, within the limits of said ceilings and (ii) the placement for the first half of 2020 by Banco BPM and Banca Aletti & C. S.p.A. of the Certificates issued by Banca Akros S.p.A., with reference to which a flow of fees is expected (i) in favour of Banco BPM, for a total amount of up to 21.9 million, set at a 3% commission and (ii) in favour of Banca Aletti & C. S.p.A., for a total amount of up to 1.7 million, with a commission of 2.50%.
As at 30 June 2020, Banco BPM S.p.A. issued 11 so-called "special-purpose bonds" for a total of 414.5 million, out of the ceiling of 1.2 billion, defined by the framework resolution in question.
Banco BPM and Banca Aletti placed certificates amounting to 320.4 million with their customers during the period considered, generating a total commission income of 9.3 million.

Issuing of certificates by Banco BPM, to be placed through the Parent Company and Banca Aletti & C. S.p.A. Network: review of the roles of the companies involved in the product governance and structuring process.

At its meeting on 7 May 2020, the Board of Directors approved (i) the issue of certificates by Banco BPM, in place of Banca Akros, for a maximum total amount, for the second half of 2020, of up to 1,018 million, of which 991 million to be placed through Banco BPM's network and 27 million to be placed through its subsidiary Banca Aletti & C. S.p.A.; (ii) the recognition for Banca Aletti & C. S.p.A., against the placement mentioned in the previous point, of a flow of fees for a total amount of up to 810 thousand, set at a 3% commission; (iii) the new operating structure and, in particular:

- the outsourcing to Banca Akros S.p.A. of the structuring of the certificates to be issued by Banco BPM and their management by Banca Akros S.p.A., full coverage of the financial risks resulting from the issue of the certificates by Banco BPM (activities for which a flow of fees of up to 20.4 million is envisaged in favour of Banca Akros S.p.A.), as well as the management of market making activities to ensure the liquidity requirement of the certificates, by Banca Akros S.p.A.;
- outsourcing to Banca Aletti & C. S.p.A. for product governance and supervision of investment products/services, both on the Manufacturer side (own products and those of Banco BPM) and on the Distributor side, and for consultancy/active advisory for a total annual amount of approximately 3.8 million.

Please note that a single issue of Banco BPM certificates was carried out in the first half of the year, in June 2020. The placement of these certificates amounted to 110.0 million, which generated commissions of 1.3 million for the placement activities of Banco BPM and Banca Aletti.

Placement and management of Banca Aletti & C. S.p.A.'s asset management activities by Banco BPM S.p.A.

The Board of Directors, in its meeting of 10 March 2020, approved, with reference to the placement and management of Banca Aletti & C. S.p.A.'s Asset Management activities, by Banco BPM, the opening of Banca Aletti & C. S.p.A.'s Private catalogue lines to Banco BPM's retail customers, with the payment for 2020 of a flow of fees to the Parent Company for the service rendered of up to 1.7 million.

Release S.p.A.: issue of sureties for a total of 126 million

On 31 March 2020, the Board of Directors approved the issue of two sureties for a total amount of 126 million in favour and on behalf of the subsidiary Release S.p.A., with the aim of mitigating Large Risks exceeding the limit of 25% of the Eligible Capital, provided for by the supervisory regulations.
The exposures covered by the guarantees relate to the Working Group (risk to Release approximately 140 million net of provisions) and the Gentlemen's Group (risk to Release approximately 47 million net of provisions).

The basis for this resolution derives from the provisions of art. 2446 of the Italian Civil Code and the consequent discussions with the Bank of Italy that have affected the Company.
Release, in fact, supplementing the circumstances described in the aforementioned article from the 2019 interim report, resolved to submit to the Extraordinary Shareholders' Meeting held on 3 April 2020 the reduction of the Share Capital to cover losses.
Although this measure immediately satisfies the statutory requirements and does not exclude subsequent capital strengthening measures, it does not address the long-standing issue of the inadequacy of the regulatory capital in relation to large risk exposures that, moreover, with the financial statements as at December 2019 saw the entry of a further position (Gentlemen's Group), compared to the historical position of the Working Group.
In this scenario, the Company has been invited by the Regulator to repay the aforementioned overruns in terms of Eligible Capital through the issue of the aforementioned sureties until the capital increase is carried out, the timing and manner of which will be the subject of consultation between the shareholders.
The request for sureties was made in full to Banco BPM alone for the refusal by the minority shareholders to cover their shares.
The text of the sureties provides for Banco BPM's commitment to guarantee, on first demand, the portion of the book value of loans exceeding the limits for Large Exposures, remaining after application of the specific loan value adjustments ordered by Release. These will be reviewed and adjusted every six months after coordination and advice from Banco BPM.

ProFamily S.p.A.: review of credit facilities and allocation of lending ceilings.

At its meeting of 26 May 2020, the Board of Directors approved the review as at 30 June 2021 of the credit lines in place for ProFamily S.p.A. for a total of 1,521.3 million, with the simultaneous attribution of a lending ceiling of 1.6 billion (in addition to a line of evidence for DD collection services retrocession risk of 100 million).

Alba Leasing S.p.A.: increase in the amount of credit lines and new deadline for the review of the ceiling for direct risks.

The Board of Directors' meeting of 16 June 2020 approved (i) the increase in the total amount of credit lines outstanding in favour of Alba Leasing S.p.A. from 982.2 million to 1,274.2 million, including 300 million relating to a bridging line expiring on 30 June 2020 to support the investee company in the placement with market counterparties of the securities resulting from the "Alba 11" securitisation; (ii) the increase in the direct risk ceiling for the aforementioned counterparty from 1,055 million to 1,355 million, including 300 million expiring on 30 June 2020 and the remaining 1,055 million with a review date on 30 June 2021.

Agos Ducato: increase in the credit lines

Banco BPM, with two successive interventions dated 21 February 2020 and 3 July 2020 respectively, approved an overall increase in the total amount of credit lines granted to Agos Ducato, a 39% owned investee, from 1,693.7 million to 1,758.7 million; these interventions are part of the broader agreements signed with the Crédit Agricole group, which holds the remaining 61% of the aforementioned investee.

PART I – SHARE-BASED PAYMENT AGREEMENTS

A. QUALITATIVE INFORMATION

1. Description of share-based payment agreements

1.1 Remuneration linked to incentive systems: compensation plans based on shares

As the Parent Company, Banco BPM S.p.A. prepares the annual Remuneration Report pursuant to the provisions in force on remuneration and incentive policies and practices of the Bank of Italy (Circular no. 285/2013, 25th update of 23 October 2018, Part I, Title IV, Chapter 2 "Remuneration and incentive policies and practices"), of art. 123-*ter* of Italian Legislative Decree 58/1998 (Consolidated Finance Law) and subsequent amendments and of art. 84-*quater* of CONSOB resolution no. 11971/1999 as amended (Issuers' Regulations).
The remuneration policies (the "Policies") define, in the interest of all stakeholders, the key principles 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 and retaining in the Group, individuals with adequate professional skills and abilities to meet business requirements, for the benefit of competition and good governance, by pursuing fairness internally and with respect to the external labour market.
The Group's remuneration policies also aim to guarantee adequate remuneration for long-term performance, making it possible to leverage personnel, recognise individual contributions to the achievement of results and discourage unfair conduct in relationships with customers and in terms of compliance with regulations, or conduct, which tends towards excessive risk exposure or results in regulatory violations.
The remuneration of Group employees includes a variable component (incentive) linked to annual incentive systems. The receipt of an incentive is subject to the contextual verification that the predefined access conditions (gateways) have been met, comprised of indicators of capital adequacy and adequacy of liquidity and profitability. Following verification of the gateways, but prior to any disbursements, the volume of economic resources actually available is determined based on the income statement results achieved (financial adjustment factor) as well as qualitative indicators of a non-financial nature (non-financial adjustment factor). In both cases, conditions are included and monitored, in line with the Group Risk Appetite Framework.

