BANCO BPM
GROUP

Consolidated interim report

as at 30 June 2019

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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 2019: EUR 7,100,000,000.00
Tax Code and Milan Companies' Register Enrolment No.: 09722490969
A company representing the Banco BPM VAT Group, VAT No. 10537050964
Member of the Interbank Deposit Guarantee Fund and the National Guarantee Fund
Parent Company of the Banco BPM Banking Group
Enrolled in the Bank of Italy Register of Banks and the Register of Banking Groups

OFFICERS, DIRECTORS AND INDEPENDENT AUDITORS
As at 30 June 2019

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

(*) members of the Executive Committee.
(**) Mr Francesco Saviotti resigned as member of the Board of Directors and Chairman of the Executive Committee, effective as of 23 July 2019.

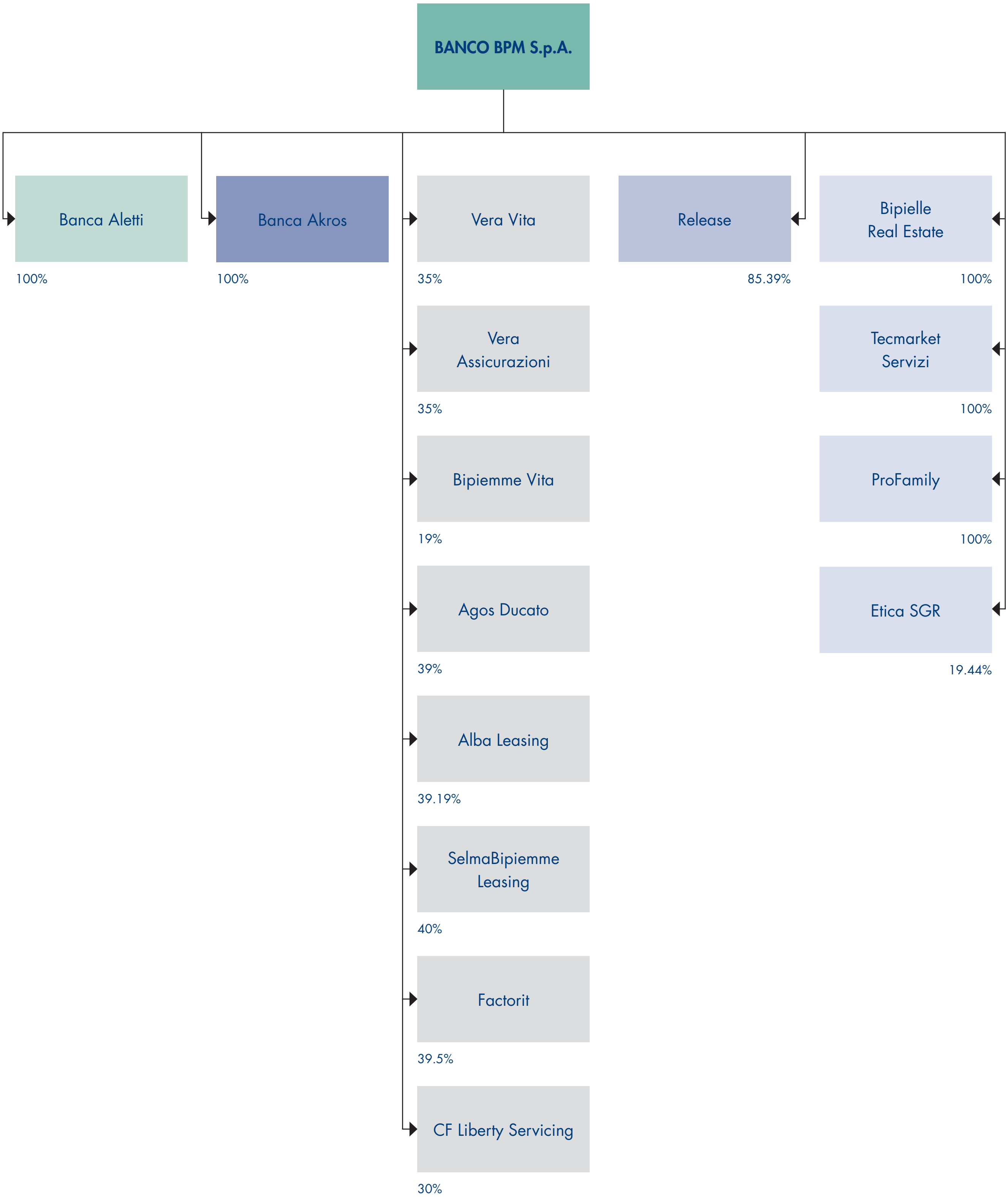
	Board of Statutory Auditors
Chairman	Marcello Priori
Standing Auditors	Maria Luisa Mosconi
	Gabriele Camillo Erba
	Claudia Rossi
	Alfonso Sonato
Alternate Auditors	Chiara Benciolini
	Marco Bronzato
	Paola Simonelli
	General Management
Joint General Manager	Domenico De Angelis
Joint General Manager	Salvatore Poloni

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

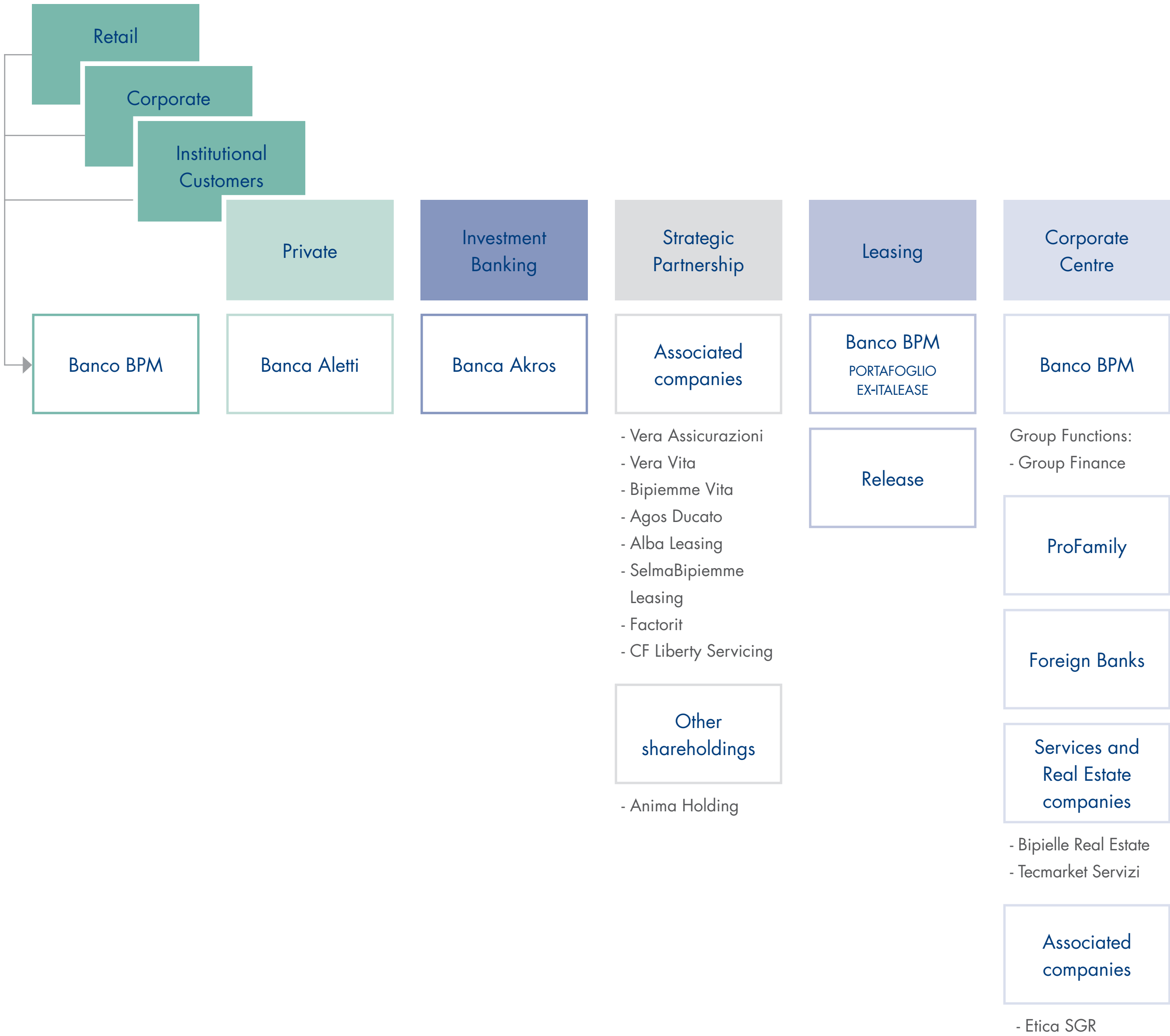
Independent Auditors
PricewaterhouseCoopers S.p.A.

CONTENTS

GROUP STRUCTURE: MAIN COMPANIES



GROUP STRUCTURE: BUSINESS LINES



GROUP TERRITORIAL NETWORK

N° BRANCHES

NORTH	1,383
CENTRE	274
SOUTH AND ISLANDS	150
TOTAL	1,807

Banco BPM Group Branches in Italy	Number
Banco BPM	1,751
Banca Aletti	55
Banca Akros	1
Total	**1,807**

Presence abroad

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

Group financial highlights and economic ratios

Highlights

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

(millions of euro)	1st half 2019	1st half 2018	Change
Income statement figures			
Financial margin	1,089.4	1,256.1	(13.3%)
Net fee and commission income	888.2	935.2	(5.0%)
Operating income	2,083.5	2,447.3	(14.9%)
Operating expenses	(1,345.5)	(1,390.7)	(3.3%)
Profit (loss) from operations	738.1	1,056.6	(30.1%)
Profit (loss) before tax from continuing operations	719.6	503.7	42.9%
Parent Company's net income (loss) for the period	593.1	352.6	68.2%

(millions of euro)	30/06/2019	31/12/2018	Change
Balance sheet figures			
Total assets	167,818.8	160,464.8	4.6%
Loans to customers (gross)	109,936.4	109,472.8	0.4%
Financial assets and hedging derivatives	39,184.4	36,852.9	6.3%
Group shareholders' equity	11,269.9	10,259.5	9.8%
Customers' financial assets			
Direct funding	110,185.2	105,219.7	4.7%
Indirect funding	92,319.2	88,212.7	4.7%
- Asset management	56,680.5	55,689.6	1.8%
- Mutual funds and SICAVs	37,698.9	35,992.0	4.7%
- Securities and fund management	4,135.1	4,804.7	(13.9%)
- Insurance policies	14,846.6	14,892.9	(0.3%)
- Administered assets	35,638.7	32,523.1	9.6%
Information on the organisation			
Average number of employees and other staff (*)	21,146	21,846	
Number of bank branches	1,807	1,804	

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

Financial and economic ratios and other Group figures

	30/06/2019	31/12/2018
Alternative performance measures		
Profitability ratios (%)		
Annualised Return on Equity (ROE) (*)	11.11%	n.s.
Annualised Return On Assets (ROA) (*)	0.71%	n.s.
Financial margin / Operating income	52.29%	51.37%
Net fee and commission income / Operating income	42.63%	38.73%
Operating expenses / Operating income	64.58%	58.51%
Operational productivity figures (1000s of euro)		
Loans to customers (gross) per employee (**)	5,198.9	5,011.1
Annualised operating income per employee (*)	197.1	218.5
Annualised operating expenses per employee (*)	127.3	127.8
Credit risk ratios (%)		
Net bad loans / Loans to customers (net)	1.36%	1.53%
Unlikely to pay / Loans to customers (net)	4.45%	4.85%
Net bad loans / Shareholders' equity	12.67%	15.51%
Other ratios		
Financial assets and hedging derivatives / Total assets	23.35%	22.97%
Derivative assets / Total assets	1.16%	1.16%
- trading derivatives / total assets	1.07%	1.08%
- hedging derivatives / total assets	0.09%	0.08%
Net trading derivatives (***) / Total assets	0.49%	0.62%
Gross loans / Direct funding	99.77%	104.04%
Regulatory capitalisation and liquidity ratios		
Common equity tier 1 ratio (CET1 capital ratio)	13.75%	12.06%
Tier 1 capital ratio	14.41%	12.26%
Total capital ratio	16.50%	14.68%
Liquidity Coverage Ratio (LCR)	150.21%	154.13%
Leverage ratio	4.97%	4.57%
Banco BPM stock		
Number of outstanding shares	1,515,182,126	1,515,182,126
Official closing prices of the stock		
- Final	1.790	1.968
- Maximum	2.132	3.146
- Minimum	1.627	1.556
- Average	1.880	2.480
Annualised basic EPS (*)	0.785	(0.037)
Annualised diluted EPS (*)	0.785	(0.037)

(*) 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 designated at fair value through profit and loss - held for trading", and item 20 of liabilities, "Financial liabilities held for trading".

The alternative performance measures (APMs) shown in the table above have been identified by the directors to facilitate the understanding of the economic and financial performance of the Banco BPM Group's operations. The APMs are not envisaged in IAS/IFRS and, although they are calculated based on financial statement data, they are not subject to a full or limited audit.

The above-mentioned indicators are based on the guidelines of the European Securities and Markets Authority (ESMA) of 5 October 2015 (ESMA/2015/1415), applicable as of 3 July 2016, and incorporated in CONSOB communication no. 0092543 of 3 December 2015.

In this regard, it should be specified that for each APM, the calculation formula has been provided, and the figures used in the calculations can be identified using the information contained in the table above or in the reclassified financial statements provided in the "Results" section of this report.

Interim report on operations

ECONOMIC SCENARIO

International scenario

In the first six months of the year, the global economy continued overall to expand slightly slower than in the recent past, despite the continuing international trade tensions and the slowdown of the Chinese economy. For 2019, the OECD predicts a 3.2% growth, in decline compared to 2018 (+3.5%).
In the first quarter, the main advanced economies were livelier than at the end of 2018, while in the three months following, the initial drive became rather sluggish. The biggest emerging economies, on the other hand, did not perform well overall: the growth rate yoy decreased in many countries, and in Brazil and Russia, activities stagnated in the period in question.
The indications available to date in relation to the first springtime months saw another cooldown in the economy. The macroeconomic context remains encumbered by factors of uncertainty that are beginning to erode operators' confidence across the board. The trade dispute between the United States and China continued with fluctuating results. At the start of the year, the progress of the trade negotiations and America's decision to postpone the tariff increase from 10% to 25% on 200 billion Chinese goods had fuelled expectations for a resolution to the current crisis. However, in May, the sudden break in negotiations, by Trump, and the subsequent entry into force of the increase in tariffs caused a new escalation of the trade tensions, also intensified by the company Huawei. The threat of tariffs on vehicle imports from the EU and Japan also remains unresolved. The introduction was postponed again, but in February, the closure of the survey by the Department of Commerce paved the way for their application.
Concerns about the effects on foreign trade by protectionist measures are joined by worries about the slow but constant slowdown of the Chinese economy and the possible effects of a depreciation of the Yuan, which could drag other South East Asia emerging currencies down with it. In the background, the uncertainty regarding the outcomes of Brexit continues, following the postponement of the deadline of negotiations with the EU to 31 October and the resignation of the government led by Theresa May.
As regards the growing uncertainty around the economic evolution, the trend of the monetary policies in the half-year has reacquired greatly expansive tones in a context of weak inflation.
Within this context, the American economy recorded a very positive start to the year, a result not insignificantly due to a fall in imports and an increase in stocks. Indeed, the US GDP grew by 3.1% in annualised terms in the first quarter. Spending for household consumption only increased by 1.1%, the lowest value since mid-2013, slower compared to the previous period. The trend of gross fixed capital formation, on the other hand, was positive overall (+6.0%), despite the decrease in the residential component. The contribution of stocks accounted for 0.50% of the growth of the Product.
In the second quarter, the growth in GDP, based on the initial indications, halted at 2.1%, a value nevertheless higher than analysts' expectations. Compared to the previous period, the situation has changed: private consumption saw consistent acceleration at +4.3%, whereas investments fell to -5.5%, as did stocks. The labour market remains in optimal health and close to full force, with the unemployment rate at 3.7% in June. Inflation remained stable at 2%, with the core component at 1.5%, a lower level than the FED target.
In China, there was an additional modest softening in economic growth. The average annual increase of the GDP was 6.4% in the first quarter (unchanged compared to the previous quarter, but lower the corresponding period of 2018, +6.8%) and 6.2% in the second, the lowest value in the last 27 years. Manufacturing remains in a phase of slowdown, similar to investment activities.
Japan's economy benefited from a healthy GDP performance in the first quarter, 2.2% in annualised terms compared to the end of 2018, which, however, overestimates the state of the economy. Indeed, this trend reflects a strong drop in imports and an increase in stocks, against a drop in consumption and a decline in investments, albeit recording modest growth.
The prices of energy commodities have seen another fluctuating trend. At the start of the year they recovered part of the ground lost in the abrupt decline at the end of 2018 but then fell back in Spring in the wake of the re-emergence of the trade tensions and worsening of the global prospects.

The economy in Europe and Italy

After 2018 closed low-key, in the first quarter of 2019 the euro zone economy had a surprising growth in GDP, much higher than expected, eased, in particular, by a better performance than expected of the German and Italian

economies. Specifically, the increase of the aggregate reached 0.4% for the period and 1.2% if compared with the same figure from the previous year. A significant contribution was made by the final spending of consumer families, +0.5% for the period (+0.3% in the 4th quarter of 2018). Gross fixed capital formation made a positive contribution, +1.1%, as did the external position, against a growth in exports of +0.6% and in imports worth +0.4%.
The positive figure takes place in a half-year characterised, as mentioned, by an overall less favourable international context, by idiosyncratic issues in the manufacturing sector (automotive sector, difficulties along global supply chains) and, last but not least, by the risks of a strong slowdown in China and a recovery in the financial turbulence linked to Italy's uncertainty and Brexit. All factors significantly slowed the investments cycle, also through the mechanism of expectations, inducing companies to adopt a prudent attitude.
For the second quarter, the preliminary estimate indicates a growth in GDP equal to 0.2% compared to the previous period and 1.1% compared to the same quarter in 2018. The figure confirms the expectations of an additional loss in the dynamics of the euro zone economy, where various indicators were already signalling a slowdown of activities with the German economy at its epicentre. The latest figures nevertheless continue to indicate a two-speed growth: a persistent weakness in the manufacturing sector countered by the activities of the relatively robust services sector. The manufacturing PMI index in the second quarter of the year recorded its worst quarter since the first quarter of 2013 and a strong decrease in the climate of confidence was accompanied by a fall in economic activity in June to the lowest level in the last three years.
The above negative trend was countered by various internal factors: increased public spending, the lasting vitality of private consumption, supported by the recovery of the labour market and, thanks to more limited inflation, by the healthy trend in disposable incomes and a monetary policy that remains greatly accommodating. All elements, which, supporting the domestic demand in the countries of the European Union, accompanied by the still low interest rates, will even constitute a supporting factor for the residential real estate market.
Specifically, the inflation rate totalled 1.3% in June (+2.0% in June 2018), reflecting the economic weakness and retracing the slowdown of prices at production (-0.1% in May in the previous month after -0.3% in April). Unemployment rates, on the other hand, fell to a new low in May for the first time in a decade: 7.5% (compared to 8.3% twelve months prior), coinciding with a recovery in the growth of industrial production, +0.9%, after two months of slight decline. There were some tensions regarding the cost of labour: in the first quarter the hourly cost of labour grew by 2.4% yoy (+2.3% in the fourth quarter of 2018), a dynamic decisively higher than that of the inflation rate.
The Italian economy, after two quarters of GDP contraction in 2018—a technical recession—in the first quarter of 2019, constituted the most striking element of surprise in the euro zone. Thanks to the rather positive figures for industrial production recorded in January and February (+1.9 and +0.8% respectively), the domestic industry played a driving role for the entire monetary Area. The GDP grew once more, +0.1% in the period in question, thanks to the positive contribution of domestic end consumption, +0.2% compared to the previous quarter, of gross fixed capital formation, +0.6%, and of the external trade position, by virtue of an increase in exports of +0.2%, accompanied by a fall in imports of -1.5%. It should nevertheless be noted that the positive gross fixed capital formation figure is nearly exclusively attributable to the real estate sector. Indeed, investments in housing grew by +2.5% yoy and those in non-residential buildings by +2.8%, whereas the entry relating to plant and machinery recorded a drop of -2.2%, confirming the failed launch of the investments cycle, a major blow to the country's production growth.
The preliminary GDP estimate in the second quarter indicates a further cooling of growth: the aggregate remained stable compared to both the previous quarter and to the same quarter of 2018, confirming the concerns of stagnation in the domestic economy. Industrial production, albeit having grown by 0.9% in May compared to April (-0.7% yoy corrected for calendar days), on average in the March-May quarter it decreased by -0.1%, when compared to the previous corresponding period, whereas in June the consumer confidence index fell by 111.6 in May to 109.6 (it was 112.3 in February) and the companies index fell from 101.9 to 100.8. Total orders, albeit having grown by 0.2% in the quarter ending in May over the previous quarter, fell by -2.1% compared to the first five months of 2019 compared to the corresponding period of 2018.
On the other hand, it should be noted that, in the half-year, the improvement of labour market conditions continued. In May, employees grew by +0.3% compared to April and +0.4% in the twelve months while the employment rate grew to 59.0% (+0.4%). Over the twelve months, the growth in employees was accompanied by a notable fall in unemployed individuals and a stability of inactive individuals between 15 and 64 years old. Unemployment stood at 10.9%, with a drop of 0.9 percentage points compared to one year prior. Young employment grew in particular. Employees in this category increased over the twelve months by 4.1%, whereas unemployed individuals fell by 3.7%. In June, the index of hourly contractual compensation saw a slight increase (+0.1% in the period and +0.7% yoy). Overall, in the first six months of 2019 the average hourly wages grew by 1.4% compared to the corresponding period in 2018. The inflation dynamic, reflecting the weak growth, was sluggish. Consumer prices, in

slight deceleration, grew in June by 0.7% yoy (+0.8% in May), while net of energy and fresh food products it remains stable at +0.4% yoy.
As regards public finances, the rather positive growth figure in the first quarter was not particularly significant for achieving further progress in the direction of recovery. In the presence of a Government with a greater propensity for the deficit compared to those previous, while making it possible to avoid the worst and buy time, the period was indeed accompanied by a worsening in the public accounts. Public debt in April reached a new record of 2,373 billion, after the results of the first quarter had indicated a worsening of 0.4 percentage points on the GDP of the primary balance and 0.1 percentage point of the current balance in the first quarter.
The results did not contribute to softening the tensions in the relations with the European Union: at the end of May, they reached a tipping point with the European Commission sending the Italian government a letter—a mandatory act pursuant to community law—which revealed the failure to comply with the excessive deficit procedure with reference to 2018. Some days after, the Commission declared an infraction procedure (EDP) admissible against Italy. Following the successful negotiations with the Government, a package of procedures was approved, contained in the "salva conti" [account saving] decree, which led to a correction of the accounts for 7.6 billion, equal to 0.42% of the GDP. This was deemed sufficient by the Commission to satisfy the conditions to "reduce the gap for 2018 and 2019 and obtain guarantees on the 2020 budget", thereby lowering the risk of the infraction procedure. Despite the positive outcome of the proceedings, similar frictions, generating uncertainty, contributed to limiting the drive of the other moderately expansive proceedings launched.

Monetary policy and the financial markets

In January, the Central Banks had already begun to send messages of caution regarding monetary policy normalisation as regards a restrictive bias that had remained unchanged for the entire second part of 2018, albeit in the presence of a rapid worsening of the global growth prospects induced by the tariff war between USA and China. February then confirmed the end of monetary normalisation by the Fed (compared to an initial expectation of three increases in the policy rates in 2019), while in April the expectations for a 2020 cut in rates increased.

Initially expected to increase the rates in the third quarter of 2019, the European Central Bank, at the start of March, announced its intention to maintain the policy rates established for the whole of 2020, postponing the inversion of the monetary policy to 2021. This announcement was accompanied by the confirmation of new medium- and long-term refinancing operations (TLTRO III) on a quarterly basis starting from September 2019 until March 2021.

The market forecasts relating to a new easing cycle by the Fed continued increasing until the end of June as a result of a consistent decline in the inflation expectations in the USA which led to a decrease in the sovereign yield of the United States (in particular for short-term maturities: the 3-year yield decreased by 120 bps in the half-year) and to a certain weakening of the effective exchange rate of the US dollar. Lastly, the Central Bank undertook to clarify its intention to react to the possible future deterioration of the growth and inflation figures rather than acting in advance.