The incentive for key personnel[1] identified for the year is broken down into an up-front instalment and deferred instalments.
The up-front instalment, to be assigned by July of the year following the pertinent year, irrespective of the beneficiary, is equal to:
- 60% of the incentive awarded, if it is less than Euro 430 thousand;
- 40% of the incentive awarded, if it is equal to or more than Euro 430 thousand.

The figure of Euro 430 thousand represents for the Group the level of variable remuneration of a particularly high amount, determined in keeping with the criterion established by the Bank of Italy Supervisory Regulations[2].
50% of the up-front instalment of the incentive is awarded in Banco BPM ordinary shares.

The deferred instalments are made up of:
- five annual instalments of the same amount deferred in the five-year period following the year in which the up-front instalment matures, to be assigned by July of each year, for 55% in Banco BPM ordinary shares, for key top-management personnel[3], irrespective of the amount of the incentive awarded, and for the key

[1] Individuals whose professional activity has or may have a significant impact on the Group's risk profile.
[2] See Part One, Title IV, Chapter 2, Section III, Paragraph 2: "Particularly high variable remuneration amount means the lower of: i) 25 per cent of the total average remuneration of the Italian high earners, resulting from the most recent report published by the EBA; ii) 10 times the total average remuneration of the bank's employees".
[3] Key top-management personnel refers to, for the Parent Company, the Chief Executive Officer, the General Manager (where appointed), the Joint General Managers and the top operations and management executives, the managers in the first line of management not

personnel who report directly to the Chief Executive Officer of Banca Akros and Banca Aletti & C. Banca d'Investimento Mobiliare, if the amount of the incentive granted is equal to or greater than Euro 430 thousand;
- three annual instalments of the same amount, deferred in the three-year period following the year in which the up-front instalment matures, to be assigned by July of each year, for 50% in Banco BPM ordinary shares, for the key personnel not indicated in the previous point.

There is a retention period (selling restriction) on the shares vested of one year, for both the up-front and the deferred shares; for the latter, the retention period starts from the moment in which the deferred remuneration is vested. The vesting of the share instalments takes place at the same time as the respective cash instalments, while actual transfer of ownership to the beneficiary takes place at the end of the retention period.
In addition, in line with national banking system practices and in keeping with the spirit of the provisions in force, if the incentive recognised is lower than or equal to the relevant threshold of Euro 50 thousand and at the same time lower than or equal to one-third of the fixed component of individual remuneration, it is paid in a lump sum in cash; this provision does not regard high-end key personnel[1] (including top-management) and personnel actually affected[2] by a ratio of variable to fixed remuneration of more than 100%, to whom, therefore, the regulations regarding the deferral and allocation of shares continue to apply in full.
On 4 April 2020, the Ordinary Shareholders' Meeting of Banco BPM approved, pursuant to art. 114-*bis* of the Consolidated Finance Law and art. 84-*bis* of the Issuers' Regulations, the compensation plans based on shares of Banco BPM, as defined in the respective Information Documents prepared for this reason by the Board of Directors on 18 February 2020, on the basis of the Policy — an Annual Plan that calls for the valuation of a share of the variable component of the remuneration of the Group's key personnel, to be paid through the assignment of ordinary shares of Banco BPM S.p.A. under the 2020 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 4 April 2020 approved:
- the Remuneration Report 2020 – Section I of the Banco BPM Banking Group's Remuneration Report – 2020;
- the criteria for calculating any amount to be granted in the event of early termination of employment of all personnel, including the limits set on said amount in terms of yearly fixed remuneration.

The same Shareholders' Meeting also voted with a non-binding vote on Section II of the Banco BPM Banking Group's Remuneration Report – 2020.

For more details, please refer to the following documents: 2020 Remuneration Report (Section I and Section II) and Information Document on the share-based compensation plans - Short term incentives 2020, available on the website www.bancobpm.it (Corporate Governance - Remuneration Policies section).

1.2 Previous share-based compensation plans

On 6 February 2020, Banco BPM Board of Directors approved the opening of the access gateways for the 2019 Incentive System, as well as:
- the implementation of the 2019 Plan already approved by the Ordinary Shareholders' Meeting of Banco BPM on 6 April 2019;
- access to the deferred portions of incentives pertaining to the years 2014, 2015, 2016, 2017 and 2018 relating to share-based compensation plans, which are valid and approved on the basis of previous resolutions passed by the shareholders meetings of Banco BPM, the former Banca Popolare di Milano Scarl and the former Banco Popolare Soc. Coop.

With reference to the long-term (three-year) 2017-2018-2019 incentive plan, approved by the Shareholders' Meeting on 8 April 2017, the Board of Directors on 18 February 2020, having noted the opinion of the

included among the corporate control functions and reporting directly to the Chief Executive Officer or the Board of Directors, for Aletti & C. Banca d'Investimento Mobiliare and Banca Akros, the Chief Executive Officer.

[1] High-end key personnel, the CEO, General Manager (where appointed), Joint General Managers and Managers in the first line of management of the Parent Company, the CEO, General Manager, Joint General Manager and Deputy General Manager (where present) of Aletti & C. Banca d'Investimento Mobiliare, Banca Akros and ProFamily.

[2] *Ex ante*.

Remuneration Committee of 17 February 2020, verified the opening of the access gateways to the long-term incentive (LTI) scheme and approved the implementation of the share-based Compensation Plans of Banco BPM.

In relation to the equity instalments attributable to previous years, the number of ordinary shares of the former Banca Popolare di Milano recognised was converted into Banco BPM shares — due to the merger with the former Banco Popolare — on the basis of the value established for the share swap equal to 1 Banco BPM share for every 6.386 shares of the former Banca Popolare di Milano; the ordinary shares of the former Banco Popolare recognised were also converted into Banco BPM shares, due to the merger with Banca Popolare di Milano, on the basis of the value established for the share swap equal to 1 Banco BPM share for every share of the former Banco Popolare.

For more details on the procedures and 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, filed 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 and 2018: Corporate Governance — Remuneration Policies section; for previous years: Corporate Governance — Shareholders' Meetings — Historical Documents Shareholders' Meetings section).

1.3 Amounts for early termination of employment

In specific cases of termination of the employment relationship, the Parent Company has the unilateral right to agree — subject to the conditions and in accordance with the methods defined in the Policy — possible amounts for the early termination of employment (for key personnel, golden parachutes), which may be awarded up to the maximum extent of twenty-four months of fixed remuneration (excluding indemnity for lack of notice, determined by legislative provision) and up to the maximum limit of 2.4 million (employee gross amount).
The recognition of the amounts for early termination of the employment relationship is subordinated to positive verification of the conditions, related to the previous financial year, of capital adequacy and liquidity; it is also determined considering any element deemed relevant and in any case:

- the positive results achieved over time;
- the circumstances that led to the resolution, taking into account the interest of the company also in order to avoid an error of judgement;
- the roles performed and/or positions held in the course of the employment relationship, also in the sense of risks assumed by the subject;
- the duration of the employment relationship and the role;
- the savings resulting from the early termination of the employment relationship.

The disbursement is made according to the same methods envisaged for the annual incentive scheme, defined in the remuneration policies in force at the moment of termination, with reference to the last role for which the granting of the amount is assessed, without affecting the specific features provided for in the Bank of Italy Supervisory Regulations; therefore the disbursement is made:

- for the remaining personnel (non-key personnel), in cash in a lump sum;
- for the key personnel (golden parachute):
    - in an up-front instalment, equal to 60%, if the amount is less than the particularly high amount established in the remuneration policies in force at the moment of recognition, or 40%, in the remaining cases;
    - in five annual instalments of the same amount, for key top-management personnel, irrespective of the amount awarded, and for the key personnel who report directly to the Chief Executive Officer of the Italian banking subsidiaries, if the amount recognised is equal to or more than the particularly high amount established in the remuneration policies in force at the moment of recognition, or in three deferred instalments in the remaining cases;
    - The up-front portion matures on termination of the employment relationship and is attributed within the time limits provided for in the individual agreements; the deferred instalments mature annually, the first after twelve months from the date of disbursement of the up-front portion, the subsequent ones at the same interval from vesting of the previous portion;
    - with reference to the up-front portion, for 50% in cash and for 50% in Banco BPM ordinary shares;
    - with reference to each deferred portion, the component in Banco BPM ordinary shares is 55%, if the deferment in five years is applied, or 50%, in the remaining cases;

- there is a retention period (sale restriction) on vested shares of one year. For deferred portions, the retention period starts from the moment deferred remuneration is vested. The vesting of the share instalments takes place at the same time as the respective cash instalments, while actual transfer of ownership to the beneficiary takes place at the end of the retention period. The carrying value of the allocated shares, both of up-front and deferred portions, is equal to the "normal value", corresponding to the arithmetic mean of official prices recorded in the thirty calendar days preceding the date on which each share becomes available through transfer to the beneficiary's portfolio. Any rights and/or dividends are only vested with reference to the period following the transfer to the beneficiary's securities portfolio.

The amounts for early termination of the employment relationship, both for key personnel and the remaining personnel, shall only be disbursed in the absence of ascertained fraudulent conduct or gross negligence committed by the terminated person. The ascertainment of such conduct, whose significance in terms of blame is assessed by the Parent Company's Board of Directors, in the case of directly appointed persons, or by the Chief Executive Officer of the Parent Company for remaining persons, determines the elimination of portions which have not yet been paid (malus) and the return of previously paid ones (clawback). This assessment takes into account a five year period starting from initial accrual.

The incentive plans for the key personnel described above, which establish the payment based on shares of Banco BPM, are "equity-settled" plans in accordance with the provisions in IFRS 2. These share-based payments are recorded in the income statement. under the item "Personnel expenses" as a balancing entry to an increase in the "Reserves" of consolidated shareholders' equity and the Parent Company's shareholders' equity.
Subsidiaries, on the other hand, in their separate financial statements, record the cost for the period in the income statement item "Personnel expenses" as a balancing entry of an increase in the balance sheet liability item "Provisions for risks and charges", because the most important staff incentive plans provide for payment based on shares of the Parent Company which will be settled by the individual subsidiaries and, therefore, qualify as "cash settled" transactions.

B. QUANTITATIVE INFORMATION

1. Annual changes

The balance of the "stock of shares" at 1 January 2020 consisted of 3,657,792 ordinary shares of Banco BPM.
During the first half of 2020 - in implementation of the remuneration and incentive policies - a total of 619,993 ordinary shares of Banco BPM S.p.A. were delivered to 72 beneficiaries.

1.1 Own shares purchase programme to service the share allocation plans for Banco BPM Group's most important personnel

Following the press release of 6 April 2019, which announced that the Ordinary Shareholders' Meeting of Banco BPM S.p.A had approved, among other things, the request for authorisation to purchase and dispose of own shares to service the share-based compensation plans, it should be noted that - by virtue of the authorisation issued by the European Central Bank in accordance with the applicable provisions of Regulation (EU) no. 575/2013 and Delegated Regulation (EU) no. 241/2014 - Banco BPM has carried out the own shares purchase programme to be allocated to the beneficiaries of the Plans within the scope of the Group's most important personnel, totalling 0.9% of the Group's workforce.
In particular, as part of the above share purchase programme, Banco BPM purchased a total of 3,165,000 own shares (equal to 0.21% of the ordinary shares outstanding) on the Electronic Equity Market (*Mercato Telematico Azionario* - MTA) during the period from 9 to 11 March 2020, inclusive, at an average unit price of Euro 1.28657, for a total value of 4.1 million.
As a result of the above transactions, the balance of the "stock of shares" as at 30 June 2020 consisted of 6,202,799 ordinary shares of Banco BPM.

2. Other information

With reference to the resolution passed by Banco BPM Board of Directors on 6 February 2020 with regard to the 2019 incentive scheme, a total of 2,528,399 shares were granted to 75 beneficiaries, of which (i) 1,414,136 relating to the up-front portion accrued and (ii) 1,114,263 relating to the deferred portions, as appropriate, in the three or five years after 2020, the accrual of which remains subject to positive verification of the malus conditions provided for in the remuneration policies in force at the time.
The same resolution also determined the accrual of deferred shares relating to previous years (2014, 2015, 2016, 2017 and 2018) for a total of 363,183 Banco BPM shares to 61 beneficiaries.

With reference to the resolution passed by Banco BPM Board of Directors on 18 February 2020 with regard to the 2017-2018-2019 long-term incentive (LTI) scheme, a total of 1,530,074 shares were granted to 39 beneficiaries, of which (i) 612,035 relating to the up-front portion accrued and (ii) 918,039 relating to the deferred portions over the three years after 2020, the accrual of which remains subject to positive verification of the malus conditions provided for in the remuneration policies in force at the time.

With regard to golden parachutes, a total of 4,774 Banco BPM shares matured in 2020.

PART L – SEGMENT REPORTING

According to IFRS 8, companies must provide information enabling users of financial statements to assess the nature and the effects on the financial statements of their business activities and the economic contexts in which they operate.
Therefore, it is necessary to highlight the contribution of the various operating segments to the formation of the Group’s income.

The identification of the “operating segments” of this Section is consistent with the procedures adopted by the Company Management to make operating decisions and is based on internal reporting, used for allocating resources to the various segments and the analysis of their performance. For this reason, and in order to improve the representation of the Group's profitability, operating segments that are below the quantitative thresholds put forward in paragraph 13 of IFRS 8 are also highlighted.