The half-year closed with an intact monetary policy prospect opposite to that of the second half of 2018 which determined a good performance in all financial markets.

The start of 2019 saw an inversion in the trend of the financial markets from the period minimums recorded at the end of 2018. This trend brought forward the change in bias of the Central Banks, then grew stronger with the messages from the monetary authorities, despite the deterioration in the global economy strengthening the concerns of another recession in 2020. The outcomes of the tariff war between the USA and China remained the main driver of the real economy and the markets, a driver considered temporary and sufficiently offset by the new expansionist trend of the monetary policy.

The volatility of the stock markets, after recording peak levels at the end of 2018, returned to low levels for the entire half-year.

The fall in sovereign yields was close to 100 bps for the American treasury and 50 bps for the German bund, reflecting falling expectations of inflation. From the start of the year, the forward on inflation expected at 5 years within 5 years (Fwd 5Y5Y) decreased for Europe by around 40 bps, returning to levels that have not been recorded since 2016 and reporting historic minimum levels.

The decrease in yields was quickly propagated by the sovereign market towards the triple A bond sectors in order to also benefit the High Yield.

In the first four months of the year the stock markets saw a net recovery, eliminating the decisive correction that took place in the final three months of 2018. After several new volatility phases that coincided with the electoral deadline of the European parliament, the first half-year saw an appreciation of 14% for the European Stoxx 600 index, as well as for the Dow Jones Industrial Average. In this positive context, the Italian stock market increased by 15.8%.

This recovery in Europe took place despite the continuation of political risk factors also present in 2018, such as the tensions regarding the Italian government's budget policy, the difficulties of Brexit processes and the specific political tensions in France and Spain. The expectations of profits on the fundamentals were also revised downward starting with the cyclical sectors as a result of the strong slowdown experienced by the German and Italian manufacturing sectors.

The equity indices of the bank sector recorded a strong recovery in the first four months, driven by the Italian (+21%), French (+19%) and German (+17%) institutions against a sector index that appreciated by 13% in Europe. A large part of this performance was retraced in the two months following bringing the half-year into the black by a few percentage points. The underperformance of the bank segment in the stock market was evident, as of mid-April due to the deterioration of the prospects on the interest rates. On the other hand, the insurance segment appreciated by 16.4% in the half-year, in line with the market.

The spread of Credit Default Swaps (CDS) relating to Italian bank issuers halved during the period (approximately -100 bps), while the decrease was around 45 bps in Europe. The premium between subordinates and seniors also decreased by 50 bps. The bond market seems to have more quickly incorporated the improved capital and risk profiles of the European banks, reducing the premium required in the sector in terms of yield, whereas the stock market, on the other hand, suffers from a cost of capital substantially unchanged against the scarce profitability of the banks.

Moving on to the corporate bond markets, in Europe, the total return in the first half of 2019 was on average 5.6% for the AAA category (Iboxx all mat), close to 5.6% for High Yield securities and 4.8% for the government securities segment.

Domestic Banking Activity

In the euro zone, in the first part of the year, according to the bank lending survey in the area, the growth in the loan demand halted. The intermediaries involved also reported that the terms and conditions applied to the new transactions were partially affected by the more elevated costs of funding. In Italy, the surveys conducted by the Bank of Italy, on a quarterly basis, and the one conducted by ISTAT (the Italian Statistics Agency) on the climate of confidence indicate a generalised tightening of the conditions for accessing credit due to the combined effect of the greater cost of bank funding and a perception of greater risks related to unfavourable macroeconomic prospects. In addition, large enterprises would have preferred self-financing, reducing also the liquidity deposited at the intermediaries, or alternative sources including direct recourse to the market, if possible, to finance mainly the working capital, given the reduced propensity to undertake new investments.

In the half-year in question, the afore-mentioned slowdown factors led to a weakening in the growth trend of loans to residents, which was in any case continued thanks to somewhat limited levels of interest rates. In June 2019, according to data released by the ABI - Italian Banking Association, bank lending to the private sector (including loans not recorded in bank balance sheets, since they are securitised, and net of changes in stocks not connected with transfers) grew by 0.5% yoy, an increase slightly less than that of the credit granted to families and companies only: +1%. This dynamic is the result of the good performance on the households front, +2.6% average yoy in May (latest available estimates), which offsets the substantial stability of the loans to companies: -0.2% (a relative improvement compared to -0.6% in April and -0.7% recorded at the start of 2019).

On an annual basis the credit quality continued to improve. In May 2019 the net bad loans (net of write-downs and provisions already made by the Institutes) amounted to 32.6 billion, with a -36% decrease compared to the 50.8 billion in May 2018 and of -57% from the 76.8 billion in May 2017. The net bad loans/loans ratio reached 1.88% in the same period compared to 2.93% in May 2018 and 4.39% in May 2017.

As regards funding, the situation remains rather favourable due to both the strongly expansive approach of the monetary policy and the moderate increase recorded in the direct funding of the Italian banks. The increase of resident deposits indeed more than offset the decrease of the net wholesale funding in the form of repurchase agreements carried out using central counterparties. Specifically, the stock of the overall direct funding from customers (deposits and bonds) in June 2019 grew over the twelve months by +2.2%. The results of the first 6 months of 2019 still showed a positive trend thanks to an increase of around 45 billion from the start of the year, equal to +2.7%, driven in particular by the more liquid forms of deposits such as current accounts, reimbursable deposits with notice and deposits with pre-established duration. On the other hand, the bonds continued their downward trend: -6.7% per year (-12.3% in December 2018 and -18% in June 2018). In the first part of the year, the bond issues of some Institutes were broken down, which profited from the favourable conditions on the financial markets due to issuing securities to cover the new restriction on the MREL (Minimum Requirement for Eligible Liabilities), which sets the target of increasing in the liabilities the instruments with a high capacity to absorb losses, capable of facing the bank bail-outs in the event of a bail-in without damaging the financial stability of the system.
The bank interest spread, calculated as the difference between the average interest rate on loans and the average interest rate on total funding from households and non-financial corporate customers, increased on an annual basis, reaching 1.96% in June 2019 (+2 bps compared to the value of 1.94% in June 2018). In the same month the mark-up (calculated as the difference between the average rate on the stock of loans to households and non-financial corporate customers and the 3-month Euribor rate) decreased to 290 b.p. (-2 b.p. 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 deposits), in the comparison with June 2018, improved going from a negative figure of 98 b.p. to 94 b.p..

In June, the assets of Italian and foreign open-ended funds reached 1,022.7 billion, compared to 955.1 billion at the end of 2018, with a +7.1% variation corresponding to 67.6 billion, and is formed for 23.8% of Italian funds and for 76.2% of foreign funds. The net inflows from the open-ended funds also decreased by 3.7 billion in the first half-year.

According to the Bank of Italy, with reference to the sample of major banks, the level of capitalisation was consolidated at levels similar to the end of 2018, much higher than the regulatory minimum requirements. In March 2019, the Common Equity Tier 1 (CET1) of the major Italian banks directly monitored by the ECB rose to 13% from 12.7% at the end of 2018. This level is not far from the one recorded in March of the previous year (13.2% in March 2018, 13.3% in December 2017). The improvement was achieved thanks to the profits retained by the Institutes that have more than offset the introduction of the IFRS16 accounting standard, intended to provide a more faithful representation of lease contracts and overcome the distinction between finance leasing and operative leasing. The sample banks are also adopting strategies to realign the capital ratios to those of European peers, not only through the known NPL disposal of companies but also by simplifying corporate assets, selling non-strategic equity and reducing RWAs. Nevertheless, the profitability declined on an annual basis despite the gradual reduction of the number of branches, the cuts to operating expenses and the adjustments to loans, due to the contraction in net fee and commission income.

On 4 March last, following the Cooperative Credit reform, two Groups were formed, reporting to ICCREA and Cassa Centrale Banca. The latter became the twelfth major group monitored by the ECB, whereas ICCREA was already categorised as such before the reform. The impact of impaired loans on total loans (gross and net of the adjustments) of the sample of major groups, calculated for homogeneity without the two new Groups mentioned, reduced between March 2019 and the end of 2018. In the same time period, the hedging rate also increased slightly, to 53.1%. The same figures, calculated this time including the two groups, show a worsening of the impact of the non-performing loans gross of the adjustments as well as of the hedging rate.

SIGNIFICANT EVENTS DURING THE PERIOD

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

Derisking activities

In the first quarter the "ACE" sale, launched during the previous financial year, was completed, obtaining the "GACS" guarantee on Senior Notes and placing 95% of both Mezzanine and Junior Notes. In this way the transfer of risks on receivables sold was completed definitively. At the end of the year these were recognised among "assets held for sale" for a net amount of € 1,330 million. It was therefore possible to proceed with their accounting derecognition.
Again in the context of the "ACE project", in December of last year the company First Servicing S.p.A. was set up, with the aim of segregating the functions of servicer of non-performing loans also through the acquisition of the business unit dedicated to recovering these receivables, contributed by Banco BPM.
On 23 May 2019 the extraordinary shareholders' meeting of First Servicing resolved a paid share capital increase, reserved for the sole shareholder Banco BPM, from € 50,000 up to a nominal € 150,000 against the contribution (made in continuity of book values) of the business unit made up of the set of assets, legal relationships and resources organised to perform the activity of recovering credits classified as bad loans.
The value attributed to the business unit by the independent expert appointed is € 142.8 million.
Subsequently, on 31 May 2019, the extraordinary shareholders' meeting of the company was held. It resolved a number of changes to the articles of association, including the change of name from First Servicing S.p.A. to CF Liberty Servicing S.p.A., and the division of the share capital, consisting of 10,000 shares with no nominal value, into 7,000 category A shares and 3,000 category B shares.
On the same date the deed was signed with which Banco BPM transferred 70% of the share capital of First Servicing (now CF Liberty Servicing S.p.A.), equal to 7,000 category A shares to Credito Fondiario S.p.A., for a price of € 100 million.
Therefore, with effect from 1 June 2019, the shareholding structure of CF Liberty Servicing is divided into 7,000 category A shares, equal to 70% of the share capital, held by the shareholder Credito Fondiario and 3,000 category B shares, equal to 30% of the share capital, held by the shareholder Banco BPM.
As a result of these operations, the income statement of the first half of year benefited from a total impact, net of the tax effect, of € 141 million, as a capital gain made on the sale and recognition at fair value of the remaining interest.

During the period the Group's derisking activities continued also with the agreement for the sale of a portfolio of bad leasing receivables ("ACE Leasing" Project). Following completion of the due diligence process, in April Banco BPM identified Illimity Bank as counterparty for the sale of a portfolio of around € 650 million nominal value (measured at the cut-off date of 30 June 2018), made up primarily of receivables deriving from legal-relationship assets and liabilities attributable to bad leasing contracts, together with the immovable or movable assets and the underlying contracts. Completion of the operation will involve various phases and is expected to be concluded by mid-2020. In particular at 30 June 2019 the nominal value of the receivables which – following the said agreement – was recognised among "non-current assets and asset disposal groups held for sale" was € 607 million (€ 156 million net of value adjustments). Following the sale agreement, no major impacts on the income statement were recognised.

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

Restructuring of the consumer credit sector completed

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

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

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

Centralisation of the Private Banking activity in Banca Aletti

On 1 April the deed of contribution of the business unit known as "Non-Portfolio Private Customers" of Banco BPM to Banca Aletti came into effect.
The unit includes the values related to the financial assets underlying the contractual relationships of administration and custody and managed savings.
This operation continues with implementation of the programme of restructuring the sector of Private Banking activities launched in previous years.

Simplification of the Group's corporate structure

The merger into the Parent Company of the subsidiaries Società Gestione Servizi BP and BP Property Management fall within the scope of the reorganisation of the Group structure and operations.
The merger deed was signed on 17 January 2019; the operation was completed on 11 February 2019, with legal effectiveness from the same date following the registration of the merger deed in the competent Companies Registers: the accounting and tax effects run from 1 January 2019.
The operation took place according to the simplified procedure pursuant to art. 2505 of the Italian Civil Code which governs the merger of companies wholly owned by the incorporator as a result of the repurchase by the Parent Company, in January, of the stakes in the two consortia held by other Group companies.
The merger took place without an exchange ratio or a cash adjustment.

The operation of incorporation into Bipielle Real Estate of the subsidiaries Sviluppo Comparto 6, Sviluppo Comparto 8 and Manzoni 65, operating in the real estate sector, came into effect on 28 June.
Also in this case the mergers took place without an exchange ratio or a cash adjustment and bringing forward the accounting and tax effects to 1 January 2019.

Again on 28 June, following obtainment of the authorisation from the European Central Bank, the project for the merger by incorporation of the subsidiary Holding di Partecipazioni Finanziarie BP into the Parent Company was registered at the competent Companies Registers. The transaction is expected to be completed by the end of the current financial year.

During the first half of year in addition the subsidiaries in liquidation Liberty S.r.l. and BPM Securitisation 3 S.r.l. and Beta S.r.l. were cancelled from the competent Companies' Register. The completion of the liquidation procedure did not entail significant impacts on the Group's financial and economic position.

Finally, in March it was resolved to place in liquidation the investee Immobiliare Centro Milano. The equity investment held in the company was later sold to Algebris NPL Partnership, in the context of a wider and more significant operation for the disposal of loans in favour of a securitisation vehicle managed by Algebris.

Other events in the period

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

In the years from 2003 to 2016, and therefore before the merger from which Banco BPM originated, referral activity was carried out in relation to the specialised company Intermarket Diamond Business S.p.A. (IDB) for customers interested in purchasing diamonds.
It should be noted that the Group's reporting activity was suspended and then definitively discontinued in early 2017. The Bank also terminated the existing contract with IDB, which was therefore definitively terminated between the parties.
In April 2017, the Antitrust Authority (AGCM) extended the proceedings initiated against IDB to the reporting banks, including Banco BPM, and on 30 October 2017, by finding an allegedly incorrect commercial practice under the Consumer Code, imposed an administrative penalty on IDB and the reporting banks (amounting, in the case of Banco BPM, to 3.35 million euro). The Bank paid the amount of the fine and challenged the AGCM's decision with the Tribunale Amministrativo Regionale (Regional Administrative Court). Following the rejection of the appeal by the Regional Administrative Court in November 2018, the Bank appealed its decision, which is currently pending before the Council of State.

The main developments on the matter that occurred in the first half of the year in progress are summarised below:

- the Court of Milan declared IDB bankrupt on 10 January 2019;
- on 19 February 2019 the Public Prosecutor's Office of Milan served (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 context of the investigation currently in progress the Public Prosecutor's Office has charged a number of managers and former managers of the Group, including the former General Manager and the former Head of Retail Planning and Marketing, with the crime of aggravated fraud, self-laundering and obstructing the performance of the functions of the public supervisory authorities, this last also in relation to the former Head of the Compliance Unit and the former Head of the Audit Unit (as well as charging with corruption between private parties a former manager of the former Banco Popolare). The Bank intervened immediately in the spirit of maximum transparency resolving, on 27 February, the precautionary suspension of the General Manager, the former Head of Retail Planning and Marketing and the former Head of the Compliance Unit. As of today, none of the persons involved in the above investigations are any longer employees of the bank;
- the bank continued to receive complaints from customers who purchased diamonds from IDB. As of 31 July 2019 approximately 21,100 complaints had been received for a total petitum of approximately € 640 million.

The complaints received have always been the subject of careful analysis, aimed at assessing, on a case-by-case basis, the elements highlighted by customers. In view of the growing number of complaints, customer care services, aimed at interacting with customers and signing transactions that provide adequate restitution to customers, have been progressively strengthened, even if for reasons not directly dependent on the activity carried out by the banks of the Group, also with a view to being closer with customers and in order to preserve relations with them.
Also in the first half of the current year collaboration continued with customers through a case-by-case analysis of the customers' positions and the recognition of appropriate economic compensation which is in addition to the customers keeping ownership of the stones. Acknowledging the prolongation of the times for the examination by the

Receiver of the applications for a refund presented by customers, the bank also finalised a process to speed up the completion of settlements also with customers who, having purchased diamonds from IDB, have them still in custody in the vaults managed by the company. In brief this process, which was launched in May enables the customers involved to sign the settlements with the bank (in advance with respect to the times necessary for the Receiver of IDB to return the stones to the legitimate owners) and to receive quickly the financial compensation defined.
The bank also made available a free customer care service destined to assist and support the Customers in filling in and sending applications for the return of the stones to the IDB Bankruptcy Receiver. In particular, Customers who intend to file the application for return under the terms of art. 87-bis of the diamonds as of today still in custody at the Bankruptcy Receiver can avail themselves of this assistance service, with the aid of a law office, made available by the Bank through a dedicated call center.

On this basis, as of 31 July 2019, the Group had completed 5,264 settlements and formulated settlement proposals for a further 11,653 complaints. There were 336 cases pending at the same date, for a total petitum of approximately € 30.9 million. Most of these cases were preceded by complaints. The additional petitum with respect to the € 640 million previously indicated is limited to approximately € 5 million.
In view of the aforesaid activity of managing complaints and disputes, both pending and potential, the Group banks involved recognised in their financial statements generic provisions based on a prudent assessment of the information available on the said complaints. In greater detail, the provisions recorded in the consolidated financial statements at 30 June 2019 amounted to € 262.3 million as a result of the provisions charged to the income statements for financial years 2017 and 2018. Considering also the use of the provisions recognised for indemnities already paid out to customers (€ 56.0 million), the total financial resources made available by the Group to provide compensation to customers amounted to € 318.3 million.

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

In the normal course of its business, the Group is subject to inspections promoted by the Supervisory Authorities. In particular, within the Single Supervisory Mechanism, the Group is subject to the supervision of the European Central Bank ("ECB"). With reference to specific issues such as compliance with anti-money laundering regulations or transparency, the supervisory activity is the direct responsibility of the Bank of Italy.
The supervisory activity involves the performance of regular and recurrent inspections at the headquarters of the Parent Company (on site inspection), which are accompanied by activities of "remote" verification, conducted through structured and continuous information exchanges rather than through specific requests for documentation and in-depth analysis of the issues.
In the financial years 2017 and 2018, the Group underwent 10 on site inspections in the following areas: NPL, Credit Quality Review – Corporate, Asset Based or Project Finance Portfolios, Transparency, Operational Risk and Risk Management Models (in particular, Credit risk and Market risk); to these, in the first half of 2019, were added a further 4 inspections in relation to: (i) Liquidity, Funding Risk, IRRBB, (ii) combating money laundering, (iii) Market risk and, lastly, (iv) an inspection carried out by Consob with reference to product governance.

The inspections have mostly already been completed with the issue of the so-called “Final follow up letter” or of the “Decision” through which the ECB communicates the corrective actions required in relation to the areas for improvement found. Where the inspection activities concerned aspects with a potential impact on capital representation (e.g. credit file review), the observations made were duly taken into account in the context of a new valuation of the company's assets/liabilities. In cases where inspection activities have shown areas for improvement in the context of the processes examined, the Group has put in place specific corrective action plans.

At the date of this report, the following inspection activities are still in progress or pending receipt of the Final Follow-up Letter or the Final Decision:

- audit on the subject of Operational Risk. The on-site phase was completed at the end of January 2019, and the Bank is awaiting the decision;
- inspection of "Credit risk (PD; LGD; CCF) for the following exposure classes: Corporate - Other; Corporate - SME". The on-site phase was completed at the end of November 2018, and the Bank is awaiting the decision;
- verification, in the context of credit risk, concerning the review of credit quality, with reference to the corporate, asset-based and project finance portfolios ("Credit Quality Review - Corporate, Asset based or Project finance Portfolios"). The on-site phase ended on 28 September 2018, and the Bank is awaiting the decision;

- audit, in the context of liquidity risk and funding risk (Liquidity, Funding Risk and IRRBB). The on-site phase of the inspection was completed on 17 May 2019, and the Bank is awaiting the decision;
- audit aimed at obtaining the validation of the Market Risk Internal Model (VaR, sVaR, IRC) for the risk categories «debit 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 was completed on 02 August 2019, and the Bank is awaiting the decision;
- 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 on 15 April 2019 and is currently in progress.

Important funding operations completed

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

Additionally, during the half the placements of two senior preferred unsecured bond loans reserved for institutional investors were completed successfully. The first occurred at the beginning of March, with 3-year maturity and an amount of 750 million euro with 2% fixed coupon, while the second was in June with 5-year maturity for a total of 500 million euro and a 2.50% fixed coupon.
Both operations saw excellent demand from investors, both Italian and foreign, mainly fund managers, followed by banks, insurance companies and pension funds.

Change in company officers

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

In addition on 14 May 2019 Ms Marisa Golo resigned from the Board of Directors "in consideration of new and urgent personal commitments".

SIGNIFICANT EVENTS AFTER THE END OF THE INTERIM PERIOD

Liquidation of subsidiaries

On 5 July the subsidiary in liquidation Tiepolo Finance S.r.l. was cancelled from the competent Companies' Register. The liquidation procedure, completed in June, did not entail significant impacts on the Group's financial and economic situation.

In addition, following what was resolved by the shareholders' meeting of the subsidiary BPM Securitisation 2 S.r.l., the company was placed in liquidation with effect from 19 July 2019.

Merger of Holding di Partecipazioni Finanziarie Banco Popolare S.p.A. into Banco BPM

The Board of Directors of the Parent Company, meeting on 6 August approved the planned merger by incorporation of Holding di Partecipazioni Finanziarie Banco Popolare S.p.A. into Banco BPM; the operation was also approved on the same date by the shareholders' meeting of the incorporating company.
The merger will be carried out according to the simplified forms envisaged for wholly-owned companies.

Change in company officers

On 23 July 2019 Mr Pier Francesco Saviotti resigned for personal reasons from the position of Director and Chairperson of the Executive Committee of Banco BPM.

The functions attributed to Mr Saviotti as Chairperson of the Executive Committee will be taken on by the Chief Executive Officer, Mr Castagna, in his capacity as Deputy Chairperson of the Executive Committee. The Board of Directors will be called upon to make the decisions it is responsible for on the subject of the replacement, by co-option under the terms of art. 2386 of the Italian Civil Code, in a coming board meeting.

RESULTS

Introduction

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

This report adopts the new accounting standard IFRS 16, as described in the specific section "Disclosure on the first time adoption of the accounting standard IFRS 16 – Leases" contained in the consolidated condensed interim financial statements. Considering the changes introduced with the application of IFRS 16, in order to ensure adequate information on the evolution of the Group's equity and financial situation, the reclassified balance sheet has been prepared providing for comparative purposes and also includes the information as at 1 January 2019 with the adoption of the new accounting standard, in addition to the information relating to 31 December 2018.