For 2020, the operating segments taken as a reference to provide the disclosure in question are as follows:

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

The identification of Leases as an operating segment is justified by the need to provide separate evidence of an activity in run-off, attributable to the management of previous lease operations of the former Banca Italease (now incorporated into Banco BPM) and the subsidiary Release.

The following tables provide detailed income statement and balance sheet figures by segment as at 30 June 2020 compared with the first half of 2019 and 31 December 2019 respectively.
It should be noted that the figures relating to the previous period have been restated to reflect the impact of the change in the valuation criteria for the Group's property assets, as explained in detail in the section "Notes for a proper comparison of the comparative financial statements" in Part A of the Explanatory Notes and the presentation of the impact of the PPA in a separate item in the reclassified income statement.

It should be noted that the figures for the previous year have been restated and reclassified to reflect the impact of the change in the valuation criteria for the Group's property assets, as explained in detail in the section "Notes for a proper comparison of the comparative financial statements" in Part A of the Explanatory Notes. In addition, they have been adapted to the new formulation of the Reclassified Income Statement, which provides for the indication of the impacts deriving from the Purchase Price Allocations made following past aggregation operations into a single separate item called "Purchase Price Allocation net of taxes".

Segment results – income statement figures

1st half 2020	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leases	Corporate Centre
Net interest income	953,621	467,102	211,845	31,257	1,706	38,780	(4,143)	12,193	194,881
Gains (losses) on interests in associates and joint ventures carried at equity	70,302	-	-	-	-	-	69,505	-	797
Financial margin	**1,023,923**	**467,102**	**211,845**	**31,257**	**1,706**	**38,780**	**65,362**	**12,193**	**195,678**
Net fee and commission income	816,934	640,670	101,141	17,011	43,132	21,889	-	(283)	(6,626)
Other net operating income	31,599	6,066	64	534	3	(11)	-	(6,122)	31,065
Net financial result	124,080	6,200	7,056	124	3	4,635	11,671	-	94,391
Other operating income	**972,613**	**652,936**	**108,261**	**17,669**	**43,138**	**26,513**	**11,671**	**(6,405)**	**118,830**
Operating income	**1,996,536**	**1,120,038**	**320,106**	**48,926**	**44,844**	**65,293**	**77,033**	**5,788**	**314,508**
Personnel expenses	(816,979)	(508,852)	(36,485)	(3,693)	(26,917)	(13,513)	(988)	(3,369)	(223,162)
Other administrative expenses	(308,674)	(369,640)	(36,718)	(14,192)	(9,481)	(30,424)	(258)	(13,513)	165,552
Net value adjustments to property, plant and equipment and intangible assets	(123,089)	(58,706)	(1,588)	(116)	(147)	(164)	-	-	(62,368)
Operating expenses	**(1,248,742)**	**(937,198)**	**(74,791)**	**(18,001)**	**(36,545)**	**(44,101)**	**(1,246)**	**(16,882)**	**(119,978)**
Profit (loss) from operations	**747,794**	**182,840**	**245,315**	**30,925**	**8,299**	**21,192**	**75,787**	**(11,094)**	**194,530**
Net adjustments to loans to customers	(476,242)	(277,633)	(160,728)	(4,221)	(179)	(5)	-	(16,342)	(17,134)
Fair value gains (losses) on property, plant and equipment	(5,416)	-	-	-	-	-	-	(2,279)	(3,137)
Net adjustments to securities and other financial assets	(8,383)	-	-	-	-	(120)	-	-	(8,263)
Net provisions for risks and charges	(7,614)	(7,231)	(1,154)	17	(35)	614	-	(145)	320
Gains (losses) on disposal of interests in associates and joint ventures and other investments	220	-	-	-	-	-	-	131	89
Profit (loss) before tax from continuing operations	**250,359**	**(102,024)**	**83,433**	**26,721**	**8,085**	**21,681**	**75,787**	**(29,729)**	**166,405**
Taxation charge related to profit or loss from continuing operations	(52,425)	31,289	(27,865)	(8,885)	(2,729)	(6,929)	1,290	6,224	(44,820)
Charges related to the banking system, net of taxes	(75,684)	(39,144)	(4,083)	(4,010)	(1,023)	(3,192)	-	-	(24,232)
Profit (loss) for the period attributable to non-controlling interests	1,508	-	-	-	-	-	-	1,400	108
Parent Company's profit (loss) for the period without PPA	**123,758**	**(109,879)**	**51,485**	**13,826**	**4,333**	**11,560**	**77,077**	**(22,105)**	**97,461**
Purchase Price Allocation net of taxes (*)	(18,527)	(10,514)	(1)	-	(1,439)	-	-	414	(6,987)
Parent Company's profit (loss) for the period	**105,231**	**(120,393)**	**51,484**	**13,826**	**2,894**	**11,560**	**77,077**	**(21,691)**	**90,474**

(*) PPA relating to receivables and client relationships, net of related tax effects.

1st half 2019 (*)	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leases	Corporate Centre
Net interest income	1,011,305	528,169	192,255	30,882	1,789	42,162	(4,618)	15,584	205,083
Gains (losses) on interests in associates and joint ventures carried at equity	69,386						70,144		(758)
Financial margin	**1,080,691**	**528,169**	**192,255**	**30,882**	**1,789**	**42,162**	**65,526**	**15,584**	**204,325**
Net fee and commission income	888,191	729,490	87,169	17,561	43,832	20,257		3	(10,121)
Other net operating income/expense	42,110	10,360	182	2,011	14	830		(4,090)	32,803
Net financial result	83,042	7,273	3,102	2	7	4,864	8,948		58,846
Other operating income	**1,013,343**	**747,123**	**90,453**	**19,574**	**43,853**	**25,951**	**8,948**	**(4,087)**	**81,528**
Operating income	**2,094,034**	**1,275,292**	**282,708**	**50,456**	**45,642**	**68,113**	**74,474**	**11,497**	**285,853**
Personnel expenses	(843,857)	(538,947)	(36,397)	(3,556)	(25,631)	(14,017)	(1,096)	(2,918)	(221,295)
Other administrative expenses	(330,154)	(424,223)	(49,321)	(14,207)	(6,918)	(27,560)	(254)	(15,733)	208,062
Value adjustments to property, plant and equipment and intangible assets	(131,074)	(46,586)	(1,467)	(185)	(152)	(533)	(118)	-	(82,033)
Operating expenses	**(1,305,085)**	**(1,009,756)**	**(87,185)**	**(17,948)**	**(32,701)**	**(42,110)**	**(1,468)**	**(18,651)**	**(95,266)**
Profit (loss) from operations	**788,949**	**265,536**	**195,523**	**32,508**	**12,941**	**26,003**	**73,006**	**(7,154)**	**190,587**
Net adjustments to loans to customers	(349,644)	(159,445)	(129,104)	(5,495)	167	196		(79,059)	23,096
Fair value gains (losses) on property, plant and equipment	(26,782)							(5,000)	(21,782)
Net adjustments to securities and other financial assets	25					295			(270)
Net provisions for risks and charges	(5,680)	(3,379)	2,990	26	1,565	(382)		(130)	(6,370)
Gains (losses) on disposal of interests in associates and joint ventures and other investments	336,813					80	(800)	(10)	337,543
Profit (loss) before tax from continuing operations	**743,681**	**102,712**	**69,409**	**27,039**	**14,673**	**26,192**	**72,206**	**(91,353)**	**522,804**
Taxation charge related to profit or loss from continuing operations	(81,145)	(28,019)	(19,111)	(7,430)	(4,159)	(7,936)	1,632	22,255	(38,376)
Charges related to the banking system, net of taxes	(56,861)	(29,168)	(3,672)	(3,151)	(2,572)	(952)			(17,346)
Profit (loss) for the period attributable to non-controlling interests	4,471							4,434	37
Parent Company's profit (loss) for the period without PPA	**610,146**	**45,525**	**46,626**	**16,457**	**7,942**	**17,304**	**73,838**	**(64,664)**	**467,119**
Purchase Price Allocation net of taxes (**)	(7,162)	2,724	(280)	64	(1,490)			2,319	(10,500)
Parent Company's profit (loss) for the period	**602,984**	**48,249**	**46,346**	**16,521**	**6,452**	**17,304**	**73,838**	**(62,345)**	**456,619**

(*) The amounts relating to the previous period have been restated to reflect the impact of the change in the valuation criteria for the Group's property assets, as explained in detail in the section "Notes for a proper comparison of the comparative financial statements" in Part A of the Explanatory Notes.

(**) PPA relating to receivables and client relationships, net of related tax effects.

The following tables provide details of the fee and commission income for the first half of 2020 and the corresponding period of the previous year, disaggregated by type of service provided and defined with an operating outlook, and by IFRS 8 operating segment, in line with the disclosure requirements introduced by IFRS 15.
It should be noted that the figures for the previous period are not fully comparable with those for the first half of 2020 due to a change in the exposure criteria adopted in the internal reporting used for the presentation of results to management.

1st half 2020 Service type/Amounts	**Total**	**Retail**	**Corporate**	**Institutional**	**Private**	**Investment Banking**	**Strategic Partnerships**	**Leases**	**Corporate Centre**
Savings products	**324,350**	**282,816**	**430**	**2,451**	**43,825**	**-**	**-**	**-**	**(5,172)**
of which:									
Indirect upfront - Network	*117,111*	*112,703*	*48*	*531*	*3,829*	-	-	-	-
Administered	26,303	25,297	16	55	935	-	-	-	-
Portfolio management and funds	76,689	73,823	31	449	2,386	-	-	-	-
Life	14,119	13,583	1	27	508	-	-	-	-
Indirect running - Network	*205,765*	*170,113*	*382*	*1,920*	*39,996*	-	-	-	*(6,646)*
Administered	26,885	28,659	79	916	3,877	-	-	-	(6,646)
Portfolio management and funds	160,323	126,109	267	935	33,012	-	-	-	-
Life	18,557	15,345	36	69	3,107	-	-	-	-
Indirect non-Commercial Network	*1,474*	-	-	-	-	-	-	-	*1,474*
Investment Banking	**38,140**	**-**	**-**	**-**	**-**	**47,423**	**-**	**-**	**(9,283)**
Insurance protection	**16,154**	**16,013**	**12**	**12**	**24**	**-**	**-**	**-**	**93**
Other fees and commissions	**497,452**	**373,681**	**103,462**	**15,147**	**740**	**-**	**-**	**4**	**4,418**
Fee and commission income	**876,096**	**672,510**	**103,904**	**17,610**	**44,589**	**47,423**	**-**	**4**	**(9,944)**
Fee and commission expense	**(59,162)**	**(31,840)**	**(2,763)**	**(599)**	**(1,457)**	**(25,534)**	**-**	**(287)**	**3,318**
Net fee and commission income	**816,934**	**640,670**	**101,141**	**17,011**	**43,132**	**21,889**	**-**	**(283)**	**(6,626)**

1st half 2019 Service type/Amounts	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leases	Corporate Centre
Distribution of savings products, order collection and trading of securities and currencies:	**379,620**	**303,739**	**632**	**2,710**	**43,284**	**45,559**	**-**	**-**	**(16,304)**
- administered assets, trading securities, currencies and order collection	72,449	42,035	53	691	4,261	45,559	-	-	(20,150)
- portfolio management and funds	264,011	223,885	258	1,724	34,791	-	-	-	3,353
- bancassurance	43,160	37,819	321	295	4,232	-	-	-	493
Distribution of insurance products	26,034	23,938	16	12	53	-	-	-	2,015
Distribution of consumer credit products	20,902	26,373	-	6	4	-	-	-	(5,481)
Transactional banking services (e-money, portfolios and collection and payment services)	160,983	136,788	15,029	7,901	613	6	-	-	646
Current account management and loans:	349,352	242,929	90,310	8,323	854	269	-	6	6,661
- cash loans and unsecured loans	224,599	133,412	79,577	5,175	237	35	-	-	6,163
- current accounts, deposits and foreign currency	124,753	109,517	10,733	3,148	617	234	-	6	498
Other services	1,076	2,933	665	115	13	1,473	-	-	(4,123)
Fee and commission income	**937,967**	**736,700**	**106,652**	**19,067**	**44,821**	**47,307**	**-**	**6**	**(16,586)**
Fee and commission expense	**(49,776)**	**(7,210)**	**(19,483)**	**(1,506)**	**(989)**	**(27,050)**	**-**	**(3)**	**6,465**
Net fee and commission income	**888,191**	**729,490**	**87,169**	**17,561**	**43,832**	**20,257**	**-**	**3**	**(10,121)**

Segment results – balance sheet figures

30/06/2020	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leases	Corporate Centre
Loans to customers:	129,230,739	56,495,001	31,323,092	6,273,242	300,173	725,682		1,810,830	32,302,719
• loans to customers	*106,050,291*	*56,495,001*	*31,171,275*	*6,273,242*	*300,173*	*725,095*		*1,810,830*	*9,274,675*
• debt securities	*23,180,448*		*151,817*			*587*			*23,028,044*

31/12/2019	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leases	Corporate Centre
Loans to customers:	122,312,599	56,335,048	28,752,403	5,720,739	245,141	827,446	-	2,005,510	28,426,312
• loans to customers	*103,343,352*	*56,335,048*	*28,601,715*	*5,720,739*	*245,141*	*819,074*	-	*2,005,510*	*9,616,125*
• debt securities	*18,969,247*	-	*150,688*	-	-	*8,372*	-	-	*18,810,187*

30/06/2020	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leases	Corporate Centre
Direct funding	115,233,654	73,809,988	9,389,292	10,848,975	2,803,435	1,209,068		6,804	17,166,092

31/12/2019	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leases	Corporate Centre
Direct funding	109,506,299	71,458,273	8,796,052	8,971,719	2,751,218	1,337,763	-	5,570	16,185,704

30/06/2020	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leases	Corporate Centre
Interests in associates and joint ventures	1,577,065						1,559,987		17,078

31/12/2019	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leases	Corporate Centre
Interests in associates and joint ventures	1,386,079	-	-	-	-	-	1,368,892	-	17,187

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%.