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

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

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

Consolidated income statement figures

Reclassified consolidated income statement

Reclassified income statement items ***(thousands of euro)***	**1st half 2019**	**1st half 2018**	**Changes**
Interest margin	1,019,998	1,180,109	(13.6%)
Profits (losses) on investments in associates and companies subject to joint control carried at equity	69,386	75,998	(8.7%)
Financial margin	**1,089,384**	**1,256,107**	**(13.3%)**
Net fee and commission income	888,191	935,195	(5.0%)
Other net operating income	22,912	154,179	(85.1%)
Net financial result	83,042	101,808	(18.4%)
Other operating income	**994,145**	**1,191,182**	**(16.5%)**
Operating income	**2,083,529**	**2,447,289**	**(14.9%)**
Personnel expenses	(843,857)	(879,149)	(4.0%)
Other administrative expenses	(330,154)	(414,589)	(20.4%)
Net value adjustments on property and equipment and intangible assets	(171,444)	(96,946)	76.8%
Operating expenses	**(1,345,455)**	**(1,390,684)**	**(3.3%)**
Profit (loss) from operations	**738,074**	**1,056,605**	**(30.1%)**
Net adjustments on loans to customers	(349,644)	(686,451)	(49.1%)
Net adjustments on securities and other financial assets	25	635	(96.1%)
Net provisions for risks and charges	(5,680)	(45,671)	(87.6%)
Profits (Losses) on disposal of investments in associates and companies subject to joint control and other investments	336,813	178,550	88.6%
Profit (loss) before tax from continuing operations	**719,588**	**503,668**	**42.9%**
Taxes on income from continuing operations	(74,065)	(87,257)	(15.1%)
Charges related to the banking system, net of taxes	(56,861)	(67,428)	(15.7%)
Profit (loss) from discontinued operations	-	4	
Income (loss) attributable to minority interests	4,471	3,590	24.5%
Parent Company's net income (loss)	**593,133**	**352,577**	**68.2%**

Reclassified consolidated income statement – Quarterly changes

Reclassified income statement items *(thousands of euro)*	**FY 2019**		**FY 2018 (*)**			
	Q2	**Q1 (*)**	**Q4**	**Q3**	**Q2**	**Q1**
Interest margin	514,846	505,152	554,694	557,759	584,998	595,111
Profits (losses) on investments in associates and companies subject to joint control carried at equity	32,628	36,758	50,668	32,791	33,413	42,585
Financial margin	**547,474**	**541,910**	**605,362**	**590,550**	**618,411**	**637,696**
Net fee and commission income	453,673	434,518	474,374	451,372	457,274	477,921
Other net operating income	8,292	14,620	21,061	214,531	130,029	24,150
Net financial result	10,697	72,345	(78,397)	46,768	73,901	27,907
Other operating income	**472,662**	**521,483**	**417,038**	**712,671**	**661,204**	**529,978**
Operating income	**1,020,136**	**1,063,393**	**1,022,400**	**1,303,221**	**1,279,615**	**1,167,674**
Personnel expenses	(417,984)	(425,873)	(422,177)	(431,479)	(437,060)	(442,089)
Other administrative expenses	(163,135)	(167,019)	(205,705)	(196,184)	(203,102)	(211,487)
Net value adjustments on property, plant and equipment and intangible assets	(93,845)	(77,599)	(97,096)	(49,456)	(49,020)	(47,926)
Operating expenses	**(674,964)**	**(670,491)**	**(724,978)**	**(677,119)**	**(689,182)**	**(701,502)**
Profit (loss) from operations	**345,172**	**392,902**	**297,422**	**626,102**	**590,433**	**466,172**
Net adjustments on loans to customers	(197,692)	(151,952)	(987,260)	(267,405)	(360,212)	(326,239)
Net adjustments on securities and other financial assets	3,996	(3,971)	3,968	(1,312)	(1,593)	2,228
Net provisions for risks and charges	(10,102)	4,422	(227,805)	(71,865)	(20,707)	(24,964)
Profits (Losses) on disposal of investments in associates and companies subject to joint control and other investments	336,646	167	5,109	(10,301)	(1,104)	179,654
Profit (loss) before tax from continuing operations	**478,020**	**241,568**	**(908,566)**	**275,219**	**206,817**	**296,851**
Taxes on income from continuing operations	(23,360)	(50,705)	322,430	(72,338)	(61,320)	(25,937)
Charges related to the banking system, net of taxes	(15,240)	(41,621)	(668)	(32,122)	(18,391)	(49,037)
Profit (loss) from discontinued operations	-	-	-	932	18	(14)
Income (loss) attributable to minority interests	3,225	1,246	5,777	256	2,160	1,430
Income (loss) for the period before impairment on client relationship	**442,645**	**150,488**	**(581,027)**	**171,947**	**129,284**	**223,293**
Impairment of client relationships after taxes	-	-	(2,929)	-	-	-
Parent Company's net income (loss)	**442,645**	**150,488**	**(583,956)**	**171,947**	**129,284**	**223,293**

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

In accordance with the indications of Consob Communication no. DEM/6064293 of 28 July 2006 below, for each item of the reclassified income statement, the economic components of a non-recurring nature are illustrated in relation to the first half of 2019:

- the item "Profits (losses) on disposal of investments in associates and companies subject to joint control and other investments" totalling € 336.8 million, includes 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 item "Net value adjustments on property, plant and equipment and intangible assets" includes write-downs due to impairment on fixed assets for 27.5 million euro;
- the item "Net provisions for risks and charges" includes provisions of an extraordinary nature for a total of € 15.3 million and referred for € 9.1 million to the recalculation of conditions applied to customers in previous years and re-estimated according to metrics defined recently by more severe laws and interpretative notes of supervisory authorities, and for € 6.2 million to the estimate of charges related to contractual commitments;
- The item "Taxes on income from continuing operations" includes the tax impacts of the non-recurring components detailed above for € 4.7 million plus other positive extraordinary components for a total of € 18.1 million;
- the item "Charges related to the banking system, net of taxes" includes 15.2 million euro connected to the additional contributions relating to the National Resolution Fund (amounting to 22.6 million euro) net of the related tax of 7.4 million euro.

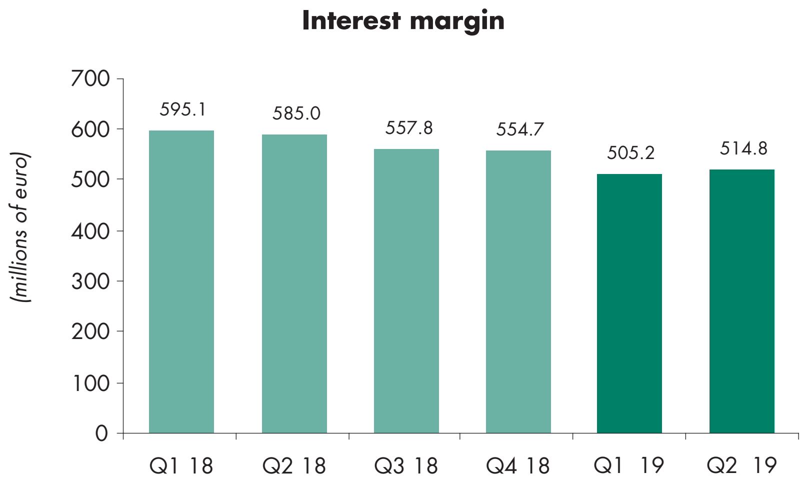
Overall, taking into account also the effects pertaining to non-controlling interests (a positive € 0.6 million), the non-recurring components accruing to the first six months of FY 2019 were therefore a positive € 302.2 million.

The main income statement items as at 30 June 2019 are illustrated below.

Operating income

Interest margin

(thousands of euro)	1st half 2019	1st half 2018	Abs. change	Change %
Financial assets (securities)	304,079	268,356	35,723	13.3%
Net interest related to customers	938,177	1,145,741	(207,564)	(18.1%)
Net interest related to banks	(68,467)	(23,323)	(45,144)	193.6%
Securities issued and financial liabilities designated at fair value	(150,115)	(203,672)	53,557	(26.3%)
Hedging derivatives (net balance)	(60,653)	(19,404)	(41,249)	212.6%
Net interest on other assets/liabilities	56,977	12,411	44,566	359.1%
Total	**1,019,998**	**1,180,109**	**(160,111)**	**(13.6%)**



The **interest margin** amounted to 1,020.0 million euro and compares with the figure of 1,180.1 million euro for the corresponding period of the previous year. This income performance is negatively impacted by both the lower "reversals" due to write-backs from discounting bad loans and the lower impact of the resulting PPA, in large part from the transfer transactions of non-performing loans made in 2018 (-140.9 million yoy). Also in the first half of 2019, following the introduction of IFRS 16, interest expenses were recorded on leasing contract payables for 5.0 million euro. Net of these effects, net interest income would be 1,012.7 million euro, compared to a figure calculated on a homogeneous basis of 1,026.8 million euro for the first half of 2018 (-1.4%). The reduction is due to the lower commercial spread for retail, partially compensated for by higher average volumes.

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

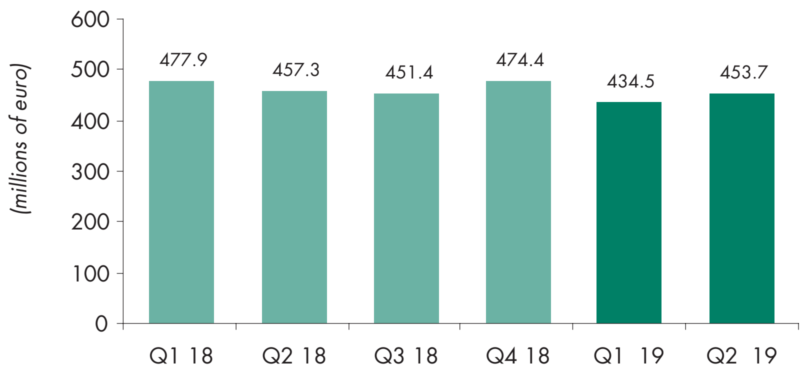
The **profits (losses) on investments in associates and companies subject to joint control carried at equity** was positive at € 69.4 million, down compared to the € 76.0 million recorded in the previous year. The Q2 contribution was € 32.6 million, down with respect to the € 36.8 million reported in Q1. Within this aggregate, the main contribution was provided by consumer credit, driven by the investment held in Agos Ducato, for 56.9 million euro (62.7 million euro the contribution seen the previous year).

Net fee and commission income

(thousands of euro)	1st half 2019	1st half 2018 (*)	Abs. change	Change %
Management, brokerage and advisory services	424,836	472,890	(48,054)	(10.2%)
Distribution of savings products	353,240	400,613	(47,373)	(11.8%)
- Placement of financial instruments	272,126	330,319	(58,193)	(17.6%)
- Portfolio management	13,392	16,500	(3,108)	(18.8%)
- Bankassurance	67,722	53,794	13,928	25.9%
Consumer credit	16,188	15,583	605	3.9%
Credit cards	20,184	13,673	6,511	47.6%
Custodian bank	683	9,396	(8,713)	(92.7%)
Trading securities, currencies and acceptance of orders	32,357	31,712	645	2.0%
Other	2,184	1,913	271	14.2%
Current account management and loans	299,296	293,037	6,259	2.1%
Collection and payment services	82,678	86,815	(4,137)	(4.8%)
Guarantees given and received	36,448	36,270	178	0.5%
Other services	44,933	46,183	(1,250)	(2.7%)
Total	**888,191**	**935,195**	**(47,004)**	**(5.0%)**

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

Net fee and commission income



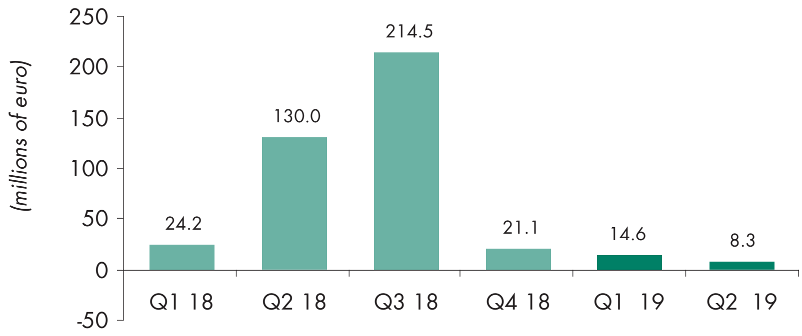
Net fee and commission income[1] totalled 888.2 million euro, with a decline of 5.0% compared to the 935.2 million euro in the corresponding period of last year, mainly due to the lower contribution of upfront fees that had provided a significant contribution in the first part of 2018 as a result of the higher placements carried out at that time and the lack of commissions relative to custodian bank activities, sold in the second half of 2018.

[1] As of 30 June 2019, upfront commissions relative to certificates placement were also reclassified into this aggregate (previously classified in the net financial result).

Other net operating income

(thousands of euro)	1st half 2019	1st half 2018	Abs. change	Change %
Income on current accounts and loans	10,955	22,791	(11,836)	(51.9%)
Rents receivable	23,299	27,956	(4,657)	(16.7%)
Expenses on leased assets	(11,561)	(7,821)	(3,740)	47.8%
Other income and charges	19,417	132,217	(112,800)	(85.3%)
Subtotal	**42,110**	**175,143**	**(133,033)**	**(76.0%)**
Client relationship (PPA)	(19,198)	(20,964)	1,766	(8.4%)
Total	**22,912**	**154,179**	**(131,267)**	**(85.1%)**

Other net operating income



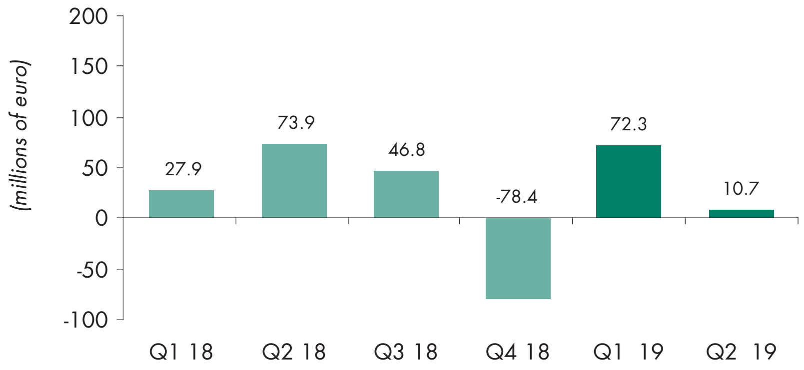
Other net operating income comes to 22.9 million euro compared to the figure of 154.2 million euro in the first half of 2018, which included capital gains of 113.6 million euro deriving from the sale to Anima SGR of sub-advisory mandates carried out on behalf of insurance assets. Excluding this component from the figure the previous year, the aggregate shows a decrease mainly due to the progressive decline in fast enquiry fees (-51.9% with respect to 30 June 2018).

Net financial result

(thousands of euro)	1st half 2019	1st half 2018 (*)	Abs. change	Change %
Profits (losses) on trading	(189,868)	(55,952)	(133,916)	239.3%
Gains/losses on the disposal of financial assets	179,207	130,974	48,233	36.8%
Dividends and similar income on financial assets	25,727	22,559	3,168	14.0%
Gains/Losses from repurchase of financial liabilities	(2,237)	(1,002)	(1,235)	123.3%
Fair value adjustments in hedge accounting	(487)	(460)	(27)	5.9%
Other income/expense	70,700	5,689	65,011	1142.7%
Total	**83,042**	**101,808**	**(18,766)**	**(18.4%)**

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

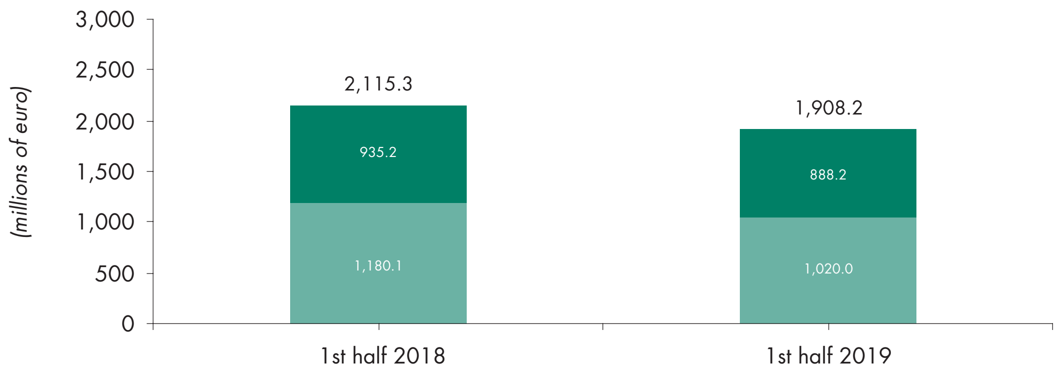
Net financial result



The **net financial result** was 83.0 million euro, compared to 101.8 million euro in the same period of last year. This result was helped by the impact of the securities included in the portfolio of financial assets required to be designated at fair value for a total of 70.7 million euro, a result that includes capital gains of 59.8 million euro, resulting from the valuation of Nexi S.p.A ordinary shares which, during the period, where, in the main, disposed of as part of the operation that led to the listing of the company. Net of this effect, net financial result for the half was € 23.3 million, down by € 78.5 million with respect to H1 2018 following a prudential hedging strategy which resulted in an increase in equity reserves for debt securities in the portfolio of financial assets designated at fair value through other comprehensive income (+ € 233 million gross in H1 2019).

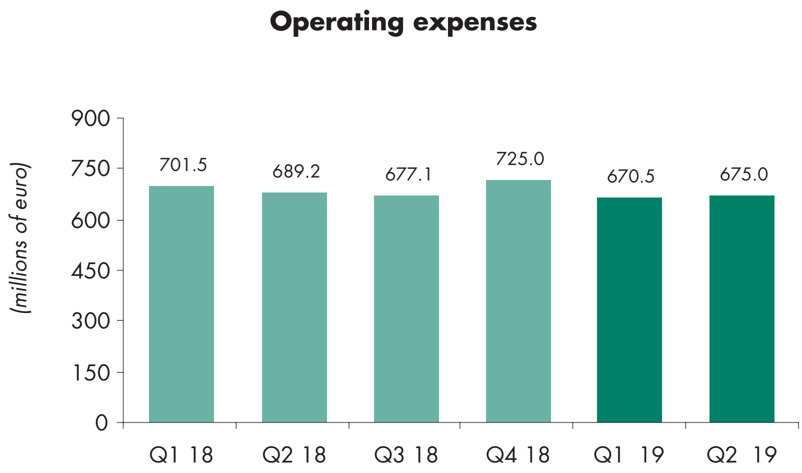
Due to the dynamics described, total **operating income** therefore came to € 2,083.5 million, down by 14.9% with respect to H1 2018. Excluding from the comparison the capital gain recognised during H1 2018 from the sale of sub-advisory insurance mandates the reduction would come to -10.7%, mainly as an effect of the components noted above with regard to net interest margin and fees and commissions.

Core Banking Business



Taking into account only revenues from "core banking business", represented by the sum of the aggregates relating to net interest margin and net fee and commission income, the first half of 2019 reached € 1,908.2 million, down by 9.8% with respect to the corresponding period of the previous year.

Operating expenses



(thousands of euro)	1st half 2019	1st half 2018	Abs. change	Change %
Personnel expenses	**(843,857)**	**(879,149)**	**35,292**	**(4.0%)**
Other administrative expenses	**(330,154)**	**(414,589)**	**84,435**	**(20.4%)**
- Taxes and duties	(156,775)	(165,610)	8,835	(5.3%)
- Services and consulting	(148,428)	(168,029)	19,601	(11.7%)
- Real estate	(43,059)	(101,391)	58,332	(57.5%)
- Postal, telephone and stationery	(16,646)	(16,743)	97	(0.6%)
- Maintenance and fees for furniture, machines and systems	(29,981)	(30,450)	469	(1.5%)
- Advertising and entertainment	(6,186)	(9,139)	2,953	(32.3%)
- Other administrative expenses	(58,491)	(65,077)	6,586	(10.1%)
- Recoveries on expenses	129,412	141,850	(12,438)	(8.8%)
Value adjustments on property, plant and equipment and intangible assets	**(171,444)**	**(96,946)**	**(74,498)**	**76.8%**
- Value adjustments on property, plant and equipment (*)	(111,567)	(54,324)	(57,243)	105.4%
- Value adjustments on intangible assets	(32,420)	(31,873)	(547)	1.7%
- Value adjustments on leasehold improvements (*)	-	(9,060)	9,060	
- Net writedowns for impairment	(27,457)	(1,689)	(25,768)	1525.6%
Total	**(1,345,455)**	**(1,390,684)**	**45,229**	**(3.3%)**

(*) At 30 June 2019, with the application of IFRS 16, the amount of value adjustments on leasehold improvements is included among value adjustments on property, plant and equipment.

Personnel expenses, of 843.9 million euro showed a decrease of 4.0% compared to the 879.1 million euro in the same period of last year. The total number of employees was 21,964 at 30 June 2019, compared to 22,247 at the end of 2018 (23,263 at 31 December 2017).

Other administrative expenses[2] amounted to 330.2 million euro translating into a 20.4% drop compared to the first half of 2018. This reduction is in part attributable to the application of the IFRS 16 standard which, for contracts under this standard, provides for the inclusion of the amortisation of the right of use under "value adjustments on property, plant and equipment and intangible assets" in place of registration of rents and rentals payable under "other administrative expenses"; even when taking this effect into account, other administrative expenses still saw a significant reduction (around 7.8% with respect to the first half of 2018).

Value adjustments on property, plant and equipment and intangible assets amounted to € 171.4 million, compared to € 96.9 million at 30 June 2018, and include depreciation of property assets of € 26.8 million.

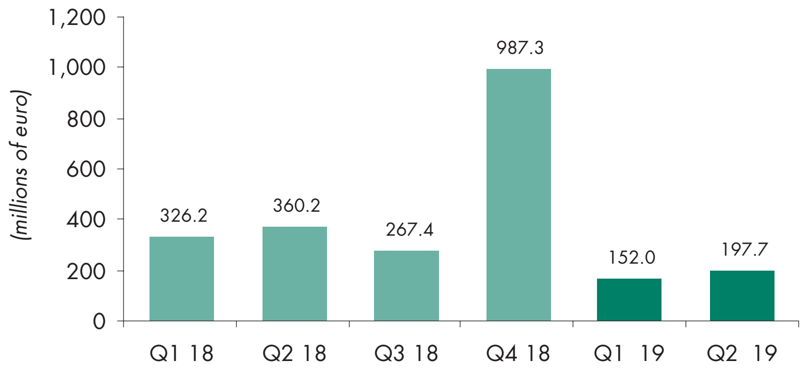
[2] The aggregate does not include the "banking industry charges", represented by the contributions to the Resolution Funds and to the Interbank Deposit Guarantee Fund, reported in a separate line-item of the reclassified income statement, net of tax effect.

This item was also influenced by the introduction of IFRS 16 mentioned above. Excluding this effect and the depreciation, the aggregate is substantially in line with the figure recorded in H1 2018.

Total **operating costs** therefore amounted to 1,345.5 million euro, falling by 3.3% with respect to the first half of 2018. Net of non-recurring components, mainly relative to the aforementioned write-downs on properties, the aggregate fell even further (-4.8%), testifying to the constant efforts made to contain costs starting as of the merger date.

Adjustments and provisions

Adjustments and provisions



(thousands of euro)	1st half 2019	1st half 2018	Abs. change	Change %
Net value adjustments on loans to customers	**(374,443)**	**(424,708)**	**50,265**	**(11.8%)**
Specific value adjustments: derecognitions	(22,787)	(60,848)	38,061	(62.6%)
Specific value adjustments: other	(782,571)	(1,201,492)	418,921	(34.9%)
Specific recoveries	432,150	861,861	(429,711)	(49.9%)
Net portfolio adjustments/recoveries	(1,235)	(24,229)	22,994	(94.9%)
Profits/(losses) on disposal of loans	**24,799**	**(261,743)**	**286,542**	**n.s.**
Total	**(349,644)**	**(686,451)**	**336,807**	**(49.1%)**

Net adjustments on loans to customers amounted to 349.6 million euro, a marked decline compared with the figure of 686.5 million euro for the first six months of 2018 (-49.1%), due to the substantial contraction of the non-performing loans brought on by the derisking actions completed in the previous year. The cost of credit, measured by the ratio of net value adjustments on loans and net loans, was 66 b.p., down from 187 b.p. last year. Including among net loans also the loans classified in IFRS 5, the cost of credit comes out at 65 b.p. (184 b.p. in financial year 2018).

In the income statement for the first half, as in the same period the previous year, no **net adjustments on securities and other financial assets** of a significant amount were recorded.

Net provisions for risks and charges amounted to € 5.7 million, compared to € 45.7 million in H1 2018.

H1 2019 saw the recording of **profits (losses) on disposal of investments in associates and companies subject to joint control and other investments** totalling € 336.8 million, including 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 impaired loans (€ 142.7 million). The first half of 2018 included profits of 178.6 million euro deriving almost entirely from the disposal of equity investments carried out as part of reorganisation of the bankassurance segment.

As a result of the dynamics described above, the **income from current operations before taxes and before banking industry charges** came to 719.6 million euro compared to the 503.7 million euro recorded in the corresponding period of the previous year.

Other revenue and cost items

Taxes on income from continuing operations as of 30 June 2019 total -74.1 million euro (-87.3 million euro at 30 June 2018) benefiting from a lower tax load with regards to capital gains realised through the sale of equity investments and other non-recurring events such as the possibility to recognise new deferred tax assets.

The income statement for the period included the **charges related to the banking system, net of taxes** of 56.9 million euro (67.4 million euro in the first half of 2018) relating to the ordinary and additional contributions to the Single Resolution Fund (SRF) (84.2 million euro before tax with respect to 93.5 million euro at 30 June 2018).

Considering the share of the profit attributable to non-controlling interests (+ € 4.5 million), the first half of 2019 ended with a **net profit for the period** of € 593.1 million, compared to a net profit of € 352.6 million achieved in the same period the previous year.