Certification of the consolidated condensed interim financial statements pursuant to art. 81-ter of Consob Regulation no. 11971 of 14 May 1999 and subsequent amendments and additions

CERTIFICATION OF THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS PURSUANT TO ART. 81-*TER* OF CONSOB REGULATION NO. 11971 OF 14 MAY 1999 AND SUBSEQUENT AMENDMENTS AND ADDITIONS

1. The undersigned, Giuseppe Castagna, as Chief Executive Officer of Banco BPM S.p.A. and Gianpietro Val, as Manager responsible for preparing the company's financial reports of Banco BPM S.p.A. hereby certify, also in consideration of the provisions of art. 154-*bis*, paragraphs 3 and 4, of Italian Legislative Decree no. 58 dated 24 February 1998:
   - the adequacy in relation to the characteristics of the company and
   - the effective application

   of the administrative and accounting procedures for the formation of the consolidated condensed interim financial statements in the first half of 2020.

2. The assessment of the adequacy and the verification of the effective application of the administrative and accounting procedures for the formation of the consolidated condensed interim financial statements as at 30 June 2020 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 condensed interim financial statements as at 30 June 2020:
   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 interim report on operations includes a reliable analysis of the important events, which occurred during the first six months of the year, and their impact on the consolidated condensed interim financial statements, together with a description of the main risks and uncertainties for the remaining six months of the year. The interim report on operations also includes a reliable analysis of the information on significant transactions with related parties.

Verona, 6 August 2020

Signed by:	Signed by:
Giuseppe Castagna Chief Executive Officer	Gianpietro Val Manager responsible for preparing the Company's Financial Reports

Independent Auditors' Report

REVIEW REPORT ON CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

To the shareholders of
Banco BPM SpA

Foreword

We have reviewed the accompanying consolidated condensed interim financial statements of Banco BPM SpA and its subsidiaries (Banco BPM Group) as of 30 June 2020, comprising the balance sheet, income statement, statement of comprehensive income, statement of changes of shareholders' equity, cash flow statement and related explanatory notes. The directors of Banco BPM SpA are responsible for the preparation of the consolidated condensed interim financial statements in accordance with International Accounting Standard 34 applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these consolidated condensed interim financial statements based on our review.

Scope of review

We conducted our work in accordance with the criteria for a review recommended by Consob in Resolution No. 10867 of 31 July 1997. A review of consolidated condensed interim financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than a full-scope audit conducted in accordance with International Standards on Auditing (ISA Italia) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the consolidated condensed interim financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated condensed interim financial statements of Banco BPM Group as of 30 June 2020 are not prepared, in all material respects, in accordance with International Accounting Standard 34 applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Milan, 12 August 2020

PricewaterhouseCoopers SpA

Signed by

Pierfrancesco Anglani
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

Attachments

Reconciliation between the items in the consolidated income statement and the reclassified consolidated income statement schedule for the first half of 2020

1st half 2020	Income statement	Reclassifications	Reclassified income statement
Net interest income			**953,621**
10. Interest and similar income	1,181,357	9,765 (a)	
20. Interest and similar expense	(237,501)		
Gains (losses) on interests in associates and joint ventures carried at equity			**70,302**
250. Gains (losses) of associates and joint ventures		70,302 (b)	
Financial margin			**1,023,923**
Net fee and commission income			**816,934**
40. Fee and commission income	865,493	10,603 (c)	
50. Fee and commission expense	(60,900)	1,738 (d)	
Other net operating income			**31,599**
230. Other operating expenses/income	157,362	(125,199) (e)	
		(564) (f)	
Net financial result			**124,080**
70. Dividends and similar income	29,129		
80. Net trading income	60,559	(10,603) (c)	
		(1,738) (d)	
90. Fair value gains/losses on hedging derivatives	(8,855)		
100 Gains (losses) on disposal or repurchase	38,992	12,003 (g)	
110. Net Gains (Losses) from other financial assets and liabilities measured at fair value through profit or loss	4,593		
Other operating income			**972,613**
Operating income			**1,996,536**
Personnel expenses			**(816,979)**
190 a) Personnel expenses	(815,403)	(2,140) (h)	
190 b) Other administrative expenses		564 (f)	
Other administrative expenses			
190 b) Other administrative expenses	(548,145)	2,140 (h)	**(308,674)**
		125,199 (e)	
		112,132 (i)	
Net value adjustments to property, plant and equipment and intangible assets			**(123,089)**
210. Depreciation and impairment losses on property, plant and equipment	(86,105)		
220. Amortisation and impairment losses on intangible assets	(54,898)	17,914 (a)	
230. Other operating expenses/income			
Operating expenses			**(1,248,742)**
Profit (loss) from operations			**747,794**
Net adjustments to loans to customers			**(476,242)**
130 a) Net credit impairment losses/recoveries relating to financial assets at amortised cost	(470,290)	1,343 (l)	
		(36) (m)	
		5,745 (n)	
		(12,003) (g)	
140. Gains (losses) from contractual modification without derecognition	(1,001)		
Fair value gains (losses) on property, plant and equipment			**(5,416)**
260. Fair value gains (losses) on property, plant and equipment and intangible assets	(5,416)		
Net adjustments to securities and other financial assets			**(8,383)**
130 b) Net credit impairment losses/recoveries relating to financial assets measured at fair value through other comprehensive income	(1,331)		

1st half 2020	Income statement	Reclassifications	Reclassified income statement
		(1,343) (l)	
		36 (m)	
		(5,745) (n)	
Net provisions for risks and charges			**(7,614)**
200. Net provisions for risks and charges	(7,614)	-	
Gains (losses) on disposal of interests in associates and joint ventures and other investments			**220**
250. Gains (losses) of associates and joint ventures	70,302	(70,302) (b)	
280. Gains (losses) on disposal of investments	220		
Profit (loss) before tax from continuing operations			**250,359**
Taxation charge related to profit or loss from continuing operations			**(52,425)**
300. Taxation charge related to profit or loss from continuing operations	(6,825)	(36,448) (i)	
		(9,152) (a)	
Charges related to the banking system, net of taxes		(75,684) (i)	**(75,684)**
Profit (loss) for the period attributable to non-controlling interests			**1,508**
340. Profit (loss) for the period attributable to non-controlling interests	1,508		
Parent Company's profit (loss) for the period without PPA	**105,231**	**18,527**	**123,758**
Purchase Price Allocation net of taxes		(18,527) (a)	(18,527)
Parent Company's profit (loss) for the period	**105,231**	**-**	**105,231**

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 "**Net interest income**" is represented by the algebraic balance of interest and similar income (item 10) and interest and similar expense (item 20), net of the PPA relating to loans to customers, amounting to 9.8 million (a), classified within the new reclassified income statement item "Purchase Price Allocation net of taxes";
- the item "**Gains (losses) on interests in associates and joint ventures carried at equity**" shows the portion of profits (losses) pertaining to investee companies carried at equity (included in item 250) totalling 70.3 million (b), and together with the net interest income, the aggregate is defined as the "**Financial margin**";
- the item "**Net fee and commission income**" is represented by the algebraic balance of fee and commission income (item 40) and fee and commission expense (item 50). It also includes the reclassification of the upfront fees relating to the placement of Certificates through the Group network (10.6 million (c)) from item 80 of the official schedule "Net trading income", while fee and commission expense relating to placement carried out by third party networks (1.7 million (d)) have been transferred to profits (losses) on trading;
- the item **"Other net operating income"** is represented by the financial statement item "230 Other operating expense/income", with the recoveries on indirect taxes, legal fees and other expenses, totalling 125.2 million (e), separated out, which, for reclassification purposes are shown in the item "Other administrative expenses" and with the recovery of training costs of 0.6 million (f), classified in "Personnel expenses", also separated out;
- the income statement item "**Net financial result**" includes "Dividends and similar income" (item 70), "Net trading income" (item 80), net of the reclassification of the amount related to upfront fees on placement of Certificates for a total of 12.3 million (letters (c) and (d)), booked to net fee and commission income, "Fair value gains/losses on hedging derivatives" (item 90) and "Net Gains (Losses) from other financial assets and liabilities measured at fair value through profit or loss" (item 110). It also includes "Gains (losses) on disposal or repurchase" (item 100), with the exception of the loss of 12.0 million (g) relating to the disposal of loans not represented by debt securities, classified in the operational aggregate "Net adjustments to loans to customers";
- the item "**Personnel expenses**" is represented by the financial statement item "190 a) Personnel expenses" and by several charges functionally related to personnel, amounting to 2.1 million (h), recognised in the financial statements under item 190 b) "Other administrative expenses" and by the

recovery of training costs of 0.6 million (f), recorded under item "230 Other operating expenses/income", as described above;

- the item "**Other administrative expenses**" is represented by the financial statement item 190 b), net of recoveries on indirect taxes, legal fees and other expenses, totalling 125.2 million (e), included in the item "230 Other operating expenses/income", as described above, and of several charges connected to personnel, recognised in the reclassified item "Personnel expenses" for 2.1 million (h). Ordinary and extraordinary charges totalling 112.1 million (i) introduced for banks under the single and national resolution funds (SRF and NRF) are also excluded and are shown, net of the related tax effect, in the separate item "Charges related to the banking system, net of taxes";
- the item "**Net value adjustments to property, plant and equipment and intangible assets**" corresponds to the accounting items 210 and 220, net of adjustments to intangibles with a finite useful life (client relationships), allocated to the new reclassified income statement item "Purchase price allocation net of taxes", amounting to 17.9 million (a);
- the total of "**Net adjustments to loans to customers**" and "**Net adjustments to securities and other financial assets**" starts from income statement items 130 "Net credit impairment losses/recoveries" and 140 "Gains (losses) from contractual modification without derecognition". Specifically, "Net adjustments on loans to customers" include adjustments to exposures classified in the portfolio of financial assets designated at amortised cost - loans to customers - loans (amounting to 470.3 million), the negative result of disposals of loans, amounting to 12.0 million (g) (included in item 100), as well as Gains (losses) from contractual modification without derecognition (item 140 of the income statement). Net adjustments to exposures classified in the portfolio of financial assets at amortised cost represented by debt securities, amounting to 5.7 million (n), recognised in the reclassified income statement item "Net adjustments to securities and other financial assets", are excluded. Net adjustments to exposures classified in the portfolio of financial assets at amortised cost - loans to banks - loans and securities (l) and (m) totalling 1.3 million are also excluded;
- "**Fair value gains (losses) on property, plant and equipment**" correspond to item 260 of the official income statement;
- the aggregate of "**Net adjustments to securities and other financial assets**" includes net adjustments to exposures classified in the portfolio of financial assets at amortised cost – loans to banks - loans and securities (l) and (m) totalling 1.3 million, as well as net adjustments for impairment of exposures classified in the portfolio of financial assets at amortised cost consisting of debt securities (included in item 130) issued by customers (n) totalling 5.7 million;
- **"Net provisions for risks and charges"** corresponds to item 200 of the official income statement;
- "**Gains (losses) on disposal of interests in associates and joint ventures and other investments**" correspond to item 280 of the official income statement and to the net income on the disposal of interests in associates and joint ventures carried at equity (item 250 of the official income statement), net of the portion of income (losses) of the investees carried at equity, overall a positive 70.3 million (b) included in the reclassified aggregate "Gains (losses) on interests in associates and joint ventures carried at equity";
- the item "**Taxation charge related to profit or loss from continuing operations**" corresponds to item 300 of the official income statement, net of the tax effects related to the so-called "banking industry charges", amounting to 36.4 million (i), and related to the PPA, amounting to -9.2 million (a);
- the item "**Charges related to the banking system, net of taxes**" includes the aforementioned ordinary and extraordinary charges for a total of 112.1 million (i) recognised in the accounts in item 190 b) of the official income statement, net of the related tax effect, amounting to 36.4 million (i);
- the new item "**Purchase Price Allocation net of taxes**" includes the effects of the PPA relating to loans, amounting to -9.7 million (a) and the client relationship, amounting to -17.9 million (a), net of the relative tax effects, amounting to 9.2 million (a).

Reconciliation between the items in the consolidated balance sheet and the reclassified consolidated balance sheet as at 30 June 2020

Asset items *(in thousands of euro)*	**30/06/2020**
10. Cash and cash equivalents	838,403
Cash and cash equivalents	**838,403**
40. a) Financial assets at amortised cost: loans to banks	13,680,932
less: debt securities to banks at amortised cost	(856,205)
Loans at AC: loans to banks	**12,824,727**
40. b) Financial assets at amortised cost: loans to customers	129,230,739
plus: senior securities relative to disposal of "Red Sea" and "Leviticus" (GACS)	2,338,260
less: debt securities to customers at amortised cost	(23,180,448)
Loans at AC: loans to customers	**108,388,551**
20. Financial assets at fair value through profit and loss	8,963,784
50. Hedging derivatives	111,092
Financial assets and hedging derivatives at FV through Profit and Loss	**9,074,876**
30. Financial assets measured at fair value through other comprehensive income	13,112,219
Financial assets at FV through OCI	**13,112,219**
plus: debt securities to banks and customers at amortised cost	24,036,653
less: senior securities relative to disposal of "Red Sea" and "Leviticus" (GACS)	(2,338,260)
Financial assets at AC	**21,698,393**
70. Interests in associates and joint ventures	1,577,065
Interests in associates and joint ventures	**1,577,065**
90. Property, plant and equipment	3,522,027
Property, plant and equipment	**3,522,027**
100. Intangible assets	1,260,785
Intangible assets	**1,260,785**
110. Tax assets	4,628,214
Tax assets	**4,628,214**
120. Non-current assets and disposal groups held for sale	105,232
Non-current assets and disposal groups held for sale	**105,232**
60. Fair value change of financial assets in macro fair value hedge portfolios (+/-)	51,031
130. Other assets	2,333,839
Other assets	**2,384,870**
Total assets	**179,415,362**