Consolidated balance sheet figures

Reclassified consolidated balance sheet

The following table compares the balance sheet at 30 June 2019 with the balances resulting from the financial statements at 31 December 2018; also presented is a comparison with the balances at 1 January 2019 restated to take into account the first time adoption of the accounting standard IFRS 16.
Annexed to the present report is a statement of reconciliation between the balances at 31 December 2018 and those determined at 1 January 2019, as well as a statement of reconciliation between the items of the consolidated balance sheet and the format of the reclassified consolidated balance sheet.

(thousands of euro)	30/06/2019	01/01/2019	31/12/2018	Changes on 31/12/2018	
Cash and cash equivalents	794,628	922,017	922,017	(127,389)	(13.8)%
Loans measured at Amortised Cost	112,408,292	108,207,732	108,207,732	4,200,560	3.9%
- Loans to banks	7,308,355	4,193,119	4,193,119	3,115,236	74.3%
- Loans to customers	105,099,937	104,014,613	104,014,613	1,085,324	1.0%
Other financial assets and hedging derivatives	39,184,391	36,852,942	36,852,942	2,331,449	6.3%
- Designated at FV through Profit or Loss	7,495,892	5,869,106	5,869,106	1,626,786	27.7%
- Designated at FV through OCI	13,763,946	15,351,561	15,351,561	(1,587,615)	(10.3)%
- Designated at AC	17,924,553	15,632,275	15,632,275	2,292,278	14.7%
Equity investments	1,320,167	1,434,163	1,434,163	(113,996)	(7.9)%
Property, plant and equipment	3,525,869	3,649,776	2,775,885	749,984	27.0%
Intangible assets	1,261,284	1,277,941	1,277,941	(16,657)	(1.3)%
Tax assets	4,859,255	5,012,477	5,012,477	(153,222)	(3.1)%
Non-current assets and asset disposal groups held for sale	1,544,823	1,592,782	1,592,782	(47,959)	(3.0)%
Other assets	2,920,070	2,316,144	2,388,852	531,218	22.2%
Total assets	**167,818,779**	**161,265,974**	**160,464,791**	**7,353,988**	**4.6%**
Direct funding	110,185,188	105,219,691	105,219,691	4,965,497	4.7%
- Due to customers	95,697,884	90,197,859	90,197,859	5,500,025	6.1%
- Securities and financial liabilities designated at FV	14,487,304	15,021,832	15,021,832	(534,528)	(3.6)%
Due to banks	31,188,721	31,633,541	31,633,541	(444,820)	(1.4)%
Leasing payables	781,538	835,594		781,538	
Other financial liabilities designated at fair value	8,103,618	7,228,829	7,228,829	874,789	12.1%
Liability provisions	1,552,146	1,670,455	1,704,866	(152,720)	(9.0)%
Tax liabilities	483,024	505,402	505,402	(22,378)	(4.4)%
Liabilities associated with asset disposal groups held for sale	39,941	3,043	3,043	36,898	n.s.
Other liabilities	4,173,685	3,864,345	3,864,345	309,340	8.0%
Total liabilities	**156,507,861**	**150,960,900**	**150,159,717**	**6,348,144**	**4.2%**
Minority interests	41,026	45,599	45,599	(4,573)	(10.0)%
Group shareholders' equity	11,269,892	10,259,475	10,259,475	1,010,417	9.8%
Consolidated shareholders' equity	**11,310,918**	**10,305,074**	**10,305,074**	**1,005,844**	**9.8%**
Total liabilities and shareholders' equity	**167,818,779**	**161,265,974**	**160,464,791**	**7,353,988**	**4.6%**

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

Reclassified consolidated balance sheet – Quarterly changes

(thousands of euro)	FY 2019			FY 2018			
	30/06/2019	31/03/2019	01/01/2019	31/12/2018	30/09/2018	30/06/2018	31/03/2018
Cash and cash equivalents	794,628	803,862	922,017	922,017	806,786	796,466	829,760
Loans measured at Amortised Cost	112,408,292	111,592,055	108,207,732	108,207,732	111,453,097	112,040,845	111,838,513
- Loans to banks	7,308,355	5,122,516	4,193,119	4,193,119	4,638,515	5,309,943	5,670,265
- Loans to customers	105,099,937	106,469,539	104,014,613	104,014,613	106,814,582	106,730,902	106,168,248
Other financial assets and hedging derivatives	39,184,391	38,957,122	36,852,942	36,852,942	38,759,281	41,048,645	36,280,323
- Designated at FV through Profit or Loss	7,495,892	7,551,337	5,869,106	5,869,106	8,011,475	7,977,461	6,251,206
- Designated at FV through OCI	13,763,946	14,882,235	15,351,561	15,351,561	15,859,906	19,017,645	16,711,989
- Designated at AC	17,924,553	16,523,550	15,632,275	15,632,275	14,887,900	14,053,539	13,317,128
Equity investments	1,320,167	1,357,504	1,434,163	1,434,163	1,379,057	1,355,065	1,369,107
Property, plant and equipment	3,525,869	3,597,782	3,649,776	2,775,885	2,847,623	2,733,275	2,755,583
Intangible assets	1,261,284	1,275,289	1,277,941	1,277,941	1,284,797	1,295,196	1,303,925
Tax assets	4,859,255	4,944,310	5,012,477	5,012,477	4,849,728	4,903,767	4,852,396
Non-current assets and asset disposal groups held for sale	1,544,823	280,946	1,592,782	1,592,782	44,798	44,861	4,678
Other assets	2,920,070	3,030,553	2,316,144	2,388,852	2,459,139	2,810,958	3,018,459
Total assets	**167,818,779**	**165,839,423**	**161,265,974**	**160,464,791**	**163,884,306**	**167,029,078**	**162,252,744**
Direct funding	110,185,188	109,319,505	105,219,691	105,219,691	107,998,512	105,505,599	107,056,042
- Due to customers	95,697,884	95,232,378	90,197,859	90,197,859	91,339,533	87,659,619	88,683,413
- Securities and financial liabilities designated at FV	14,487,304	14,087,127	15,021,832	15,021,832	16,658,979	17,845,980	18,372,629
Due to banks	31,188,721	31,399,655	31,633,541	31,633,541	30,979,381	31,550,552	29,555,476
Leasing payables	781,538	809,859	835,594				
Other financial liabilities designated at FV	8,103,618	7,805,726	7,228,829	7,228,829	8,484,442	8,964,218	8,414,115
Liability provisions	1,552,146	1,599,631	1,670,455	1,704,866	1,553,204	1,532,028	1,562,694
Tax liabilities	483,024	511,719	505,402	505,402	564,107	606,246	663,282
Liabilities associated with asset disposal groups held for sale	39,941	4,390	3,043	3,043	-	4,212,805	53
Other liabilities	4,173,685	3,825,362	3,864,345	3,864,345	3,362,719	3,771,085	3,871,914
Total liabilities	**156,507,861**	**155,275,847**	**150,960,900**	**150,159,717**	**152,942,365**	**156,142,533**	**151,123,576**
Minority interests	41,026	44,278	45,599	45,599	52,210	52,510	54,857
Group shareholders' equity	11,269,892	10,519,298	10,259,475	10,259,475	10,889,731	10,834,035	11,074,311
Consolidated shareholders' equity	**11,310,918**	**10,563,576**	**10,305,074**	**10,305,074**	**10,941,941**	**10,886,545**	**11,129,168**
Total liabilities and shareholders' equity	**167,818,779**	**165,839,423**	**161,265,974**	**160,464,791**	**163,884,306**	**167,029,078**	**162,252,744**

The changes in the main balance sheet items at 30 June 2019 are described below.

Loan brokering activities

Direct funding

(thousands of euro)	30/06/2019	% impact	31/12/2018	% impact	Abs. change	Change %
Current accounts and deposits	**85,627,047**	**77.7%**	**81,124,139**	**77.1%**	**4,502,908**	**5.6%**
- current accounts and demand deposits	83,787,744	76.0%	78,713,896	74.8%	5,073,848	6.4%
- time deposits and other restricted current accounts	1,839,303	1.7%	2,410,243	2.3%	(570,940)	(23.7%)
Securities	**14,487,304**	**13.1%**	**15,021,832**	**14.3%**	**(534,528)**	**(3.6%)**
- bonds and liabilities designated at fair value	14,377,836	13.0%	14,853,170	14.1%	(475,334)	(3.2%)
- certificates of deposit and other securities	109,468	0.1%	168,662	0.2%	(59,194)	(35.1%)
Repurchase agreements	**8,229,634**	**7.5%**	**7,110,267**	**6.8%**	**1,119,367**	**15.7%**
Loans and other payables	**1,841,203**	**1.7%**	**1,963,453**	**1.9%**	**(122,250)**	**(6.2%)**
Total direct funding	**110,185,188**	**100.0%**	**105,219,691**	**100.0%**	**4,965,497**	**4.7%**

As at 30 June 2019, direct funding totalled 110.2 billion euro, showing an increase of 4.7% compared to 105.2 billion as at 31 December 2018. In comparison with the figures at the end of 2018 there has been an increase of approximately € 5 billion of the segment represented by the current accounts and demand deposits of the commercial network (+6.4%), while the downward trend of bonds issued (- € 0.5 billion) has continued. This trend is more evident in a yoy comparison, with reference to the figures from H1 2018, which show an increase of current accounts and demand deposits for 5.7 billion (7.1%) and a decrease of the bonds issued for 3.1 billion (or -17.7%), in line with the policy aimed at the progressive reduction of the cost of funding due to the reduction in the number of the more costly forms of collection.

Indirect funding

(thousands of euro)	30/06/2019	% impact	31/12/2018	% impact	Abs. change	Change %
Managed assets	**56,680,475**	**61.4%**	**55,689,606**	**63.1%**	**990,869**	**1.8%**
mutual funds and SICAVs	37,698,858	40.8%	35,992,009	40.8%	1,706,849	4.7%
securities and fund management	4,135,059	4.5%	4,804,669	5.4%	(669,610)	(13.9%)
insurance policies	14,846,558	16.1%	14,892,928	16.9%	(46,370)	(0.3%)
Administered assets	**35,638,712**	**38.6%**	**32,523,095**	**36.9%**	**3,115,617**	**9.6%**
Total indirect funding	**92,319,187**	**100.0%**	**88,212,701**	**100.0%**	**4,106,486**	**4.7%**

At 30 June 2019, **indirect funding**, including certificates, totalled € 92.3 billion, up by 4.7% compared to 31 December 2018.
More specifically, administered assets amounted to 35.6 billion, showing an increase of 3.1 billion.
The component of managed funding amounted instead to € 56.7 billion, an increase of 1.8% compared with the figure of € 55.7 billion of 31 December 2018, seen mainly in the sector of funds and SICAVs which shows growth of € 1.7 billion in the period.
With regards to funding guaranteed by stock of certificates, the balance at 30 June 2019 was 3.3 billion, substantially stable with respect to 3.4 billion at December 2018, but down compared to the 3.8 billion in June 2018 (-15.2%).

Loans to customers

(thousands of euro)	30/06/2019	% impact	31/12/2018	% impact	Abs. change	Change %
Mortgage loans	64,211,369	61.1%	61,677,406	59.3%	2,533,963	4.1%
Current accounts	11,695,233	11.1%	12,198,635	11.7%	(503,402)	(4.1%)
Repurchase agreements	5,222,014	5.0%	6,233,274	6.0%	(1,011,260)	(16.2%)
Financial leases	1,841,832	1.8%	2,085,657	2.0%	(243,825)	(11.7%)
Credit cards, personal loans and salary-backed loans	600,244	0.6%	1,943,781	1.9%	(1,343,537)	(69.1%)
Other transactions	18,741,101	17.8%	18,447,246	17.7%	293,855	1.6%
Senior securities relative to Exodus and ACE transactions (GACS)	2,788,144	2.7%	1,428,614	1.4%	1,359,530	95.2%
Total net loans to customers	**105,099,937**	**100.0%**	**104,014,613**	**100.0%**	**1,085,324**	**1.0%**

Net loans to customers[3] totalled € 105.1 billion at 30 June 2019, up by € 1.1 billion compared to the figure of 31 December 2018.

Performing loans came out at € 98.9 billion, compared to € 97.3 billion at 31 December 2018. The aggregate at 30 June 2019 includes the senior securities of the Exodus (subscribed in H1 2018) and ACE (subscribed in Q1 2019) securitisations and excludes loans classified in IFRS 5; not considering for the sake of uniformity senior securities and loans held for sale in the comparison periods, performing loans totalled € 96.1 billion at 30 June 2019, compared to € 94.6 billion at 31 December 2018, an increase of 1.6%. Taking "core" loans into consideration (mortgages, loans, current accounts and personal loans), the aggregate comes to 89.9 billion, with a 3.0% on a homogeneous basis with respect to the end of 2018.

Credit quality

Introduction

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

This provision applies, in theory, to receivables acquired as a result of the business combination with the former BPM Group on 1 January 2017.
The above accounting representation is difficult to achieve from an operational point of view, as it would require the implementation of an ad hoc detection system capable of tracing its evolution over time. Such implementation would entail significant costs, potentially rendering less effective the credit management and monitoring activities that take the nominal value of the credit as a reference.
In addition, it is considered that the previously indicated method of accounting representation ("closed balances") does not provide better information than a representation that shows the gross value of the nominal value of receivables, including the difference with respect to the purchase value in the adjustment funds ("open balances").
The latter method of presentation ensures a more immediate understanding of the current loan coverage ratios, particularly impaired loans.
Taking into account the provisions of the IAS/IFRS accounting standards, it is considered that, in this case, there is an exceptional circumstance that allows a derogation from the expected method of presentation, as it is excessively burdensome and not useful for the readers of the financial statements.
Consequently, in the tables below which show individually gross exposure and provisions for impairment, the loans acquired as part of the business combinations are represented with "open balances", that is indicating as the gross exposure the nominal value of the loans acquired and including the differential between the book value and the value attributed to the loans within the Purchase Price Allocation process among provisions for impairment, given that this method of presentation makes the effective level of coverage of non-performing loans immediately understandable.

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

Loans to customers at amortised cost

(thousands of euro)	30/06/2019		31/12/2018		Abs. change	Change %
	Net exposure	% impact	Net exposure	% impact		
Bad loans	1,428,421	1.4%	1,591,446	1.5%	(163,025)	(10.2%)
Unlikely to pay	4,679,378	4.5%	5,047,921	4.9%	(368,543)	(7.3%)
Non-performing past-due exposures	82,357	0.1%	87,535	0.1%	(5,178)	(5.9%)
Non-performing loans	**6,190,156**	**5.9%**	**6,726,902**	**6.5%**	**(536,746)**	**(8.0%)**
Performing loans	96,121,637	91.5%	95,859,097	92.2%	262,540	0.3%
Senior securities relative to Exodus and ACE transactions (GACS)	2,788,144	2.7%	1,428,614	1.4%	1,359,530	95.2%
Performing loans	**98,909,781**	**94.1%**	**97,287,711**	**93.5%**	**1,622,070**	**1.7%**
Total loans to customers	**105,099,937**	**100.0%**	**104,014,613**	**100.0%**	**1,085,324**	**1.0%**

Loans to customers at amortised cost

(thousands of euro)	30/06/2019				31/12/2018				Change in gross exposure	Change in gross exposure %	Change in total value adjustments
	Gross exposure	Total value adjustments	Net exposure	Coverage	Gross exposure	Total value adjustments	Net exposure	Coverage			
Bad loans	3,309,158	(1,880,737)	1,428,421	56.8%	3,939,378	(2,347,932)	1,591,446	59.6%	(630,220)	(16.0%)	(467,195)
Unlikely to pay	7,253,719	(2,574,341)	4,679,378	35.5%	7,768,401	(2,720,480)	5,047,921	35.0%	(514,682)	(6.6%)	(146,139)
Non-performing past-due exposures	100,133	(17,776)	82,357	17.8%	106,101	(18,566)	87,535	17.5%	(5,968)	(5.6%)	(790)
Non-performing loans	**10,663,010**	**(4,472,854)**	**6,190,156**	**41.9%**	**11,813,880**	**(5,086,978)**	**6,726,902**	**43.1%**	**(1,150,870)**	**(9.7%)**	**(614,124)**
of which: forborne	*4,702,156*	*(1,705,030)*	*2,997,126*		*4,905,846*	*(1,709,364)*	*3,196,482*		*(203,690)*	(4.2%)	*(4,334)*
Performing loans (*)	**99,273,397**	**(363,616)**	**98,909,781**	**0.4%**	**97,658,906**	**(371,195)**	**97,287,711**	**0.4%**	**1,614,491**	**1.7%**	**(7,579)**
of which: first stage	*92,767,448*	*(120,166)*	*92,647,282*	*0.1%*	*90,439,344*	*(120,408)*	*90,318,936*	*0.1%*	*2,328,104*	2.6%	*(242)*
of which: second stage	*6,505,949*	*(243,450)*	*6,262,499*	*3.7%*	*7,219,562*	*(250,787)*	*6,968,775*	*3.5%*	*(713,613)*	(9.9%)	*(7,337)*
of which: forborne	*2,006,025*	*(89,175)*	*1,916,850*		*2,059,326*	*(68,621)*	*1,990,705*		*(53,301)*	(2.6%)	*20,554*
Total loans to customers	**109,936,407**	**(4,836,470)**	**105,099,937**	**4.4%**	**109,472,786**	**(5,458,173)**	**104,014,613**	**5.0%**	**463,621**	**0.4%**	**(621,703)**

(*) Includes senior securities related to the Exodus Project and the ACE Project for € 2,788.1 million (of which € 2,790.8 million of gross exposure and € 2.7 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 Consolidated Notes, Part B, Information on the Consolidated Balance Sheet, "Financial assets designated 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) amount to 6.2 billion as at 30 June 2019, a decrease of 537 million euro (-8.0%) compared to 31 December 2018. The comparison with 30 June 2018 highlights show the solid derisking action accomplished in 2018: the year-on-year reduction of net non-performing loans is 3.3 billion, equal to 34.8%.
An analysis of the individual items shows the following changes:

- Net bad loans of € 1.4 billion, down compared to the figure of € 1.6 billion of 31 December 2018 (€ 3.6 billion at 30 June 2018); the figure at 30 June 2019 does not include the bad loans related to leasing contracts covered by a sale agreement, of € 156 million, reclassified among assets held for sale;
- Net unlikely-to-pay loans of € 4.7 billion, down by 7.3% compared to 31 December 2018 (€ 5.8 billion compared to 30 June 2018);
- Net past-due loans amounting to € 82 million, down by 5.9% compared to 31 December 2018 (€ 72 million at 30 June 2018).

The coverage rate for the entire impaired loans aggregate was 41.9%, compared to 43.1% at 31 December 2018 (51.2% at 30 June 2018).
More specifically, as at 30 June 2019, the coverage rate was as follows:

- Bad loans 56.8% (59.6% at 31 December 2018 and 66.2% at 30 June 2018);
- Unlikely-to-pay 35.5% (35.0% at 31 December 2018 and 32.9% at 30 June 2018);
- Past due 17.8% (17.5% at 31 December 2018 and 19.0% at 30 June 2018).

The *coverage ratio* of performing loans is equal to 0.37%, substantially in line with the 0.38% of 31 December 2018 (0.41% at 30 June 2018); net of reverse repurchase agreements, substantially risk-free, the level of coverage of performing loans amounted to 0.39% (0.41% at 31 December 2018 and 0.44% at 30 June 2018).

Financial assets

(thousands of euro)	30/06/2019	% impact	31/12/2018	% impact	Abs. change	Change %
Debt securities (*)	34,527,741	88.1%	32,877,292	89.2%	1,650,449	5.0%
Equity instruments	1,831,407	4.7%	1,320,031	3.6%	511,376	38.7%
UCITS units	502,902	1.3%	492,425	1.3%	10,477	2.1%
Total securities portfolio	**36,862,050**	**94.1%**	**34,689,748**	**94.1%**	**2,172,302**	**6.3%**
Derivative trading and hedging instruments	1,942,747	5.0%	1,868,793	5.1%	73,954	4.0%
Loans	379,594	1.0%	294,401	0.8%	85,193	28.9%
Total financial assets	**39,184,391**	**100.0%**	**36,852,942**	**100.0%**	**2,331,449**	**6.3%**

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

Financial assets amount to 39.2 billion euro, an increase of 6.3% compared to 36.9 billion euro as at 31 December 2018. This aggregate includes debt securities amounting to 34.5 billion euro, equity securities and UCIT units amounting to 2.3 billion euro and the fair value of derivatives amounting to 1.9 billion euro; furthermore, following the introduction of IFRS 9, financial assets (equalling 0.4 billion euro) also include loans mandatorily at fair value.
Government bonds totalled 29.9 billion (+ 2.4 billion compared to 31 December 2018). In this area the proportion of Italian government securities came out at 64.9% of total government securities stable compared to 64.1% in December 2018.

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

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

(thousands of euro)	30/06/2019	% impact	31/12/2018	% impact	Abs. change	Change %
Debt securities	3,321,467	44.3%	2,390,289	40.7%	931,178	39.0%
Equity instruments	1,349,182	18.0%	823,198	14.0%	525,984	63.9%
UCITS units	502,902	6.7%	492,425	8.4%	10,477	2.1%
Total securities portfolio	**5,173,551**	**69.0%**	**3,705,912**	**63.1%**	**1,467,639**	**39.6%**
Financial and lending derivatives	1,942,747	25.9%	1,868,793	31.8%	73,954	4.0%
Loans	379,594	5.1%	294,401	5.0%	85,193	28.9%
Overall total	**7,495,892**	**100.0%**	**5,869,106**	**100.0%**	**1,626,786**	**27.7%**

Financial assets designated at fair value through other comprehensive income

(thousands of euro)	30/06/2019	% impact	31/12/2018	% impact	Abs. change	Change %
Debt securities	13,281,721	96.5%	14,854,728	96.8%	(1,573,007)	(10.6%)
Equity instruments	482,225	3.5%	496,833	3.2%	(14,608)	(2.9%)
Total	**13,763,946**	**100.0%**	**15,351,561**	**100.0%**	**(1,587,615)**	**(10.3%)**

Financial assets designated at amortised cost

(thousands of euro)	30/06/2019	% impact	31/12/2018	% impact	Abs. change	Change %
Debt securities (*)	17,924,553	100.0%	15,632,275	100.0%	2,292,278	14.7%
Total	**17,924,553**	**100.0%**	**15,632,275**	**100.0%**	**2,292,278**	**14.7%**

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

Exposure to sovereign risk

During the first half of the year the economic and financial situation of most Eurozone countries, protagonists in 2010 of the sovereign debt crisis, recorded a further improvement. In Spain economic growth, although in presence of a still uncertain domestic political context, facilitated the rebalancing of public finances: GDP grew sequentially by 0.7% in the first quarter, the best quarterly result among the main European partners. Portugal grew by +0.5% (better than Germany: +0.4%), Greece by +0.2% (+1.3% on an annual basis) compared to a disappointing +0.1% in Italy (-0.1% on an annual basis).
As regards the rigour of public finances Portugal stands out with a budget deficit for 2019 close to zero (+0.5% of GDP in 2018) although in the presence of a still high debt/GDP ratio (120%). This led to an upgrade by the agency Standard & Poor's, from "BBB-" to "BBB" with outlook "stable". The result seems even more significant if we consider that Portuguese unemployment is at the lowest levels since 2004, that is before the great crisis.
As regards Greece, unemployment fell in 2019 to 18.1% in March, declining to less than 40% in the youth component: a picture of normalisation which seems to have been confirmed in July with the general election.
This quite positive picture is out of tune with the slow progress of Italy which, although it avoided a technical recession in the first quarter of 2019, remains in a phase of substantial stagnation due to the slowdown in international trade and the uncertain action of the coalition government. The probable deterioration of the budget balance for the current year and non-observance of the debt reduction obligations in 2018 (fiscal compact), justified a warning letter from the European authority, which threatened the possible opening of an infringement procedure (EDP), later avoided thanks to the good trend in tax revenues and lower expense on citizen's income and earlier retirement.
The picture described was reflected in the trend of the spreads between ten-year securities of the respective countries and the German benchmark. More specifically: Spain saw an almost continuous decline in the spread from 118 b.p. to 72 b.p. (-46 b.p.), Portugal went from a spread of 147 b.p. to 80 b.p. (-67 b.p.) at the end of the period while Greece recorded a less significant drop but one which was of great symbolic value. The ten-year BTP, the spread of which with the Bund went from 253 b.p. to 242 b.p. in the period after reaching a peak of 288 b.p. at the beginning of February, benefited only minimally from this trend (-11 b.p.) because the solution, which avoided the

infringement procedure (EDP), materialised at the end of June facilitating, only in July, a drop of around 50 b.p. in the spread. We can note, finally, that the modest closure of the spread in the first half of the year entailed a reduction of 68 b.p. in the yield of the ten-year BTP, accompanied however by a decrease of 57 b.p. in the yield of the ten-year Bund.

The Group's total exposure in sovereign debt securities as at 30 June 2019 was euro 29,909.5 million euro, and is provided below, broken down by country (in thousands of euro):

Countries	**Debt securities**
Italy	19,404,951
Spain	3,052,581
Ireland	19,830
Germany	393,074
France	2,726,444
Austria	144,824
Other EU countries	186,762
Total EU Countries	**25,928,466**
USA	3,980,928
Argentina	82
Total other countries	**3,981,010**
Total	**29,909,476**

Exposure is mainly concentrated within the parent company which at 30 June held a total of 28,577.9 million euro, mostly relative to Italian government securities.
Investments in sovereign debt securities with EU countries are classified in the portfolio of financial assets designated at fair value through profit and loss for approximately 11%, in the portfolio of financial assets designated at fair value through other comprehensive income, for 35%, and the remaining 54% is classified in the segment of financial assets designated at amortised cost.

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 designated at fair value through profit and loss

Country	Maturing by 2019	Maturity date from 2019 to 2023	Maturity date from 2023 to 2028	Matures beyond 2028	Total fair value as at 30/06/2019	Total fair value by hierarchy		
						LEVEL 1	LEVEL 2	LEVEL 3
Italy	336,198	1,444,902	430,358	6,760	2,218,218	2,218,216	-	2
Spain	-	-	-	401,846	401,846	401,846	-	-
France	-	-	-	183,838	183,838	183,838	-	-
Ireland	-	-	1	1	2	2	-	-
Greece	-	-	-	1	1	1	-	-
Germany	-	-	-	2	2	2	-	-
Other EU countries	-	-	12	-	12	12	-	-
Total	**336,198**	**1,444,902**	**430,372**	**592,448**	**2,803,920**	**2,803,918**	**-**	**2**

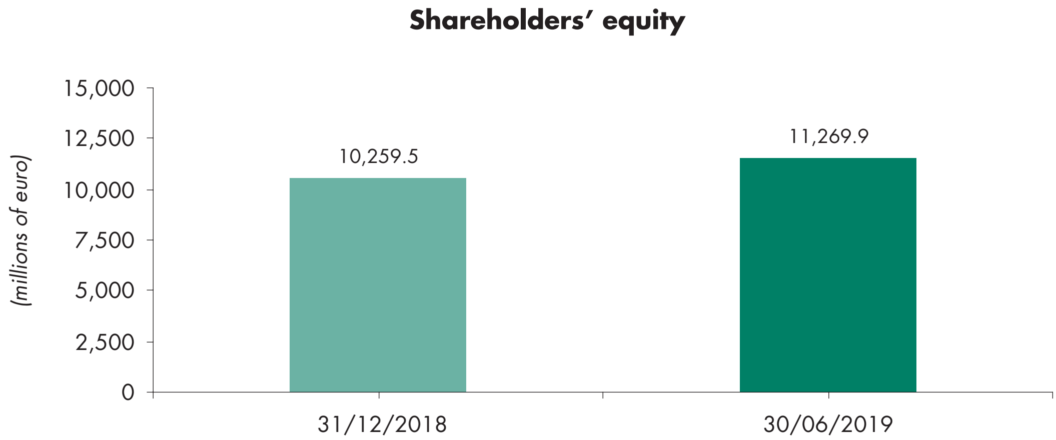
Financial assets designated at fair value through other comprehensive income

Country	Maturing by 2019	Maturity date from 2019 to 2023	Maturity date from 2023 to 2028	Matures beyond 2028	Total fair value as at 30/06/2019	Net Reserve FVTOCI	Value adjustments	Total fair value by hierarchy		
								LEVEL 1	LEVEL 2	LEVEL 3
Italy	1,372,282	3,231,066	1,546,783	-	6,150,132	(21,190)	-	6,150,132	-	-
Spain	-	51,383	882,625	609,162	1,543,171	6,647	-	1,543,171	-	-
France	-	-	663,168	656,564	1,319,732	24,879	-	1,319,732	-	-
Other EU countries	-	-	53,763	-	53,763	257	-	53,763	-	-
Total	**1,372,282**	**3,282,449**	**3,146,340**	**1,265,726**	**9,066,798**	**10,594**	**-**	**9,066,798**	**-**	**-**

Financial assets designated at amortised cost

Country	Maturing by 2019	Maturity date from 2019 to 2023	Maturity date from 2023 to 2028	Matures beyond 2028	Total book value at 30/06/2019	Total fair value	Total fair value by hierarchy		
							LEVEL 1	LEVEL 2	LEVEL 3
Italy	399,926	5,518,079	5,118,595	-	11,036,601	11,177,592	11,177,592	-	-
Spain	-	151,400	510,279	445,885	1,107,564	1,157,905	1,157,905	-	-
France	-	-	1,120,419	102,456	1,222,874	1,264,613	1,264,613	-	-
Ireland	-	-	19,828	-	19,828	21,549	21,549	-	-
Germany	-	-	393,072	-	393,072	406,503	406,503		
Other EU countries	-	-	277,809	-	277,809	285,143	285,143	-	-
Total	**399,926**	**5,669,480**	**7,440,001**	**548,341**	**14,057,748**	**14,313,305**	**14,313,305**	**-**	**-**

Shareholders' equity



The Group's consolidated shareholders' equity as at 30 June 2019, including valuation reserves and net income for the period, amounted to 11,269.9 million euro, compared to the figure at the end of 2018 of 10,259.5 million euro.
The increase, of € 1,010.4 million, can be attributed, on the one hand, to the Additional Tier 1 instruments issued in April for a nominal € 300 million and recognised for an amount of € 298.1 million (equal to the price received less the transaction costs) in item "140. Equity instruments", and on the other, to the comprehensive income recorded at 30 June 2019, for the portion pertaining to the Group. This latter was a positive € 717.2 million as a result of a net profit for the period of € 593.1 million and of a positive change in valuation reserves of € 124.1 million.

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

(thousands of euro)	**Shareholders' equity**	**Net income (loss) for the period**
Balance as at 30/06/2019 as per the Parent Company's financial statements	**10,247,232**	**799,910**
Impact of the consolidation of subsidiaries	1,024,107	(57,497)
Impact of the valuation at net equity of associated companies	(21,133)	69,386
Cancellation of the dividends received during the period from subsidiaries and associates-	-	(218,554)
Other consolidation adjustments	19,686	(112)
Balance at 30/06/2019 as per the consolidated financial statements	**11,269,892**	**593,133**

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

The minimum capital requirements for 2019 are as follows:

- a minimum common equity tier 1 capital ratio (Common Equity Tier 1 ratio - "CET1 ratio"), minimum: 4.5% + Pillar 2 requirement of 2.25% + 2.50% Capital Conservation Buffer ("CCB"); Tier 1 capital ratio, minimum: 6.0% + Pillar 2 requirement of 2.25% + 2.50% of CCB;
- m*inimu*m total capital ratio: 8% + Pillar 2 requirement of 2.25% + 2.50% CCB.

The capital conservation buffer must, in any event, consist of CET1 funds.
With regard to the measurement of risk-weighted assets, note that the Banco BPM Group is authorised to use the following methods based on its own internal models:

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

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

On 08 February 2019, the European Central Bank (ECB) notified Banco BPM of its final decision on the minimum capital ratios to be complied with by the Banco BPM on an ongoing basis.
The decision is based on the supervisory review and evaluation process (SREP) conducted in compliance with Art. 4(1)(f) of Regulation (EU) no. 1024/2013.
Therefore, in compliance with At. 16 (2) (a) of the Regulation no. 1024/2013, which confers on the ECB the power to require supervised banks to hold own funds in excess of the minimum capital requirements laid down by current regulations, a requirement of 2.25% was introduced to be added to the requirements highlighted above.
Taking into account the aforementioned requirements deriving from the communication, at consolidated level the Banco BPM Group is required to meet the following capital ratios:

- CET1 ratio: 9.31%;
- Tier 1 ratio: 10.81%;
- Total Capital ratio: 12.81%.

In a communication dated 22 March 2019, the Bank of Italy stated that the countercyclical capital buffer (CCyB) for the second quarter of 2019 was set at zero percent.

Applying the transitional regime in effect at 30 June 2019, the equity ratios are as follows:

- Common Equity Tier1 (CET1) Ratio of 13.75%, compared to 12.06% at the end of the December 2018;
- Tier 1 Capital Ratio of 14.41%, with respect to the 12.26% at the end of December 2018;
- Total Capital Ratio of 16.50%, compared to 14.68% at the end of December 2018.

Own fund levels at 30 June 2019 allow Banco BPM to fully comply with the Regulators' requirements, both with respect to the calculation rules currently applicable in the transition period, as well as when the new capital requirements shall apply in full.

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

Considering the pro-forma impacts expected from the sale of a portfolio of impaired leasing receivables equal to a nominal value of € 600 million, the expected pro-forma Common Equity Tier 1 ratio (phase-in CET1 ratio) is 13.8%. The pro-forma fully-loaded CET 1 ratio is 11.96%.
The Tier 1 ratio is 14.46%, while the Total Capital Ratio is 16.55%.

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[1]. At 30 June 2019, the Banco BPM has a consolidated LCR of 150.21%.

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

Finally, as regards the leverage ratio, the figure was 4.967% at 30 June 2019.

Key financial highlights of the main Group companies

A summary of the main investments in Group companies is presented below, with an indication of the most significant balance sheet, income statement and operating balances as at 30 June 2019.

(millions of euro)	Total assets	Shareholders' equity (*)	Direct Funding	Indirect Funding	Net Loans	Profit (Loss)
Banks						
Banca Aletti & C.	2,312.0	382.1	1,706.1	21,881.6	139.1	5.8
Banca Akros	11,097.2	724.3	1,898.6	-	743.6	17.3
Banca Aletti & C. (Suisse)	162.7	28.6	133.0	435.8	8.8	(0.7)
Bipielle Bank (Suisse)	49.4	43.3	4.2	-	-	(0.8)
Financial companies						
Aletti Fiduciaria	11.1	7.6	0.2	934.5	1.7	(0.3)
Release	1,798.8	272.0	6.3	-	788.3	(30.3)
Other companies						
Bipielle Real Estate	1,180.2	1,112.3	39.8	-	7.1	21.9
Holding di Partecipazioni Finanziarie Banco Popolare	838.5	836.2	-	-	-	0.4
Tecmarket Servizi	39.6	21.7	-	-	-	5.1
Ge.Se.So.	1.7	0.4	-	-	-	0.1

(*) amount includes the income (loss) for the period.

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

Group ratings

Summary table of Banco BPM ratings

Rating agency	Type of Rating	30/06/2019	31/12/2018
DBRS	Long Term on Deposits	BBB/Stable Trend	BBB/Stable Trend
	Long Term on Senior Debt	BBB (low)/Stable Trend	BBB (low)/Stable Trend
	Long-Term Issuer Rating	BBB (low)/Stable Trend	BBB (low)/Stable Trend
	Short Term on Deposits	R-2 (high)/Stable Trend	R-2 (high)/Stable Trend
	Short Term on Debt	R-2 (middle)/Stable Trend	R-2 (middle)/Stable Trend
	Short-Term Issuer Rating	R-2 (middle)/Stable Trend	R-2 (middle)/Stable Trend
	Intrinsic Assessment	BBB (low)	BBB (low)
	Support Assessment	SA3	SA3
Moody's Investors Service	Long Term on Deposits	Baa3/Stable Outlook	Ba1/Stable Outlook
	Long Term on Senior Unsecured Debt	Ba2/ Negative Outlook	Ba2/ Negative Outlook
	Issuer Rating	Ba2/ Negative Outlook	Ba2/ Negative Outlook
	Short term	P-3	NP
	Baseline Credit Assessment	ba3	b1
	Counterparty Risk Assessment	Baa3(cr) / P-3(cr)	Ba1(cr) / NP(cr)

Summary table of Banco Akros ratings

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

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

RISK MANAGEMENT

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

OUTLOOK FOR BUSINESS OPERATIONS

The growth prospects of the Italian economy remain modest for 2019, lower than those of its European partners. The Italian scenario is weighed down by various elements of external uncertainty (effects of the tariff war on the investment and automotive cycle, difficulties in global supply chains, growing probability of a hard Brexit, lower demand from Emerging Markets).
To this must be added the critical issues within the governing majority which may again affect the BTP/BUND spread. The tone of monetary policy remains strongly expansive. The context, of very low interest rates and the modest GDP growth, keeps conditions challenging for the banking business.
In this framework loan volumes will grow mainly in the component destined for households while that of businesses will remain substantially stable. Among the restraining factors we can note the weakness of economic growth, the increased uncertainty linked to the expansive measures involving public finance, with uncertain effects, greater recourse to self-financing and direct financing on the market. To this must be added, finally, the effects of the accounting standard IFRS9, which provides for higher provisions to cover high-risk loans and which induces intermediaries to maintain high selectivity at the loan disbursement stage.
Credit quality is expected to improve further in the second half of the year while the disposal of impaired loans are facilitated by the renewal of the GACS.
In the second half of the year the funds made available by the ECB, through the quarterly TLTRO III auctions starting from September, will continue to be a crucial element for meeting the funding needs of Italian banks. The liquidity of the system will therefore remain adequate. Funding in the rest of the year will see the favourable trend confirmed ending the year with a positive growth rate. Overall the average interest rate on deposits will fall further after the favourable results of 2018.
Alongside the stabilisation of average interest rates on loans the mark-up is expected to remain at the levels of 2018 with a stable bank interest spread. This element combined with an increase in the volumes will translate into a slight improvement in margins from customers and, thanks to the good trend in interest on securities, also into a positive evolution of net interest income.
Trading gains and measurement at fair value will make a positive contribution to other revenue. In payment services, the increased competitiveness and the expansion of the digital offer will create downward pressures on prices. A support for the fee and commission component will come from managed savings, after the drop in 2018. The combination of the factors described above is expected to lead to a slight improvement in net interest and other banking income.

Given this scenario, in the next few quarters the operating focus of the Group will be concentrated on the ordinary management, with particular focus on the core business, continuing to benefit from the effects deriving from its derisking action. Overall trends in revenues should not see significant changes, unless special tensions arise which impact the primary trend for the markets. The limitation of operating expenses by improving efficiency will continue to be one of the factors receiving the greatest attention. Following the significant reduction in non-performing exposures and the current trend for new non-performing loans, the cost of credit is expected to remain significantly lower than it had been in past years, against a high level of coverage. Adjusted earnings per share (EPS) for the year, that is net of non-recurring income components, are expected to exceed € 0.30, already factoring in the above described economic situation. This amount is substantially in line with current market projections.

Consolidated condensed interim financial statements

FINANCIAL STATEMENTS

Consolidated balance sheet

Asset items	30/06/2019	31/12/2018
10. Cash and cash equivalents	794,628	922,017
20. Financial assets designated at fair value through profit and loss	7,351,055	5,738,595
a) financial assets held for trading	6,046,542	4,522,529
c) other financial assets mandatorily at fair value	1,304,513	1,216,066
30. Financial assets designated at fair value through other comprehensive income	13,763,946	15,351,561
40. Financial assets designated at amortised cost	130,332,845	123,840,007
a) due from banks	8,087,336	4,377,526
b) loans to customers	122,245,509	119,462,481
50. Hedging derivatives	144,837	130,511
60. Fair value change of financial assets in macro fair value hedge portfolios (+/-)	50,197	42,173
70. Equity investments	1,320,167	1,434,163
90. Property, plant and equipment	3,525,869	2,775,885
100. Intangible assets	1,261,284	1,277,941
of which:		
- goodwill	76,389	76,389
110. Tax assets	4,859,255	5,012,477
a) current	342,059	330,436
b) deferred	4,517,196	4,682,041
120. Non-current assets and asset disposal groups held for sale	1,544,823	1,592,782
130. Other assets	2,869,873	2,346,679
Total assets	**167,818,779**	**160,464,791**

Liability and shareholders' equity items	30/06/2019	31/12/2018
10. Financial liabilities designated at amortised cost	141,573,765	136,160,342
a) due to banks	31,196,780	31,633,541
b) due to customers	96,471,363	90,197,859
c) debt securities issued	13,905,622	14,328,942
20. Financial liabilities held for trading	7,312,842	6,502,522
30. Financial liabilities designated at fair value	581,682	692,890
40. Hedging derivatives	790,776	726,307
50. Fair value change of financial liabilities in macro fair value hedge portfolios (+/-)	93,072	49,756
60. Tax liabilities	483,024	505,402
a) current	6,295	11,181
b) deferred	476,729	494,221
70. Liabilities associated with asset disposal groups held for sale	39,941	3,043
80. Other liabilities	4,080,613	3,814,589
90. Employee termination indemnities	384,944	377,498
100. Provisions for risks and charges	1,167,202	1,327,368
a) commitments and guarantees given	119,992	123,814
b) retirement benefits and similar commitments	155,854	150,676
c) other provisions for risks and charges	891,356	1,052,878
120. Valuation reserves	(224,295)	(346,438)
140. Equity instruments	298,112	-
150. Reserves	3,515,327	3,577,955
170. Share capital	7,100,000	7,100,000
180. Treasury shares (-)	(12,385)	(12,610)
190. Non-controlling interests (+/-)	41,026	45,599
200. Income (Loss) for the period (+/-)	593,133	(59,432)
Total liabilities and shareholders' equity	**167,818,779**	**160,464,791**

Consolidated income statement

Items	1st half 2019	1st half 2018
10. Interest and similar income	1,274,352	1,480,257
of which: interest income calculated with the effective interest method	1,255,073	-
20. Interest and similar expense	(254,354)	(300,148)
30. Interest margin	**1,019,998**	**1,180,109**
40. Fee and commission income	918,843	983,320
50. Fee and commission expense	(49,776)	(55,807)
60. Net fee and commission income	**869,067**	**927,513**
70. Dividends and similar income	52,250	40,576
80. Profits (losses) on trading	(197,267)	(66,287)
90. Fair value adjustments in hedge accounting	(487)	(460)
100. Profits (losses) on disposal or repurchase of:	201,769	(131,771)
a) financial assets designated at amortised cost	38,676	(260,552)
b) financial assets designated at fair value through other comprehensive income	165,330	129,783
c) financial liabilities	(2,237)	(1,002)
110. Profits (losses) on financial assets and liabilities designated at fair value through profit and loss	70,700	5,689
a) financial assets and liabilities designated at fair value	30	(22,433)
b) other financial assets mandatorily at fair value	70,670	28,122
120. Net interest and other banking income	**2,016,030**	**1,955,369**
130. Net losses/recoveries on credit risk relating to:	(367,683)	(424,073)
a) financial assets designated at amortised cost	(369,869)	(420,875)
b) financial assets designated at fair value through other comprehensive income	2,186	(3,198)
140. Profit/loss from contractual changes without derecognition	(1,001)	-
150. Net income from banking activities	**1,647,346**	**1,531,296**
180. Net income from banking and insurance activities	**1,647,346**	**1,531,296**
190. Administrative expenses:	(1,387,695)	(1,534,180)
a) personnel expenses	(838,851)	(880,353)
b) other administrative expenses	(548,844)	(653,827)
200. Net provisions for risks and charges	(5,680)	(45,671)
a) commitments and guarantees given	3,766	15,189
b) other net provisions	(9,446)	(60,860)
210. Net adjustments to/recoveries on property and equipment	(138,349)	(56,012)
220. Net adjustments to/recoveries on intangible assets	(52,293)	(52,838)
230. Other operating expenses/income	165,815	313,022
240. Operating expenses	**(1,418,202)**	**(1,375,679)**
250. Profits (losses) on investments in associates and companies subject to joint control	68,547	250,654
280. Profits (losses) on disposal of investments	337,652	3,894
290. Before tax profits/(losses) from current operations	**635,343**	**410,165**
300. Taxes on income from continuing operations	(46,681)	(61,182)
310. After tax profits/(losses) from current operations	**588,662**	**348,983**
320. Profit (loss) from discontinued operations, net of taxes	-	4
330. Income (Loss) for the period	**588,662**	**348,987**
340. Income (loss) attributable to minority interests	4,471	3,590
350. Parent Company's net income (loss)	**593,133**	**352,577**
Basic EPS (euro)	0.392	0.233
Diluted EPS (euro)	0.392	0.233

Statement of consolidated comprehensive income

Items	30/06/2019	30/06/2018
10. Income (Loss) for the period	**588,662**	**348,987**
Other comprehensive income after tax without reclassification to the income statement	**(40,531)**	**(7,309)**
20. Equity instruments designated at fair value through other comprehensive income	(12,347)	(19,069)
30. Financial liabilities designated at fair value through profit and loss (changes to its own credit risk)	(4,212)	7,690
70. Defined benefit plans	(23,907)	4,080
90. Share of valuation reserves related to investments in associates carried at equity	(65)	(10)
Other comprehensive income after tax with reclassification to the income statement	**164,535**	**(344,992)**
100. Foreign investment hedges	(408)	(238)
110. Exchange rate differences	1,043	820
120. Cash flow hedges	488	(2,437)
140. Financial assets (other than equity instruments) designated at fair value through other comprehensive income	155,775	(337,686)
160. Share of valuation reserves related to investments in associates carried at equity	7,637	(5,451)
170. Total other comprehensive income after tax	**124,004**	**(352,301)**
180. Comprehensive Income (Items 10+170)	**712,666**	**(3,314)**
190. Consolidated comprehensive income attributable to minority interests	(4,498)	(3,585)
200. Consolidated comprehensive income attributable to the parent company	**717,164**	**271**

Statement of changes of consolidated shareholders' equity

30 June 2019	Balance as at 31/12/2018	Changes in opening balance	Balance as at 01/01/2019	Allocation of net income from previous year		Changes in the period									Shareholders' equity as at 30/06/2019	Group shareholders' equity as at 30/06/2019	Minority interests as at 30/06/2019
							Operations on shareholders' equity										
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity investments	Comprehensive income for the year			
Share capital:	**7,163,927**	**-**	**7,163,927**	**-**		**-**	**-**	**-**					**(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 assets	-	-	-	-		-	-	-					-		-	-	-
Share premium reserve	**-**	**-**	**-**	**-**		**-**	**-**	**-**					**-**		**-**	**-**	**-**
Reserves:	**3,569,082**	**-**	**3,569,082**	**(69,119)**		**(2,876)**	**(321)**	**-**	**-**		**-**		**-**		**3,496,766**	**3,515,327**	**(18,561)**
a) retained earnings	3,064,319	-	3,064,319	(69,119)		(3,335)	(321)	-	-				-		2,991,544	3,010,103	(18,559)
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**	**-**
Treasury shares	**(12,610)**	**-**	**(12,610)**			**-**	**225**	**-**							**(12,385)**	**(12,385)**	**-**
Income (Loss) for the period	**(69,055)**	**-**	**(69,055)**	**69,119**	**(64)**									**588,662**	**588,662**	**593,133**	**(4,471)**
Shareholders' equity	**10,305,074**	**-**	**10,305,074**	**-**	**(64)**	**(4,764)**	**(96)**	**-**	**-**	**298,112**	**-**		**(10)**	**712,666**	**11,310,918**	**11,269,892**	**41,026**
- of the Group	**10,259,475**	**-**	**10,259,475**	**-**	**-**	**(4,763)**	**(96)**	**-**	**-**	**298,112**	**-**		**-**	**717,164**	**11,269,892**		
- of minority interests	**45,599**	**-**	**45,599**	**-**	**(64)**	**(1)**	**-**	**-**					**(10)**	**(4,498)**	**41,026**		