Liability items ***(thousands of euro)***	**30/06/2020**
10. b) Financial liabilities at amortised cost: due to customers	99,444,201
less: lease payables due to customers	(674,745)
10. c) Financial liabilities at amortised cost: debt securities in issue	16,229,043
30. Financial liabilities designated at fair value	342,658
less: protected capital certificates	(107,503)
Direct funding	**115,233,654**
10. a) Financial liabilities at amortised cost: due to banks	32,936,858
less: lease payables due to banks	(7,258)
Due to banks	**32,929,600**
plus: lease payables due to banks	7,258
plus: lease payables due to customers	674,745
Lease payables	**682,003**
20. Financial liabilities held for trading	10,771,808
plus: protected capital certificates	107,503
40. Hedging derivatives	**619,506**
Other financial liabilities designated at fair value	**11,498,817**
90. Provisions for employee severance pay	382,034
100. Provisions for risks and charges	895,722
Liability provisions	**1,277,756**
60. Tax liabilities	611,548
Tax liabilities	**611,548**
70. Liabilities associated with assets classified as held for sale	4,216
Liabilities associated with assets classified as held for sale	**4,216**
50. Fair value change of financial liabilities in macro fair value hedge portfolios (+/-)	129,763
80. Other liabilities	4,812,597
Other liabilities	**4,942,360**
Total liabilities	**167,179,954**
190. Non-controlling interests (+/-)	24,559
Non-controlling interests	**24,559**
120. Valuation reserves	160,298
140. Equity instruments	695,417
150. Reserves	4,164,082
170. Share capital	7,100,000
180. Own shares (-)	(14,179)
200. Profit (Loss) for the period (+ / -)	105,231
Group shareholders' equity	**12,210,849**
Total liabilities and shareholders' equity	**179,415,362**

Reconciliation between the consolidated income statement for the first half of 2019 and the same restated for comparative purposes

Items (thousands of euro)	1st half 2019	FV Property, plant and equipment	1st half 2019 restated
10. Interest and similar income	1,274,352		1,274,352
of which: interest income using the effective interest method	1,255,073		1,255,073
20. Interest and similar expense	(254,354)		(254,354)
30. Net interest income	**1,019,998**	**-**	**1,019,998**
40. Fee and commission income	918,843		918,843
50. Fee and commission expense	(49,776)		(49,776)
60. Net fee and commission income	**869,067**	**-**	**869,067**
70. Dividends and similar income	52,250	-	52,250
80. Net trading income	(197,267)		(197,267)
90. Fair value gains/losses on hedging derivatives	(487)	-	(487)
100. Gains (losses) on disposal or repurchase of:	201,769	-	201,769
a) financial assets at amortised cost	38,676	-	38,676
b) financial assets measured at fair value through other comprehensive income	165,330	-	165,330
c) financial liabilities	(2,237)	-	(2,237)
110. Net Gains (Losses) from other financial assets and liabilities measured at fair value through profit or loss	70,700		70,700
a) financial assets and liabilities designated at fair value	30		30
b) other financial assets mandatorily measured at fair value	70,670		70,670
120. Operating income	**2,016,030**	**-**	**2,016,030**
130. Net credit impairment losses/recoveries relating to:	(367,683)	-	(367,683)
a) financial assets at amortised cost	(369,869)	-	(369,869)
b) financial assets measured at fair value through other comprehensive income	2,186	-	2,186
140. Gains (losses) from contractual modification without derecognition	(1,001)	-	(1,001)
150. Net income from financial activities	**1,647,346**	**-**	**1,647,346**
180. Net income from financial and insurance activities	**1,647,346**	**-**	**1,647,346**
190. Administrative expenses:	(1,387,695)	-	(1,387,695)
a) personnel expenses	(838,851)		(838,851)
b) other administrative expenses	(548,844)		(548,844)
200. Net provisions for risks and charges	(5,680)	-	(5,680)
a) commitments and guarantees given	3,766		3,766
b) other net provisions	(9,446)		(9,446)
210. Depreciation and impairment losses on property, plant and equipment	(138,349)	40,370	(97,979)
220. Amortisation and impairment losses on intangible assets	(52,293)		(52,293)
230. Other operating expenses/income	165,815		165,815
240. Operating expenses	**(1,418,202)**	**40,370**	**(1,377,832)**
250. Gains (losses) of associates and joint ventures	68,547	-	68,547
260. Fair value gains (losses) on property, plant and equipment and intangible assets	-	(26,782)	(26,782)
280. Gains (losses) on disposal of investments	337,652	-	337,652
290. Profit (loss) before tax from continuing operations	**635,343**	**13,588**	**648,931**
300. Taxation charge related to profit or loss from continuing operations	(46,681)	(3,737)	(50,418)
310. Profit (loss) after tax from continuing operations	**588,662**	**9,851**	**598,513**
330. Profit (Loss) for the period	**588,662**	**9,851**	**598,513**
340. Profit (loss) for the period attributable to non-controlling interests	4,471	-	4,471
350. Parent Company's profit (loss) for the period	**593,133**	**9,851**	**602,984**

Reconciliation between the reclassified consolidated income statement for the first half of 2019 and the same restated for comparative purposes

Reclassified income statement items ***(thousands of euro)***	**1st half 2019**	**FV Property, plant and equipment**	**PPA Reclassification**	**1st half 2019 restated**
Net interest income	1,019,998		(8,693)	1,011,305
Gains (losses) on interests in associates and joint ventures carried at equity	69,386			69,386
Financial margin	**1,089,384**	**-**	**(8,693)**	**1,080,691**
Net fee and commission income	888,191			888,191
Other net operating income	22,912		19,198	42,110
Net financial result	83,042			83,042
Other operating income	**994,145**	**-**	**19,198**	**1,013,343**
Operating income	**2,083,529**	**-**	**10,505**	**2,094,034**
Personnel expenses	(843,857)			(843,857)
Other administrative expenses	(330,154)	-		(330,154)
Net value adjustments to property, plant and equipment and intangible assets	(171,444)	40,370		(131,074)
Operating expenses	**(1,345,455)**	**40,370**	**-**	**(1,305,085)**
Profit (loss) from operations	**738,074**	**40,370**	**10,505**	**788,949**
Net adjustments on loans to customers	(349,644)			(349,644)
Fair value gains (losses) on property, plant and equipment	-	(26,782)		(26,782)
Net adjustments on loans to banks and other assets	25			25
Net provisions for risks and charges	(5,680)			(5,680)
Gains (losses) on disposal of interests in associates and joint ventures and other investments	336,813			336,813
Profit (loss) before tax from continuing operations	**719,588**	**13,588**	**10,505**	**743,681**
Taxation charge related to profit or loss from continuing operations	(74,065)	(3,737)	(3,343)	(81,145)
Charges related to the banking system, net of taxes	(56,861)			(56,861)
Profit (loss) for the period attributable to non-controlling interests	4,471			4,471
Profit (loss) for the period without PPA	**593,133**	**9,851**	**7,162**	**610,146**
Purchase Price Allocation net of taxes			(7,162)	(7,162)
Parent Company's profit (loss) for the period	**593,133**	**9,851**	**-**	**602,984**

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