30 June 2018	Balance as at 31/12/2017	Changes in opening balance (*)	Balance as at 01/01/2018	Allocation of net income from previous year		Changes in the period									Shareholders' equity as at 30/06/2018	Group shareholders' equity as at 30/06/2018	Minority interests as at 30/06/2018
							Operations on shareholders' equity										
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on treasury shares	Stock options	Changes in equity investments	Comprehensive income for the year			
Share capital:	**7,164,561**	**-**	**7,164,561**	**-**		**-**	**-**	**-**					**(100)**		**7,164,461**	**7,100,000**	**64,461**
a) ordinary shares	7,164,561	-	7,164,561	-		-	-	-					(100)		7,164,461	7,100,000	64,461
b) other assets	-	-	-	-		-	-	-					-		-	-	-
Share premium reserve	**1,216**	**-**	**1,216**	**-**		**-**	**-**	**-**					**(1,115)**		**101**	**-**	**101**
Reserves:	**1,953,356**	**(987,412)**	**960,201**	**2,606,512**		**(740)**	**(1,137)**	**-**	**-**		**-**		**(5)**		**3,564,831**	**3,573,442**	**(8,611)**
a) retained earnings	1,456,946	(987,412)	463,791	2,606,512		1,252	(1,137)	-	-				(66)		3,070,352	3,078,961	(8,609)
b) other	496,410	-	496,410	-		(1,992)	-	-			-		61		494,479	494,481	(2)
Valuation reserves	**251,849**	**(78,229)**	**173,620**	**-**		**-**							**1**	**(352,301)**	**(178,680)**	**(178,829)**	**149**
Equity instruments	**-**	**-**	**-**							**-**					**-**	**-**	**-**
Treasury shares	**(14,146)**	**-**	**(14,146)**			**-**	**991**	**-**							**(13,155)**	**(13,155)**	**-**
Income (Loss) for the period	**2,606,704**	**-**	**2,606,704**	**(2,606,512)**	**(192)**									**348,987**	**348,987**	**352,577**	**(3,590)**
Shareholders' equity	**11,963,540**	**(1,065,641)**	**10,892,156**	**-**	**(192)**	**(740)**	**(146)**	**-**	**-**	**-**	**-**		**(1,219)**	**(3,314)**	**10,886,545**	**10,834,035**	**52,510**
- of the Group	**11,900,230**		**10,834,589**	**-**	**-**	**(740)**	**(146)**	**-**	**-**	**-**	**-**		**61**	**271**	**10,834,035**		
- of minority interests	**63,310**	**(5,743)**	**57,567**	**-**	**(192)**	**-**	**-**	**-**					**(1,280)**	**(3,585)**	**52,510**		

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

Consolidated cashflow statement

Indirect method

		30/06/2019	30/06/2018
A.	**Operating activities**	**30/06/2019**	**30/06/2018**
	1. Cash flow from operations	**1,130,095**	**1,100,125**
-	Net income (loss) for the period (+/-)	593,133	352,577
-	gains/losses on financial assets held for trading and on other financial assets/liabilities designated at fair value through profit and loss (-/+)	3,304	182,055
-	capital gain/loss on hedging activities (-/+)	487	-
-	Net adjustments to/recoveries on credit risk (-/+)	368,684	424,073
-	net value adjustments to/recoveries on plant and equipment and intangible assets (+/-)	190,642	108,850
-	allocations to provisions for risks and charges and other costs/revenues (+/-)	5,949	56,668
-	net premiums not collected (-)		-
-	other insurance income/expenses not collected (-/+)		-
-	duties, taxes and tax credits not settled (+/-)	37,282	51,900
-	net adjustments to/recoveries from discontinued operations net of the taxes (-/+)		-
-	other adjustments (+/-)	(69,386)	(75,998)
	2. Cash flow from/used in financial assets	**(7,164,556)**	**(7,583,077)**
-	financial assets held for trading	(1,551,215)	(1,812,782)
-	financial assets designated at fair value	-	(22,880)
-	other financial assets mandatorily at fair value	(64,789)	25,917
-	financial assets designated at fair value through other comprehensive income	1,589,801	(2,270,771)
-	financial assets designated at amortised cost	(6,863,708)	(3,754,714)
-	other assets	(274,645)	252,153
	3. Cash flow from/used in financial liabilities	**5,659,104**	**6,424,449**
-	financial liabilities designated at amortised cost	4,577,829	2,864,121
-	financial liabilities held for trading	810,320	272,394
-	financial liabilities designated at fair value	(110,968)	(532,377)
-	other liabilities	381,923	3,820,311
	Net cash flow from/used in operating activities	**(375,357)**	**(58,503)**
B.	**Investing activities**		
	1. Cash flow from:	**5,002**	**818,625**
-	sales of investments in associates and companies subject to joint control	1	813,691
-	dividends collected on investments in associates and companies subject to joint control		-
-	sales of property and equipment	5,001	4,934
-	sales of intangible assets	-	-
-	sales of subsidiaries and business branches		-
	2. Cash flow used in:	**(51,893)**	**(940,534)**
-	purchases of investments in associates and companies subject to joint control	-	(803,409)
-	purchases of property and equipment	(14,359)	(86,308)
-	purchases of intangible assets	(37,534)	(50,817)
-	purchases of subsidiaries and business branches		-
	Net cash flow from/used in investing activities	**(46,891)**	**(121,909)**
C.	**Financing activities**		
-	issues/purchases of treasury shares		-
-	issues/purchases of equity instruments	294,923	-
-	dividend distribution and other allocations	(64)	192
-	Third-party sales/purchases		
	Net cash flow from/used in financing activities	**294,859**	**192**
	Net cash flow from/used during the period	**(127,389)**	**(180,220)**

Reconciliation	**30/06/2019**	**30/06/2018**
Cash and cash equivalents at the beginning of the period	922,017	976,686
Net cash flow from/used during the period	(127,389)	(180,220)
Cash and cash equivalents: foreign exchange effect		-
Cash and cash equivalents at the end of the period	**794,628**	**796,466**

ILLUSTRATIVE NOTES

These "Illustrative Notes" have been prepared with reference to the structure of the notes required by Bank of Italy Circular 262 for the financial statements for the year, 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

This Consolidated Interim Report (hereinafter also "Report"), drawn up pursuant to Art. 154-*ter* of Italian Legislative Decree no. 58 dated 24 February 1998 (CFL) and subsequent updates, comprises the consolidated condensed interim financial statements and the interim report on operations, which contains significant events during the half year, as well as the business outlook.

The consolidated condensed interim financial statements comprise the balance sheet, income statement, statement of comprehensive income, statement of changes of shareholders' equity, cash flow statement and specific illustrative 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).
The financial statements provide not only the accounting data as at 30 June 2019, 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 set of financial statements approved as at 31 December 2018.
In consideration of First Time Adoption of the standard IFRS 16, Banco BPM Group availed itself of the option provided for in the transitional provisions of the aforementioned standard not to restate the comparative figures; therefore the financial and economic balances related to the first half of 2018, prepared in accordance with the previous accounting standard IAS 17, are not fully comparable with those of 2019, with reference to the amounts of rights of use, leasing payables and the related economic effects. For the details on the application of the accounting standard IFRS 16 please see the contents of the paragraph "Disclosure on first-time adoption of the accounting standard IFRS 16 – Leases" below.

The consolidated condensed interim financial statements, approved by the Board of Directors of Banco BPM on 6 August 2019, are subject to a limited audit by independent auditors PricewaterhouseCoopers S.p.A., in application of the appointment given to this company with 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

The consolidated financial statements as at 30 June 2019 have been prepared in accordance with the international accounting standards (IAS/IFRS) and relative interpretations (IFRIC) validated by the European Union and in force at the time of its approval, as established by European Union Regulation no. 1606 of 19 July 2002.

The accounting standards used for preparing the consolidated condensed interim financial statements are those adopted for preparing the consolidated financial statements at 31 December 2018, with the exception of what is illustrated in the paragraph "A.2 – Key financial statement items: changes consequent to introduction of the new standard IFRS 16" below, and taking into account what is specifically provided for in the accounting standard IAS 34 "Interim Financial Reporting". Please see also the paragraph "Determining the impairment on loans disbursed recognised in balance sheet assets" for an illustration of the updates related to the risk parameters and prospective macroeconomic scenarios used for the purpose of determining expected losses on performing loans.
For an illustration of the criteria for recording, classifying, measuring, derecognising and recognising the revenue components related to accounting items not impacted by the introduction of IFRS 16, please see instead the contents of the Annual Financial Report at 31 December 2018 ("Part A – Accounting policies").

With regard to the disclosure provided, the consolidated condensed interim financial statements as at 30 June 2019 have been prepared in a condensed format, as envisaged by accounting standard IAS 34 regarding "Interim financial reporting".

The consolidated condensed interim financial statements at 30 June 2019 are prepared with a view to the Group continuing as a going concern, because the directors, in the 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 2019, as illustrated in the paragraph entitled "Scope of consolidation and methods".

Uncertainties with regard to the use of estimates for drawing up the consolidated condensed interim financial statements

The application of certain accounting standards necessarily involves the use of estimates and assumptions which affect the values of the assets and liabilities recorded in the financial statements and the disclosures made on potential assets and liabilities.
The assumptions underlying the estimates made take into account the information available as of the date of preparation of these consolidated condensed interim financial statements, as well as assumptions considered reasonable in the light of past experience and the current state of the financial markets. In this regard, note that the current economic and financial situation has made it necessary to make assumptions concerning future performance characterised by significant uncertainty.
Precisely in consideration of the uncertain situation, it cannot be excluded that the hypotheses adopted, however reasonable, might not be confirmed by future scenarios in which the Group finds itself operating. The results which will be achieved in the future could therefore differ from the estimates made for the purpose of drawing up these consolidated condensed interim financial statements and could consequently make adjustments necessary which at present cannot be foreseen or estimated with respect to the book value of the assets and liabilities recorded in the financial statements.

The following paragraphs illustrate the estimation processes considered most critical to the truthful and correct portrayal 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 on loans disbursed recognised in the balance sheet assets;
- calculating estimated impairment losses in relation to intangible assets with an indefinite useful life and investments in associates;
- determining the fair value of financial assets and liabilities;
- estimating the recoverability of deferred tax assets;
- estimating provisions for risks and charges;
- estimating the recoverable value of real estate assets held for investment purposes;
- estimating obligations relating to employee benefits.

Determining the impairment on loans disbursed recognised in the balance sheet assets

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

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

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

- the calculation of the significant deterioration in creditworthiness with respect to the date of initial recognition of the exposure ("SICR") is based on the identification of adequate qualitative and quantitative criteria, which also consider forward-looking information. The definition of more stringent criteria could therefore lead to an increase in the number of exposures to be classified as Stage 2, with a consequent increase in expected losses;
- the result of the impairment model must reflect an objective estimate of the expected loss, obtained by evaluating a range of possible results. This implies the need to identify possible scenarios, based on assumptions about future economic conditions, to which the relative probability of occurrence must be associated. The selection of different scenarios and probability of occurrence and changes in the set of macroeconomic variables to be considered in the forecast time horizon could have significant effects on the calculation of expected losses;
- the determination of expected losses requires the use of estimation models:
  - o the cash flows that individual debtors (or portfolios of debtors that are similar in terms of risk) are expected to be able to generate in order to satisfy, in whole or in part, the obligations undertaken with regard to the Group. With regard to impaired loans for which a disposal plan exists, the expected losses must be quantified also on the basis of the estimate of the recoverable flows through the disposal scenario, to be considered as an alternative scenario to the one based on the internal management of the recovery activity ("work out") according to the multi scenario approach described above;
  - o recovery time;
  - o the estimated realisable value of property and collateral.

Within the range of possible approaches relating to estimation models permitted by the reference international accounting standards, the use of a method or the selection of certain estimation parameters may have a significant influence on the valuation of loans. These methods and parameters are necessarily updated through a continuous process in order to best represent the estimated realisable value of the credit exposure. In detail, for the purpose of determining expected losses on performing loans, during the first half of 2019 a number of general updates of the risk parameters were carried out, mainly for the purpose of incorporating the most recent historical series and including the latest macroeconomic forecasts for the next few years. A number of activities to refine the methods of estimating the risk parameters (PD and LGD) were also carried out in the period. The innovations regarded mainly the use of three prospective macroeconomic scenarios respectively with a view to recession, stability and improvement, replacing the previous five; at the same time the process of selecting the above scenarios and assigning the related probabilities was revised. The set of changes made did not determine significant effects on the total amount of provisions for impairment.

It should however be noted that, consistent with the impairment model, expected losses could vary significantly as a result of changes in sales scenarios or refinements in the statistical models on which the calculation of the parameters for calculating expected losses on unimpaired exposures is based.

Given the above, it cannot be excluded that alternative monitoring criteria or different methodologies, parameters or assumptions in determining the recoverable value of the Group's credit exposures - influenced, however, also by possible alternative strategies for their recovery approved by the competent corporate bodies as well as by the evolution of the economic and financial context and reference regulations - may result in valuations different from those conducted for the purposes of the preparation of the consolidated condensed interim financial statements as at 30 June 2019.

Estimated impairment losses in relation to intangible assets with an indefinite useful life and investments in associates

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 that 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 the cited standard, the Banco BPM Group has opted to conduct impairment testing of intangible assets with an indefinite useful life on 31 December of each year, assessing exclusively for subsequent interim situations, the possible existence of new impairment indicators that could cast doubt on the recoverability of the book values.
At 30 June 2019, the Group's intangible assets with an indefinite useful life amounted to 580.7 million euro, aligned with the figures at 31 December 2018, and were represented by 76.4 million euro of goodwill attributable to the “Bancassurance Protezione” cash generating unit (CGU) and the “Bancassurance Vita” CGU and 504.3 million euro of brands recognised following the business combination with the former Banca Popolare di Lodi Group (222.2 million euro) and the former BPM Group (282.1 million euro).
As illustrated in the section “Intangible assets – item 100” contained in "Part B – Information on Consolidated Balance Sheet of these Illustrative notes", to which reference should be made for further details, during the period a survey was carried out to exclude the possible existence of further impairment indicators than those already considered for the purposes of the test conducted as at 31 December 2018, such as to cast doubt on the recoverability of the book values, also relying on the sensitivity analysis produced for the 2018 financial statements.
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.
As regards equity investments, 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 equity investments. In these circumstances, we can therefore not exclude the possibility that the value attributed to the equity investments based on the information available may possibly differ from subsequent assessments made in light of different available information.

Determination of the fair value of financial assets and liabilities

In the event of financial instruments that are not listed on active markets or illiquid and complex instruments, adequate valuation processes need to be set in place, characterised by a certain amount of subjective judgement as regards the choice of the valuation model and of the relative input parameters, which sometimes cannot be observed in the market.
There are margins of subjectivity in the valuation with regard to whether certain parameters are observable or not, and in the consequent classification in correspondence with the fair value hierarchy levels.

For quantitative and qualitative information on the methods for calculating the fair value of instruments recognised at fair value in the financial statements, please see "Part A.4 – Fair value disclosure" in these Illustrative Notes.

Estimating the recoverability of deferred tax assets

The Group has significant deferred tax assets among its assets, mainly deriving from temporary differences between the income statement recognition date of given business costs and the date when said costs may be deducted, and also resulting from tax losses carried forward. The recognition of these assets and the subsequent maintenance in the balance sheet entails a judgement as to the potential recoverability of the same. Said judgement of recoverability is also based on the legislative tax provisions in force on the date of preparation of this report.
In particular, deferred tax assets that meet the requirements established by Law no. 214 of 22 December 2011 can be transformed into tax credit in the event that a "statutory loss", a "tax loss" for IRES purposes or a "net negative value of production" for IRAP purposes is recorded; the recovery of such deferred tax assets is therefore certain, since it does not depend on their ability to generate future profits.
For the remaining assets deriving from temporary differences other than those mentioned above, the probability opinion is based on the income forecasts inferable from the approved strategic and forecasting plans, also taking into account that, for IRES purposes, the regulations in force allow them to be carried forward without any time limit. Verifying the recoverability of the recognition values of deferred tax assets is a valuation that therefore requires significant elements of judgement.
The recoverability could also be negatively influenced by circumstances that are not foreseeable at the present time, such as changes to the current tax legislation or changes in the macroeconomic or market scenario, which would then require an update of the income forecasts used as a basis to estimate future taxable income. For this reason, the recoverability of the DTA that cannot be transformed into tax credit is continuously monitored with regard to changes in tax legislation and in the results recorded, which may be negatively influenced by the economic and market scenarios.

Estimating provisions for risks and charges

The companies belonging to the Group are defendants in a wide range of lawsuits and tax disputes and are also exposed to a number of types of contingent liabilities. The complexity of the situations and corporate deals that underlie the outstanding disputes, along with the difficulties in the interpretation of applicable law, require significant elements of judgement to estimate the liabilities that may result when pending lawsuits are settled. The difficulties lie in assessing if and what may be due and how much time will elapse before liabilities materialise and are particularly evident when the proceedings are at the initial stage and/or the relative preliminary analysis is underway. The specific nature of the matter disputed and the consequent absence of case law relating to similar disputes, not to mention the differing opinions expressed by judgement bodies both at the various levels of the proceedings and by bodies at the same level over time, make a valuation of the potential liabilities difficult even when the provisional rulings relating to the courts of first instance are available. Previous experience demonstrates that in a number of cases, the rulings made by the judges in the courts of first instance were then completely overturned on appeal or in the supreme court, which may be in favour or not in favour of Group companies. On the basis of the above, the classification of potential liabilities and the consequent valuation of the provisions needed is based on subjective elements of judgement which require recourse to estimation processes which can be highly complex. It cannot therefore be ruled out that following the issue of the final ruling, allocations made to provisions for risks and charges on the basis of the potential liabilities of lawsuits and tax disputes may turn out to be lacking or surplus to requirements.
For information on the Group's main risk positions in relation to legal disputes (actions to void and pending lawsuits) and tax disputes with the tax authorities, reference should be made to the section - "Liability provisions - items 90 and 100" contained in Part B - Information on Consolidated Balance Sheet of these Illustrative notes, which also provides an illustration of the risks and uncertainties associated with the activity of referral to the specialised company Intermarket Diamond Business S.p.A. of customers interested in purchasing diamonds.

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

The Group possesses real estate for investment purposes, mostly originating from properties repossessed to close an original credit position (the so-called *datio in solutum*) or from an agreement to settle a dispute. For these assets, in the event of indicators that could potentially show an impairment loss, the recoverable value has to be established, recognising a write-down if said value should be lower than the book value. The estimation of recoverable value, conducted using external appraisals, was impacted by an inevitable component of subjectivity in certain circumstances, amplified by the specific characteristics of each property. In this regard, note that the difficulties related to this estimation process are particularly evident in the current scenario of the Italian property market, the reference market for almost all of the Group's properties. In the future we can therefore not exclude a potential further reduction of the recoverable value if the real estate crisis should worsen with respect to the situation as at the date of the appraisals.

Estimating obligations relating to employee benefits

The calculation of the liabilities associated to employee benefits, with specific reference to defined benefit plans and to long-term benefits, implies a certain degree of complexity; the outcome of assessments depends, to a large extent, on the actuarial assumptions used in both demographic terms (such as mortality rates and employee turnover) and financial terms (such as discounting rates and rates of inflation). The judgement expressed by management is therefore fundamental when selecting the most suitable technical bases for the assessment in question, which is influenced by the socio-economic climate in which the Group operates, as well as the performance of the financial markets.

The main actuarial assumptions used by the Group at 30 June 2019, compared with those used at 31 December 2018, are given below:

Demographic assumptions (30 June 2019 - 31 December 2018)	
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 June 2019 - 31 December 2018)	
Yearly discounting rate (*)	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)
Annual inflation rate	1.50%

(*) At 30 June 2019, the Iboxx Euro AA 7-10 year Corporate Index was 0.35% (1.13% at 31 December 2018), and the Iboxx Euro AA 10+ Corporate Index was 0.77% (1.57% at 31 December 2018)

The list of valuation processes shown above is included simply to provide readers with a better understanding of the main areas of uncertainty, and it should in no way be considered as implying that, to date, alternative assumptions can prove more appropriate. In addition, valuations are based on the going concern assumption: the directors, in fact, have a reasonable expectation that the Group will continue its current activity in the foreseeable future and have prepared the 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 are not significant and are therefore not such as to cast doubt on its ability to continue as a going concern. Information on risks and related controls can be found in "Part E –Information on risks and related hedging policies" of these Illustrative Notes.

Disclosure on the first-time adoption of the accounting standard IFRS 16 – "Leasing"

Regulation no. 1986 of 31 October 2017 approved the new international accounting standard IFRS 16 "Leasing", which defines, from the point of view of both the lessor and the lessee, the principles on recording, assessment, submission and *disclosure* of leasing contracts, replacing the previous standards/interpretations (IAS 17, IFRIC 4, SIC 15 and SIC 27). The new standard must be applied starting with all years starting on or after 1 January 2019.

For the purpose of preparing the Consolidated Interim Report at 30 June 2019 - which are the Group's first interim financial statements prepared on the basis of the accounting standard IAS 34, after the first time adoption of the new standard - the definitive impacts of IFRS 16 were recognised.
With reference to the method of presenting the effects of first time adoption of the accounting standard, the Banco BPM Group availed itself of the option provided for in the transitional provisions of IFRS 16 not to restate the comparative figures, recognising the impacts as a change in the balances at 1 January 2019.

Significant aspects of the new accounting standard IFRS 16

The accounting standard IFRS 16 defines leasing as a contract, or part to a contract, under which the lessor grants to the lessee the right to use an identified asset (ROU, Right Of Use) for a certain period of time in exchange for a fixed fee. The key elements for defining whether a contract, or part of it, comes under the definition of a lease are the fact that the asset is identified, and that the lessee has the right to control the use of the same and to receive substantially all its economic benefits.
On the basis of this definition, the scope of application of IFRS 16 includes all contracts envisaging a right of use of an asset, regardless of its legal qualification, and therefore including rental, hire, lease or commodatum contracts that were previously not classified as leases. Considering the requirements laid down by IFRS 16 and the clarifications provided by IFRIC in September 2018, the intangible assets represented by software, acquired through user's licences or on the basis of cloud computing agreements, are excluded from the scope of application of IFRS 16, as they must be subject to the regulations of standard IAS 38 where conditions are met.
The main change regards the presentation of leasing contracts, as defined above, from the point of view of the lessee, because the standard eliminates the distinction between operating leases and finance leases of IAS 17, introducing a single accounting model on the basis of which the lessee must recognise in its statement of financial position a liability on the basis of the present value of future instalments to be paid for the contractual term as a balancing entry to recognising, among assets, the right to use the asset covered by the leasing contract. After initial registration:

- the right-of-use asset will be measured at cost on the basis of IAS 16 and subject to depreciation along the term of the contract or the useful life of the asset;
- the liability will be gradually reduced as a result of the payment of the instalments and the interest due to be charged to the income statement will be recognised on it.

The lessee may however choose not to apply the new requirements if the contracts are short-term, that is they have a term of not more than twelve months, or if the assets underlying the leasing contract have a unit value when new of a modest amount (value identified by the IASB as around 5,000 dollars per contract, as indicated in the Basis for Conclusion of IFRS 16, paragraph BC100).
As regards the lessor the rules on accounting for leasing contracts of IAS 17 remain instead substantially unchanged. These are differentiated according to whether they are operating leases or finance leases; in the case of finance leases the lessor will therefore continue to recognise in the balance sheet a receivable for the present value of the future leasing instalments.

Project for the transition to IFRS 16 for Gruppo Banco BPM

For Gruppo Banco BPM, adoption of the IFRS 16 accounting standard starts as of 1 January 2019.

In order to comply with the new accounting standard, during the second half of 2018, the Group implemented a specific project aimed to identify the scope of the contracts to be subjected to the provisions of IFRS 16, to define the appropriate accounting standards - both at the time of the first-time adoption and in full - as well as to put in place the necessary IT and organisational implementations.

In particular, the recognition of the scope of the contracts relevant to the Group was completed, i.e. contracts containing a lease component on the basis of the definitions explained previously. The information necessary to calculate the right of use/liability has also been defined and the activities aimed at recovering it have been completed. To this end it is worth specifying that the Group did not avail itself of the practical expedient, permitted by IFRS 16 on first application, of limiting the application only to contracts identified as leases under the terms of the previous standard IAS 17 (the so-called "grandfather assessment").

With reference to business processes, in 2019 operative provisions were issued aimed at implementing the expense management process (expenditure cycle) that guarantees the recognition of leasing contracts compliant with the new standard, both in terms of a correct identification on acquiring the same at the time of their stipulation and in terms of a correct entering of the necessary information to calculate the right of use and the related liability on the basis of the new accounting rules.

lastly, during the second quarter the activities aimed at configuring the procedure for computerised management of leasing contracts were completed. This procedure consists substantially of an engine for calculating the right of use and the liabilities for future instalments. The results thus produced and the related verification activities made it possible to determine definitively the impacts consequent to the application of the new standard IFRS 16. In this regard we can note that these impacts diverge in a totally marginal manner from what was communicated to the market, provisionally, on 8 May 2019, on the occasion of publication of the results referred to 31 March 2019; the reduction, of € 1.7 million, is attributable to certain refinements in the perimeter and method of calculation, also following the full introduction of the IFRS 16 calculation engine.

Scope and choices of application of IFRS 16 for Gruppo Banco BPM

The IFRS 16 scope of Gruppo Banco BPM includes the lease contracts on the property units mainly intended for commercial activities (branches), which account for more than 99% of impacts consequent to the application of the new standard. The impacts relating to the rest of the perimeter, comprising the company care hire contracts and a limited number of contracts containing a right of use of identified technological appliances.

On first application of IFRS 16 (hereinafter also referred to as "FTA" - First Time Application), the Group has chosen to adopt the Modified Retrospective Approach, permitted by the transitory provisions contained in paragraphs C5(b), C8(b)(ii) of the aforementioned standard. In accordance with this approach, the right of use is set as equal to the lease liability and the comparative information need not be redetermined for the 2018 financial statements. It follows that:

- as at the transition date, no impacts have been recorded on the shareholders' equity booked for Gruppo Banco BPM;
- the data relating to FY 2019 is not comparable with that of FY 2018 with reference to the right of use, lease liability and correlated economic impacts.

From the economic point of view, starting from 1 January 2019, rental instalments are no longer recognised as they accrue among administrative expenses as provided for when the previous accounting standard IAS 17 was in force. This recognition is replaced, in fact, on the one hand, by recognition of the amortisation of the right of use and, on the other, by recognition of the interest that has accrued on the leasing liability. Even though at the end of the leasing contract the total economic effect recorded will be equal to the amount of the leasing instalments effectively paid to the lessor, the new accounting method entails a different division of the aforesaid total economic impact along the term of the contract.
In more detail, the negative economic impact charged to the income statement is reasonably higher at the start of the contract and decreases gradually from year to year as a result of the gradual reduction of the leasing liability following payment of the instalments.

Please also note that the Group has availed itself of the practical expedient, both during FTA and definitively, not to apply the regulations of IFRS 16 to contracts with a term of less than 12 months (i.e. due before 31 December 2019 for the FTA) or with underlying assets of modest new value (threshold value being identified as of Euro 5,000).
Additionally, in order to determine the impairment of the right of use during FTA, the Group relied on assessments performed for the 2018 financial statements relative to the existence of onerous contracts that entailed the need to record a provision for risks and charges in accordance with IAS 37. In particular, these are provisions established against lease contracts for closed branches, for which the costs necessary to fulfil the contract exceeded the expected benefits.

In order to calculate the lease liability and related right of use, Gruppo Banco BPM has discounted the future charges attributable to the leasing component, net of VAT, to be paid for the expected contract term.
With reference to the lease duration, in addition to the period that cannot be cancelled, during which the Group cannot avoid paying charges, extension options were considered if their exercise by the Group was held to be reasonably certain, considering all facts and circumstances. More specifically, with reference to contracts envisaging the faculty of the lessor to renew the lease at the end of the first period, during FTA and definitively, the Group considers the initial term of the rental contract (e.g. 12 years for 6 + 6 year rental contracts) and, once this term has ended, the following first renewal period (e.g. next 6 years), where there is no reasonable evidence that may lead to another renewal period or, vice versa, the end of the contract.
In regard to the discounting of future charges, the discounting rate used is equal to the incremental borrowing rate as at the date on which the contract is stipulated. This rate was identified as the rate used for managerial purposes which expresses the average cost of Group funding, both secured and unsecured. For the purpose of the transition

and in line with the transitional provisions of the standard, this rate corresponds to the ITR (internal transfer rate) of deposits on a Group level, used for managerial purposes on 1 January 2019.

Accounting impacts following the application of IFRS 16 for Gruppo Banco BPM

The tables below show:

- The quantitative impacts related to first time adoption of IFRS 16 (table 1);
- the statements of reconciliation between the formats of the balance sheet assets and liabilities at 31 December 2018 on the basis of the previous standard IAS 17 and those redetermined to take into account IFRS 16 (table 2 and table 3);
- the statement of reconciliation between the commitments for operating lease instalments under IAS 17 at 31 December 2018, to be paid in relation to the non-cancellable period of the contract, and the leasing liability determined on the basis of the provisions of IFRS 16 at 1 January 2019 (table 4).

Table 1: Summary of the financial impacts of first-time adoption of IFRS 16 for balance sheet items

On the basis of what is explained above, the first-time adoption of IFRS 16 entailed the recording of higher property, plant and equipment amounts following the booking of rights of use acquired through leasing, of € 835.6 million, almost entirely represented by property rental contracts, and corresponding liabilities mainly in regard to non-banking counterparties. Considering the reclassification of provisions for risks and charges for onerous contracts of closed branches, of € 34.4 million, the impact on the assets and corresponding liabilities was € 801.2 million, as shown in summary form in the table below.
For the purpose of measuring the leasing liability at the date of first time adoption the average interest rate of marginal financing, weighted on the basis of the leasing liability, is 1.27%.

Balance sheet items	**Financial impacts of FTA of IFRS 16**	**IFRS 16**		**IFRS 16**
	(thousands of euro)	**Impact**	**Reclassification**	**01/01/2019**
90. Property, plant and equipment	Recording:			
	Rights of use of tangible assets (before impairment)	835,594	-	835,594
	Impairment (provisions for risks and charges for onerous contracts)	-	(34,411)	(34,411)
	Rights of use of tangible assets acquired through leasing	**835,594**	**(34,411)**	**801,183**
TOTAL IMPACT ON ASSETS (A)				**801,183**
100. Provisions for risks and charges	Reclassification of provisions of liabilities (impairment of rights of use):			
	Provisions for risks and charges for onerous charges	**-**	**(34,411)**	**(34,411)**
10. Financial liabilities designated at amortised cost	Recording:			
	Leasing payables (customers)	827,689	-	827,689
	Leasing payables (banks)	7,905	-	7,905
	Payables for lease contract charges	**835,594**	**-**	**835,594**
TOTAL IMPACT ON LIABILITIES (B)				**801,183**
150. Reserves	Impact on consolidated shareholders' equity (A)+(B)	**-**	**-**	**-**
TOTAL IMPACT ON CONSOLIDATED SHAREHOLDERS’ EQUITY				**-**

Table 2: Statement of reconciliation between total assets at 31 December 2018 (IAS 17) and total assets at 1 January 2019 (IFRS 16)

Asset items *(thousands of euro)*	**31/12/2018 (IAS 17)**	**IFRS 16 FTA Impacts**	**Reclassifi cations**	**01/01/2019 (IFRS 16)**
10. Cash and cash equivalents	922,017			922,017
20. Financial assets designated at fair value through profit and loss	5,738,595			5,738,595
a) financial assets held for trading	4,522,529			4,522,529
c) other financial assets mandatorily at fair value	1,216,066			1,216,066
30. Financial assets designated at fair value through other comprehensive income	15,351,561			15,351,561
40. Financial assets designated at amortised cost	123,840,007			123,840,007
a) due from banks	4,377,526			4,377,526
b) loans to customers	119,462,481			119,462,481
50. Hedging derivatives	130,511			130,511
60. Fair value change of financial assets in macro fair value hedge portfolios (+/-)	42,173			42,173
70. Equity investments	1,434,163			1,434,163
90. Property, plant and equipment	2,775,885	801,183	72,708	3,649,776
100. Intangible assets	1,277,941			1,277,941
of which: goodwill	76,389			76,389
110. Tax assets	5,012,477			5,012,477
a) current	330,436			330,436
b) deferred	4,682,041			4,682,041
120. Non-current assets and asset disposal groups held for sale	1,592,782			1,592,782
130. Other assets	2,346,679		(72,708)	2,273,971
Total assets	**160,464,791**	**801,183**	**-**	**161,265,974**

At 1 January 2019 item 90 "Property, plant and equipment" increased by € 873.9 million as a result of:

- the recognition of rights of use, as illustrated in table 1 above;
- the reclassification of improvement expenses incurred on rented third-party assets, allocated together with rights of use. These are, in fact, expenses incurred for extraordinary work on rented third-party properties which generated the right of use. In the financial statements at 31 December 2018 these expenses were included in the item "130. Other assets".

Table 3: Statement of reconciliation between total liabilities and shareholders' equity at 31 December 2018 (IAS 17) and total liabilities and shareholders' equity at 1 January 2019 (IFRS 16)

Liability and shareholders' equity items ***(thousands of euro)***	**31/12/2018 (IAS 17)**	**IFRS 16 FTA Impacts**	**Reclassifi cations**	**01/01/2019 (IFRS 16)**
10. Financial liabilities designated at amortised cost	136,160,342	835,594		136,995,936
a) due to banks	31,633,541	7,905		31,641,446
b) due to customers	90,197,859	827,689		91,025,548
c) debt securities issued	14,328,942			14,328,942
20. Financial liabilities held for trading	6,502,522			6,502,522
30. Financial liabilities designated at fair value	692,890			692,890
40. Hedging derivatives	726,307			726,307
50. Fair value change of financial liabilities in macro fair value hedge portfolios (+/-)	49,756			49,756
60. Tax liabilities	505,402			505,402
a) current	11,181			11,181
b) deferred	494,221			494,221
70. Liabilities associated with asset disposal groups held for sale	3,043			3,043
80. Other liabilities	3,814,589			3,814,589
90. Employee termination indemnities	377,498			377,498
100. Provisions for risks and charges	1,327,368	(34,411)		1,292,957
a) commitments and guarantees given	123,814			123,814
b) retirement benefits and similar commitments	150,676			150,676
c) other provisions for risks and charges	1,052,878	(34,411)		1,018,467
120. Valuation reserves	(346,438)			(346,438)
150. Reserves	3,577,955			3,577,955
170. Share capital	7,100,000			7,100,000
180. Treasury shares (-)	(12,610)			(12,610)
190. Non-controlling interests (+/-)	45,599			45,599
200. Income/Loss for the period	(59,432)			(59,432)
Total liabilities and shareholders' equity	**160,464,791**	**801,183**	**-**	**161,265,974**

Table 4: Reconciliation between commitments for IAS 17 operating leases at 31 December 2018 and IFRS 16 leasing liabilities at 1 January 2019

The table of reconciliation between the instalment payment commitments referred to the non-cancellable period of the rental contract of properties at 31 December 2018, on the basis of the rules of IAS 17, and the leasing liabilities at 1 January 2019, on the basis of IFRS 16 is presented below:

Reconciliation for leasing payables ***(thousands of euro)***	**Total**	**Real estate**	**Other**
Leasing commitments for property rental contracts under the terms of IAS 17 at 31 December 2018 (in relation to the non-cancellable period)	**453,776**	**453,776**	**-**
+ instalment payment commitments beyond the non-cancellable period under the terms of IFRS 16	457,741	453,949	3,792
Exception to the recognition of IFRS 16:	(16,265)	(14,026)	(2,239)
- short-term leasing	*(16,249)*	*(14,026)*	*(2,223)*
- low-value leasing	*(16)*		*(16)*
Non-discounted leasing payables at 1 January 2019	**895,252**	**893,699**	**1,553**
Effect of discounting commitments	(59,658)	(59,644)	(14)
Operating leasing payables at 1 January 2019	**835,594**	**834,055**	**1,539**
Financial leasing payables pursuant to IAS 17 at 1 January 2019	-		-
Total IFRS 16 leasing payables at 1 January 2019	**835,594**	**834,055**	**1,539**

Impacts on own funds following application of IFRS 16 for Gruppo Banco BPM

With reference to the impact on own funds, the application of IFRS 16 entailed a reduction of approximately 15 bps with respect to the IFRS 9 phase-in CET1 ratio at 1 January 2019. In line with that explained by the Basel Committee on 06 April 2017 "FAQs on the treatment of the ROU Asset", this effect derives from the inclusion of the right of use on tangible assets in calculating the risk-weighted assets (RWAs) subject to 100% weighting in line with the treatment applied to owned tangible assets. The impact on the IFRS 9 fully phased CET1 ratio was of 12 bps.

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

An illustration of the new accounting standards or the amendments to existing standards approved by the IASB is provided below, as well as new interpretations or amendments to existing ones, published by the IFRIC, with separate disclosure of those applicable in 2019 from those applicable in subsequent years. For information on the accounting standard IFRS 16 please see the paragraph "Disclosure on first-time adoption of the accounting standard IFRS 16 – Leases" above.

IAS/IFRS accounting standards and related SIC/IFRIC interpretations endorsed and to be applied when preparing the 2019 consolidated condensed interim financial statements

Regulation no. 498 of 22 March 2018 – "Amendments to IFRS 9 Financial Instruments – Prepayment Features with Negative Compensation"
These amendments aim to clarify the classification of certain financial assets that are redeemable in advance when applying IFRS 9. In particular:

- for financial assets: there is the option of also measuring at amortised cost loans which, in the event of prepayment, require payment by the lender;
- for financial liabilities: in the event of a change in the contractual terms of a liability that does not entail derecognition, it is expected that the effect of the change on amortised cost will be recognised in the income statement at the date of the change.

Regulation no. 1595 of 23 October 2018 – IFRIC 23 "Uncertainty over Income Tax Treatments"
The purpose of the interpretation is to provide clarifications on how to apply the recognition and measurement criteria laid out in IAS 12 in the case of uncertainty with respect to treatments for the determination of income tax.

Regulation no. 237 of 8 February 2019 – "Amendments to IAS 28 Investments in Associates and Joint Ventures - Long-term Interests in Associates and Joint Ventures"
These amendments aim to clarify that the provisions on the subject of impairment pursuant to IFRS 9 *"Financial Instruments"* apply to long-term interests in associates and joint ventures.

Regulation no. 402 of 13 March 2019 – "Amendments to IAS 19 Employee Benefits – Plan Amendment, Curtailment or Settlement".
The objective of the amendments is to clarify that in the event of amendments to defined benefit plans it becomes necessary to apply the updated assumptions starting from the remeasurement of the net liability (asset) for the rest of the period of reference.

Regulation no. 412 of 14 March 2019 – "Annual Improvements to IFRS Standards 2015–2017 Cycle – Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23"
The objective of the annual improvements is to provide certain clarifications aimed at resolving some inconsistencies in the standards in question or specifications of a terminological nature.

The amendments and interpretations indicated above did not have an impact on the balance sheet or income statement of the Group.

IAS/IFRS accounting standards and SIC/IFRIC interpretations approved, the application of which takes effect after 30 June 2019

There are no standards or interpretations endorsed with effectiveness after 30 June 2019.

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

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

- New version of the *Conceptual Framework for Financial Reporting* issued by IASB on 29 March 2018. The revised version contains the following amendments: a new chapter on the subject of measurement; better definitions and guidance in particular on liabilities; clarifications of a number of significant concepts such as prudence and uncertainty in measurements.
- Amendments to IFRS 3 "Definition of *business*" issued by IASB on 22 October 2018 with the aim of helping to determine if a transaction is an acquisition of a *business* or a group of activities that does not meet the definition of *business* of IFRS 3. The amendments will apply to acquisitions after 1 January 2020.
- Amendments to IAS 1 and IAS 8 "Definition of material" issued by IASB on 31 October 2018 with the aim of clarifying the definition of "material" in order to help companies to assess whether any of the information is to be included in the financial statements or not. The amendments will apply starting from 1 January 2020.

For complete disclosure we can note that on 18 May 2017 the IASB issued the new IFRS 17 accounting standard governing policies issued by insurance companies, which was expected to be applied from 1 January 2021. On 15 November 2018 the IASB itself proposed deferment of the entry into force of the standard to 1 January 2022, proposing at the same time to extend until 2022 the temporary exemption from the application of IFRS 9 granted to insurance companies, so that IFRS 9 and IFRS 17 could be applied at the same moment.
Direct impacts on the Group's operations are not expected, as it does not carry out insurance activities.

Application of the Group's accounting policies to completed transactions or events during the period

ACE project – the derisking process related to a bad loan portfolio completed

As indicated in the "Significant events during the period" section of the Interim Report on Operations, during the first quarter the ACE project was completed. This had the aim of derisking a bad loan portfolio, by transferring to third parties the related risks and benefits, through a securitisation transaction obtaining a State guarantee on the senior notes (the so-called *Garanzia Cartolarizzazione Sofferenze* - Bad Loan Securitisation Guarantee, under the terms of Italian Law Decree no. 18 of 14 February 2016, hereinafter "GACS").
Following the acceptance, on 10 December 2018, of the binding offer received from the funds managed by Elliott Management and Credito Fondiario, on 28 December 2018 Banco BPM S.p.A. had made - under the terms of article 58 of Italian Legislative Decree 385/1993 and of articles 1 and 4 of Italian Law 130/1999 on Securitisation - the sale without recourse of the aforementioned bad loan portfolio (gross book value of € 6.2 billion) to a Vehicle Company set up for the purpose (Leviticus SPV S.r.l.). At 31 December 2018, these receivables were presented among assets held for sale (item 120 of the balance sheet assets) and measured on the basis of the flows considered recoverable at the end of the derisking process.
On 6 February 2019, Leviticus SPV financed the purchase of the receivables through the issue of three classes of notes, which were initially subscribed, in full, by Banco BPM for a nominal value of € 1,910.4 million divided as follows:

- Senior (Class A) notes for 1,440.0 million euro. These securities hold an Investment Grade rating (DBRS: BBB; Scope: BBB (SF) and its yield is equal to the 6-month Euribor plus an annual spread of 0.6%;
- Mezzanine (Class B) notes for 221.5 million euro. These unrated securities provide for a yield equal to 6-month Euribor plus an annual spread of 8 %;
- Junior (Class J) notes amounting to 248.8 million euro. These unrated securities provide for a possible remuneration of 10% plus any extra yield.

On 26 March 2019, observing the "retention rule" established by the supervisory regulations, the sale to third parties of 95% of the Mezzanine tranches and 95% of the Junior tranches was completed. Starting from that date, the State guarantee on the senior notes thus became effective, under the terms of the aforementioned Italian Law Decree 18/2016.

Following this sale the conditions were fulfilled for derecognition of the bad loan portfolio sold, because the risks and benefits of the aforementioned portfolio have substantially been transferred, in accordance with the provisions of the accounting standard IFRS 9. It should also be noted that the Group has no power — either de facto or in law — to manage the relevant activities of the SPE, represented by the activities aimed at recovering the receivables.
In the light of the above, as at 30 June 2019 the Group held:

- all senior notes classified in the portfolio of "Financial assets designated at amortised cost: b) Loans to customers". At 30 June 2019, the book value totalled € 1,440.4 million;
- 5% of mezzanine notes and 5% of junior notes classified in the portfolio of "Financial assets designated at fair value through profit and loss" at the book value of 4.5 million euro. The measurement at fair value (level 3 in the fair value hierarchy) took into account the price of the recent sale transaction.

For the sake of full disclosure, financial assets designated at amortised cost include a limited recourse loan granted to the SPE amounting to 66.8 million euro, in order to establish a cash reserve equal to 4% of the nominal value of the senior and mezzanine notes. In this regard, it should be noted that this loan does not represent any form of credit support to the securitisation; in the waterfall payments, the repayment of the loan in question is different from the payment of the principal of the senior securities and the payment of the principal and interest of the mezzanine securities.

ACE project – sale of the platform for the recovery of NPLs

As indicated in the "Significant events during the period" section of the Interim Report on Operations, the agreements with the funds managed by Elliott Management and Credito Fondiario, mentioned in the previous paragraph, provided for the establishment of a platform for the recovery of impaired receivables, in partnership with Credito Fondiario, through a vehicle company controlled by the latter company. To this end, in December 2018, the company First Servicing S.p.A. was set up by Banco BPM, with the purpose of segregating the functions of servicer of Banco BPM's bad loans and of the portfolio sold in the context of the securitisation transaction illustrated above.
The operation was completed with the contribution on 23 May 2019 by Banco BPM to First Servicing S.p.A. of the business unit made up of the credit recovery activities and with the subsequent sale to Credito Fondiario, on 1 June 2019, of a 70% equity interest in the company First Servicing S.p.A. (renamed CF Liberty Servicing S.p.A. following the extraordinary shareholders' meeting of 31 May 2019).
Overall the operation described above entailed a positive economic effect of € 142.7 million, before taxes, recognised in the income statement item "280. Profits (losses) on disposal of investments". In more detail, this capital gain derives:

- for € 99.9 million from the gain made following the sale to Credito Fondiario of a 70% stake in the capital of CF Liberty Servicing S.p.A., for a price of € 100 million;
- for € 42.8 million from the remeasurement at fair value of the remaining interest, of 30%, held in CF Liberty Servicing S.p.A., on the basis of the rules provided for in IFRS 10 in the event of loss of control.

Lastly, we can note that the remaining interest in CF Liberty Servicing S.p.A. was classified, on the basis of the accounting standard IAS 28, among associates measured at equity.

ACE Leasing project – process of derisking a non-performing portfolio mainly represented by leasing exposures

As indicated in the "Significant events during the period" section of the Interim Report on Operations, on 16 April Banco BPM approved the binding offer received from Illimity Bank S.p.A., which provides for the sale of a leasing portfolio of non-performing exposures.
On 28 June 2019 the sale contracts were signed for the receivables and related assets and legal relationships. In particular, the sale refers to a portfolio of loan exposures of a nominal approximately € 650 million at the contractually established measurement date, the "cut-off date", (the nominal value at 30 June 2019 was approximately € 600 million), made up mainly of receivables deriving from receivable and payable legal relationships attributable to leasing contracts classified as non-performing, together with the immovable and movable assets and the underlying contracts.
The closing of the operation is subject to the conditions precedent typical of this kind of transaction, including notarial certification for the transferability of the assets and, subordinately to the fulfilment of the said conditions precedent, will be divided into several transfer stages, starting from 1 July 2019 (date of transfer of the first tranche of receivables, assets and legal relationships) up to 30 June 2020.

On the basis of what is laid down by the accounting standard IFRS 5, at 30 June 2019, the bad loan portfolio transferred is no longer included in the accounting item related to loans to customers (item 40 b) of the balance sheet assets) but among asset disposal groups held for sale (item 120 of the balance sheet assets), as illustrated in Part B – Information on the consolidated balance sheet contained in the Illustrative Notes.
As these are not discontinued operations, under the terms of IFRS 5, the reclassification among assets held for sale regards only the financial balances at 30 June 2019 and not the economic ones.
For measurement purposes, the impacts expected from completion of the transfer are already considered in the measurement of the portfolio in question recognised in the income statement item "130. Net losses/recoveries on credit risk".
Taking into account that the aforementioned derisking strategy was included in the target sale objectives used for the 2018 financial statements for the purpose of quantifying the expected losses on the basis of the IFRS 9 multi-scenario sale model, the alignment to the selling prices of the portfolio in question did not entail overall significant impacts on the cost of credit.

Reorganisation of the consumer credit segment related to the subsidiary ProFamily

As indicated in the section "Significant events during the period" in the Interim Report on Operations, in the context of the agreements signed at the end of 2018 by Banco BPM, Crédit Agricole, Crédit Agricole Consumer Finance and Agos Ducato on the reorganisation of consumer credit, on 28 June 2019 the transaction for the sale of the subsidiary ProFamily S.p.A. to Agos Ducato S.p.A. (hereinafter also "Agos") was completed. Banco BPM holds 39% of the share capital of the latter and Crédit Agricole Consumer Finance 61%.
In detail, Banco BPM sold to Agos Ducato, for a price of € 310 million, 100% of the share capital of ProFamily S.p.A., from which the non-captive assets were separated in advance through a demerger operation to the benefit of a newly-incorporated company 100% controlled by Banco BPM. The company involved in the sale, which will manage the captive assets, was renamed ProAgos S.p.A. and was incorporated into Agos; the beneficiary company of the demerger of the non-captive unit, that is of the assets attributable to the disbursement of loans through channels other than bank branches, will continue to operate with the name ProFamily S.p.A..
The economic impact of the sale, recognised in the consolidated income statement item "280. Profits (losses) on disposal of investments", amounted to € 189.5 million, before the tax effect.
For the purpose of determining the aforesaid impact, the total capital gain of the sale to Agos was reversed for a portion of 39%, corresponding to the interest held in Agos, that is in the associate in relation to which the sale transaction was completed. For the case in question the Group, in fact, decided to apply the rules provided for in the accounting standard IAS 28 with reference to transactions with associates (so-called "downstream transactions").
With reference to the newly-incorporated company, fully controlled by Banco BPM, regarding the assignment of the business unit related to the consumer credit activity carried on through the "Non-captive network" (monomandatory agents and own branches), the Group began a process aimed at selling the entire equity interest. In virtue of the launch of this process, the equity investment held in ProFamily was classified as an asset held for sale, under the terms of IFRS 5.
As regards the income statement, it should be specified that the contribution of the investee is represented in income statement items on a line-by-line basis as, pursuant to IFRS 5, it cannot be classified among discontinued operations.

Issue of Additional Tier 1 instruments

As indicated in the "Significant events during the period" section of the Interim Report on Operations, on 11 April 2019, Banco BPM issued Additional Tier 1 instruments for an amount of € 300 million. 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 recalled by the issuer from 18 June 2024, subject to authorisation by the competent Authority; if they are not recalled, the call may be exercised every 5 years.
The six-monthly coupon, non-cumulative, was set at 8.75%. If the option of early redemption envisaged, for 18 June 2024, is not exercised, a new fixed-rate coupon will be determined adding the original spread to the mid-swap rate in euro at 5 years to be recorded at the moment of the recalculation date. This new coupon will remain fixed for the following 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 are fulfilled, including the occurrence of the trigger event illustrated in the next paragraph. In addition the interest is not

cumulative: any amount that the issuer decides not to pay (or would be obliged not to pay) will not be accumulated or payable at a later date.
In addition, the regulation of the loan in question states that on the occurrence of a trigger event, that is if Banco BPM's Common Equity Tier 1 (CET1) (or the consolidated CET1) should be lower than the level of 5.125%, there would be – irrevocably and obligatorily - a cancellation of the capital (a write-down) of an amount necessary to bring the CET1 (of Banco BPM or of the Group) back to 5.125%. On fulfilment of certain conditions, and at the issuer's complete discretion, the capital previously written down could be reinstated (so-called "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.
On the basis of 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 at 30 June 2019, the price received from the issue - after deducting the directly-attributable transaction costs net of the tax effect which amounted to € 1.9 million - is presented in the shareholders' equity item "140. Equity instruments", for an amount of € 298.1 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. At 30 June 2019 the shareholders' equity therefore decreased by € 3.2 million, as a result of the payment of the coupons made on 18 June 2019 (€ 4.4 million) net of the related tax effect.

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 (IDGF) and the National Resolution Fund (merged into the Single Resolution Fund (SRF) 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 IDGF and/or of the SRF 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 for this item, "190. b) Other administrative expenses" in application of IFRIC 21 interpretation "Levies", on the basis of which the liability relating to the payment of a levy arises at the time the "obligating event" occurs, namely at the time of the obligation to pay the annual fee. In the case in question, for accounting purposes the contributions are considered similar to a levy and the moment of the obligating event was identified during the first quarter for the SRF and the third quarter for the IDGF.
The ordinary contribution to the SRF, indicated in the income statement of the first half of 2019, amounted to € 61.7 million (the contribution of the first half of 2018 was 68 million). In this regard, please note that in 2019, as in the previous year, the Group did not avail itself of the option of fulfilling the request by entering into an Irrevocable Payment Commitment (IPC).
The ordinary contribution to the IDGF will be recognised in the income statement of the third quarter of 2019 (the contribution required for financial year 2018 recognised in the third quarter of 2018 was € 45.2 million).
Lastly, we can note that in May 2019, the Bank of Italy called in additional contributions to the National Resolution Fund for € 22.6 million, in relation to the financial requirements connected with the resolution measures carried out prior to the launch of the SRF. In detail, these were measures launched in November 2015 by the Bank of Italy, as the national resolution authority - under the terms of Italian Legislative Decree no. 180 of 16 November 2016, - in relation to the following four banks: Cassa di Risparmio di Ferrara S.p.A., Banca delle Marche S.p.A., Banca Popolare dell'Etruria e del Lazio – Società Cooperativa and Cassa di Risparmio della Provincia di Chieti S.p,A.. These contributions were also fully charged to the income statement of the second quarter of 2019 among "Other administrative expenses" (the additional contribution debited in the same quarter of 2018 was € 25.5 million). Under the terms of the aforementioned interpretation IFRIC 21, for the contribution in question the payment obligation arises at the moment in which the Bank of Italy, after assessing the financial needs of the National Resolution Fund, communicates them.

Scope of consolidation and methods

(A) Subsidiary companies

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 2019, broken down into companies controlled through voting rights and structured entities.

Companies controlled through voting rights

With reference to the Group's situation as at 30 June 2019, companies in which a majority of voting rights in the ordinary shareholders meeting is held are considered to be exclusively controlled, insofar as there is no evidence that other investors have the practical ability to direct the relevant activities.
As regards companies in which half or a lower amount of voting rights are held, as at 30 June 2019, there are no arrangements, statutory clauses, or situations able to establish that the Group has the practical ability to unilaterally direct the relevant activities.

Consolidated structured entities

The control of structured entities, namely entities for which voting rights are not considered relevant to establish control, is retained to exist where the Group has contractual rights to manage the relevant activities of the entity and is exposed to the variable returns of the same. On this basis, the consolidated structured entities recognised by the Group are represented by the SPEs for securitisation transactions and by SPVs for covered bond transactions.

<u>Special Purpose Entities for securitisation transactions</u>

With regard to Special Purpose Entities for securitisation transactions, the elements retained as relevant for the purpose of identifying control and therefore the need for any consolidation, are represented by:

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

Line-by-line consolidation method

Controlled entities are consolidated from the date on which the Group acquires control, according to the purchase method, and cease to be consolidated from the moment in which a situation of control no longer exists, for the details please see the Annual Financial Report at 31 December 2018 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 equity investments held by the Parent Company or by the other Group companies is eliminated against the acquisition of the assets and liabilities of the investees, as a balancing entry to the corresponding portion of shareholders' equity attributable to the Group and the portion held by minority interests, also taking into account the purchase price allocation upon acquisition of control.

For subsidiary entities, the portion of shareholders' equity, income (loss) for the year and comprehensive income pertaining to minority interests is indicated as a separate item in the respective schedules of the consolidated financial statements (respectively in items: "190. Non-controlling interests", "340. Income (loss) attributable to minority interests", "190. Consolidated comprehensive income attributable to minority interests").
In this regard, please note that there is no effect on the balance sheet, the income (loss) or comprehensive income pertaining to minority interests resulting from the consolidation of the separate equities held by the SPEs for securitisations originated by the Group, not subject to derecognition in the separate financial statements of the assigning Group banks. For a description of the effects of the consolidation of these assets, please refer to the information contained in the Annual Financial Report at 31 December 2018, part "A.2. Key financial statement items" below, section "16 - Other information, Securitisations - derecognition from financial statements of financial assets transferred".

The costs and revenues of the subsidiary entity are consolidated from the date on which control was acquired. The costs and revenues of a subsidiary sold are included in the income statement up until the date of the disposal; the difference between the sale price and the book value of the net assets of the same is recognised under the income statement item "280. Profits (losses) on disposal of investments". In the event of the partial disposal of a subsidiary entity, which does not result in a loss of control, the difference between the sale price and the relative book value is recognised as a balancing entry of shareholders' equity.

The assets, liabilities, off-balance sheet transactions, income and expenses relating to transactions between consolidated companies are eliminated in full.

The balance sheet and income statement results of the consolidated companies whose operating currency is different from the euro are translated based on the following rules:

- the balance sheet assets and liabilities are converted at the exchange rate in effect at the end of the period;
- the revenues and costs on the income statement are converted at the average exchange rate for the period.

All exchange rate differences originated by the conversion are recognised in a specific valuation reserve under shareholder's equity. Said reserve is eliminated through a concurrent debit/crediting of the income statement when the investment is disposed of. Changes in value of the valuation reserve due to exchange differences are included in the Statement of comprehensive income.

In order to prepare the consolidated condensed interim financial statements as at 30 June 2019, all of the exclusively controlled companies have prepared a balance sheet and income statement in accordance with the Group's accounting principles.

Investments in associates and companies subject to joint control held for sale are recorded in compliance with the reference international accounting standard IFRS 5, which regulates the recording of non-current assets held for sale. In this case, the assets and liabilities held for sale are included in the balance sheet items "120. Non-current assets and asset disposal groups held for sale" and "70. Liabilities associated with asset disposal groups held for sale". As regards the income statement, expenses and income associated with assets and liabilities classified as held for sale, net of taxes, have been recognised in the separate item "320. Profit (loss) from discontinued operations, net of taxes". If the fair value of the assets and liabilities held for sale, net of selling costs, turns out to be lower than the book value, a value adjustment is recognised in the income statement.

Investments in exclusively controlled companies

	Company names	Operational headquarters	Registered office	Type of relationship (1)	Investment relationship		Available % of votes (2)
					Holder	% held	
	Banco BPM S.p.A.	**Verona**	**Milan**		**Parent Group**		
1.	Agriurbe S.r.l. in liquidation Share Capital € 10,000.00	Milan	Milan	1	Banco BPM	100.000%	100.000%
2.	Aletti & C. Banca di Investimento Mobiliare S.p.A. Share Capital € 121,163,538.96	Milan	Milan	1	Banco BPM	100.000%	100.000%
3.	Aletti Fiduciaria S.p.A. Share Capital € 1,040,000.00	Milan	Milan	1	Banca Aletti & C.	100.000%	100.000%
4.	Arena Broker S.r.l. Share Capital € 500,000.00	Verona	Verona	1	Holding di Partecipazioni	57.300%	57.300%
5.	Banca Akros S.p.A. Share Capital € 39,433,803.00	Milan	Milan	1	Banco BPM	100.000%	100.000%
6.	Banca Aletti & C. (Suisse) S.A. Share Capital CHF 35,000,000	CH - Lugano	CH - Lugano	1	Banca Aletti & C.	100.000%	100.000%
7.	Bipielle Bank (Suisse) S.A. in liquidation Share Capital CHF 48,992,000	CH - Lugano	CH - Lugano	1	Banco BPM	100.000%	100.000%
8.	Bipielle Real Estate S.p.A. Share Capital € 298,418,385.78	Lodi	Lodi	1	Banco BPM	100.000%	100.000%
9.	BPM Covered Bond S.r.l. Share Capital € 10,000.00	Rome	Rome	1	Banco BPM	80.000%	80.000%
10.	BPM Covered Bond 2 S.r.l. Share Capital € 10,000.00	Rome	Rome	1	Banco BPM	80.000%	80.000%
11.	BRF Property S.p.A. Share Capital € 2,000,000.00	Parma	Parma	1	Partecipazioni Italiane Banco BPM	51.114% 14.314%	51.114% 14.314%
12.	BP Covered Bond S.r.l. Share Capital € 10,000.00	Milan	Milan	1	Banco BPM	60.000%	60.000%
13.	BP Trading Immobiliare S.r.l. Share Capital € 4,070,000.00	Lodi	Lodi	1	Bipielle Real Estate	100.000%	100.000%
14.	Consorzio AT01 Share Capital € 100,000.00	Lodi	Lodi	1	Bipielle Real Estate	95.000%	95.000%
15.	FIN.E.R.T. S.p.A in liquidation Share Capital € 103,280.00	Rome	Rome	1	Banco BPM	80.000%	80.000%
16.	Ge.Se.So. S.r.l. Share Capital € 10,329.00	Milan	Milan	1	Banco BPM	100.000%	100.000%
17.	Holding di Partecipazioni Finanziarie Banco Popolare S.p.A. Share Capital € 119,850,000.00	Verona	Verona	1	Banco BPM	100.000%	100.000%
18.	Immobiliare Marinai d'Italia S.r.l. Share Capital € 258,024.00	Lodi	Lodi	1	Banco BPM	100.000%	100.000%
19.	Lido dei Coralli S.r.l. Share Capital € 10,000.00	Sassari	Sassari	1	Bipielle Real Estate	100.000%	100.000%
20.	Meleti S.r.l. Share Capital € 20,000.00	Lodi	Lodi	1	Perca	100.000%	100.000%

Company names	Operational headquarters	Registered office	Type of relationship (1)	Investment relationship		Available % of votes (2)
				Holder	% held	
21. Milano Leasing S.p.A. in liquidation Share Capital € 1,541,808.00	Milan	Milan	1	Banco BPM	99.999%	99.999%
22. Partecipazioni Italiane S.p.A. in liquidation Share Capital € 350,000.00	Milan	Milan	1	Banco BPM	99.966%	100.000%
23. Perca S.r.l. Share Capital € 50,000.00	Lodi	Lodi	1	Immobiliare Marinai d'Italia	100.000%	100.000%
24. P.M.G. S.r.l. in liquidation Share Capital € 52,000.00	Milan	Milan	1	Banco BPM	84.000%	84.000%
25. ProFamily S.p.A. (*) Share capital € 43,000,000.00	Milan	Milan	1	Banco BPM	100.000%	100.000%
26. Release S.p.A. Share Capital € 430,488,261.00	Milan	Milan	1	Banco BPM	85.387%	85.387%
27. Sagim S.r.l. Società Agricola Share Capital € 7,746,853.00	Asciano (Siena)	Asciano (Siena)	1	Agriurbe	100.000%	100.000%
28. Sirio Immobiliare S.r.l. Share Capital € 10,000.00	Lodi	Lodi	1	Bipielle Real Estate	100.000%	100.000%
29. Tecmarket Servizi S.p.A. Share Capital € 983,880.00	Verona	Verona	1	Banco BPM	100.000%	100.000%
30. Terme Ioniche S.r.l. Share Capital € 1,157,190.00	Cosenza	Lodi	1	Bipielle Real Estate	100.000%	100.000%
31. Terme Ioniche Società Agricola S.r.l. Share Capital € 100,000.00	Cosenza	Cosenza	1	Bipielle Real Estate	100.000%	100.000%
32. Tiepolo Finance S.r.l. in liquidation Share Capital € 10,200.00	Lodi	Lodi	1	Banco BPM	100.000%	100.000%
33. BP Mortgages S.r.l. (**) Share Capital € 10,000.00	Milan	Milan	4	-	0.000%	
34. BPL Mortgages S.r.l. (**) Share Capital € 12,000.00	Conegliano V. (Treviso)	Conegliano V. (Treviso)	4	-	0.000%	
35. BPM Securitisation 2 S.r.l. (**) Share Capital € 10,000.00	Rome	Rome	4	Banco BPM	0.000%	
36. Italfinance Securitisation VH 1 S.r.l. (**) Share Capital € 10,000.00	Conegliano V. (Treviso)	Conegliano V. (Treviso)	4	Banco BPM	9.900%	9.900%
37. Italfinance Securitisation VH 2 S.r.l. (**) Share Capital € 10,000.00	Conegliano V. (Treviso)	Conegliano V. (Treviso)	4	-	0.000%	
38. Leasimpresa Finance S.r.l. in liquidation Share Capital € 10,000.00	Conegliano V. (Treviso)	Conegliano V. (Treviso)	1	Banco BPM	100.000%	100.000%
39. ProFamily Securitisation S.r.l. (**) Share Capital € 10,000.00	Conegliano V. (Treviso)	Conegliano V. (Treviso)	4	-	0.000%	

(1) Type of relationship:
1 = majority of voting rights in the ordinary shareholders' meeting
4 = other forms of control
(2) Availability of votes in the ordinary shareholders' meeting, distinguishing between actual and potential
(*) Company undergoing disposal as per IFRS 5.
(**) Special Purpose Entity for securitisation transactions originated by the Group.

Changes in the scope of consolidation

Changes in the scope of consolidation compared to the situation as at 31 December 2018 are shown in the table below:

Fully consolidated companies	
Newly-incorporated company for demerger operation	
"new" ProFamily S.p.A.	100.00%
Outgoing company due to sale	
ProFamily S.p.A.	100.00%
Outgoing companies due to merger operations	
Name of company incorporated	**Name of incorporating company**
BP Property Management S.c.a r.l.	Banco BPM S.p.A.
Società Gestione Servizi BP S.c.p.a.	Banco BPM S.p.A.
Sviluppo Comparto 6 S.r.l.	Bipielle Real Estate S.p.A.
Sviluppo Comparto 8 S.r.l.	Bipielle Real Estate S.p.A.
Manzoni 65 S.r.l.	Bipielle Real Estate S.p.A.
Outgoing companies due to corporate liquidations	
Liberty S.r.l. (in liquidation)	100.00%
BPM Securitisation 3 S.r.l. (in liquidation)	100.00%
Beta S.r.l. (in liquidation)	100.00%
Outgoing company due to change in equity investments	
Fist Servicing S.p.A. (now CF Liberty Servicing S.p.A.)	100.00%
Vehicle company outgoing due to completion of securitisation transactions/sale of receivables	
Erice Finance S.r.l.	-
Leviticus SPV S.r.l.	-

Companies consolidated with the equity method	
Incoming company due to change in equity investments	
First Servicing S.p.A. (now CF Liberty Servicing S.p.A.)	30.00%
Outgoing company due to corporate liquidation	
Motia Compagnia di Navigazione S.p.A. (in liquidation)	
Outgoing company due to sale	
Immobiliare Centro Milano S.p.A. (in liquidation)	

During the first half of 2019, we can note, as a change in the consolidation scope, the exclusion of the subsidiaries Liberty S.r.l., BPM Securitisation 3 S.r.l. Beta S.r.l., and the associate Motia Compagnia di Navigazione S.p.A. following cancellation from the competent Companies Registers upon completion of the respective liquidation procedures, and of the associate Immobiliare Centro Milano S.p.A., sold in the period.
The SPVs Erice Finance S.r.l. and Leviticus SPV S.r.l. also leave the scope of consolidation, the first due to closure of the securitisation transaction and the second following completion of the transfer of receivables under the scope of the ACE project and the consequent derecognition of such from the accounts.
In addition the vehicle First Servicing S.p.A., a company wholly owned by the Parent Company with the purpose of performing the functions of servicer in the context of the "ACE" project, was moved into the segment of associated companies measured with the equity method as a result of the sale of 70% of the capital of the same to Credito Fondiario S.p.A. completed in May.

As part of the process of restructuring the consumer credit segment we can note also that in June Banco BPM completed a demerger operation that entailed:

- the entry among fully-consolidated companies of the "new" ProFamily S.p.A., a newly-incorporated company fully controlled by Banco BPM, involving the assignment of the business unit related to the consumer credit activity performed through the "Non-captive network";
- the exclusion owing to sale to Agos Ducato of the "old" ProFamily S.p.A. which, at the same time, had assumed the name ProAgos.

Notice that in the period operations were completed for merger by incorporation of the subsidiaries BP Property Management and Società Gestione Servizi BP into the Parent Company Banco BPM and of the subsidiaries Sviluppo Comparto 6, Sviluppo Comparto 8 and Manzoni 65 into Bipielle Real Estate. These operations, which took effect for accounting and tax purposes as of 1 January 2019, occurred in the simplified form established for wholly-owned companies.

For further details, please refer to the section that illustrates the significant events that occurred during the period.

A.2 – Key financial statement items: changes consequent to introduction of the new standard IFRS 16

The accounting standards modified by the application of the accounting standard IFRS 16 are presented below, by accounting item, with reference to the stages of classification, recognition, measurement and derecognition, as also for the methods of recognising revenues and costs. For the other standards, which remained unchanged, please see the Annual Financial Report at 31 December 2018 of the Banco BPM Group ("Part A.2 – Key financial statement items").

Property, plant and equipment

Classification criteria

Property, plant and equipment items include land, operating property, works of art, real estate investments, technical plants, furniture, fittings and equipment of any type. More specifically:

- assets held for use in the production or supply of goods and services are classified as "property and equipment used in operations" and recognised in accordance with IAS 16;
- property held for rental to third parties or for capital appreciation through sale is classified as "property and equipment held for investment" and follows the rules set out in IAS 40;
- property held to enhance the value of the investment through renovation or requalification for its subsequent sale is classified as inventories and follows the rules of IAS 2.

Property, plant and equipment also include assets related to finance lease contracts which returned to the leasing company's ownership following the termination of the contracts and the concurrent closure of the original credit position.
Also recognised in this item are rights of use (ROU) of property, plant and equipment acquired with leasing contracts, as lessee, irrespective of the legal classification of the same.
The item includes finally the improvement and incremental costs on third party assets; these are costs to renovate rented property, incurred to render them suitable for their intended use. In detail, improvement expenses which:

- represent identifiable and separable property, plant and equipment items, are classified in the specific category to which they refer (e.g. technical plant, equipment);
- are not identifiable and separable from the property (for example walls) are booked as an increase in rights of use, recognised on the basis of the provisions of IFRS 16.

Recognition criteria

Property, plant and equipment items are initially carried at cost, which includes the purchase price and all accessory charges directly attributable to the acquisition of the asset and bringing it to working conditions. Extraordinary maintenance costs which entail an increase in future economic benefits are included in the asset's book value, while other ordinary maintenance costs are charged to the income statement.
Property withdrawn following the closure of the original credit position (so-called "*datio in solutum*") will be recognised at the lower of the gross loan value recognised at the time of withdrawal of the asset and:

- the "market value" deriving from a specific appraisal, if the property is not expected to be classified under "non-current assets and assets disposal groups held for sale" within a short time;
- the "immediate sale value" deriving from a specific appraisal, which adjusts the market value for prospective sale in the very short term, when it is known at the termination date that the property will be subsequently allocated under "non-current assets and asset disposal groups held for sale";

- the price during trading, if on initial recognition concrete negotiations for sale are in course, demonstrated by commitments undertaken by the interested parties to the negotiations.

Rights of use acquired through leasing are recognised on the basis of the sum of the present value of the future instalments to be paid for the contractual term, the payments for leasing made before or at the date from which the lease runs, the initial direct costs and any costs estimated for dismantling or reinstatement of the asset underlying the leasing.

Income item measurement and recognition criteria

Subsequent to initial recognition, property, plant and equipment in ownership or acquired through rights of use, with the exception of those covered by IAS 2, is carried at cost, less any depreciation and impairment.

Property and equipment are systematically depreciated throughout their useful life, using the straight-line method, with the exception of:

- land, whether purchased separately or as part of the value of the buildings standing on it, as it has an unlimited life. If its value is embedded in the value of the buildings built on it, in virtue of the application of the component approach, land is considered a separate asset from the building. At the acquisition date, the separation of the value of the land and the value of the building is based on appraisals by independent experts;
- works of art, because the useful life of a masterpiece cannot be estimated and its value normally is destined to increase with time.

"Improvements to third party assets" are depreciated:

- if identifiable and separable property, plant and equipment items according to the useful life, as described above;
- if not identifiable and separable from the leased property, according to the shortest period between that in which the improvements and the additional expenses can be used and the residual duration of the lease contract, including the renewal period, if there is evidence in this regard.

At each balance sheet or interim reporting date, if there is any indication that an asset may be impaired, the asset's book value is compared with its recoverable amount, that is, equal to the higher of the asset's fair value, net of costs to sell, and its value in use, understood as the present value of future cash flows originated by the asset. Any adjustments are charged to the income statement. Whenever the reasons for the impairment loss are no longer valid, recoveries are recognised, which must not exceed the asset's value had no impairment taken place in the past, net of accrued depreciation.

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

Derecognition criteria

Property and equipment is derecognised from the balance sheet at the time of disposal or when the asset is permanently withdrawn from use and no future economic benefits are expected from its disposal. Capital gains and losses deriving from the liquidation or disposal of property and equipment are calculated as the difference between the net sale consideration and the book value of the asset and are recognised in the income statement on the day of derecognition.

Financial liabilities designated at amortised cost

Classification criteria

"Financial liabilities designated at amortised cost" include the sub-items "Due to banks", "Due to customers" and "Debt securities issued" and consist of various forms of interbank and customer loans and funding carried out through certificates of deposit and bonds outstanding.

These also include loans recorded by lessees as part of leases, as well as funding repurchase agreements and securities lent against collateral in cash, to which the lender has full access. Also included are operating payables connected with the provision of financial services as defined in the Consolidated Banking Law and in the Consolidated Finance Law.

Recognition criteria

These liabilities are initially recognised when the amounts collected are received or the debt securities are issued and are carried out on the basis of their fair value, which is generally equal to the amount received or the issue price, increased by any additional costs/income directly attributable to the individual funding or issue transaction and not paid back by the lending counterparty. Internal administrative costs are excluded.
Repurchase agreements with the obligation to repurchase are recognised as funding transactions for the spot amount paid.
Leasing payables are recognised on the basis of the present value of future instalments still to be paid for the contractual term.

Income item measurement and recognition criteria

Subsequent to initial recognition, the financial liabilities that emerged, net of any redemptions and/or repurchase, are measured at amortised cost, using the effective interest rate method. Short-term liabilities are an exception, if the time factor is immaterial. These are stated at their received value, and any incurred costs are charged to the income statement on a straight-line basis over the contractual life of the liability. Moreover, funding instruments under an effective hedge are measured based on the standards established for hedging transactions.

For structured instruments that incorporate an embedded derivative—in accordance with IFRS 9 and illustrated in the previous item "Financial assets held for trading"—the embedded derivative is separated out from the host contract. In that instance:

- the embedded derivative is classified as an asset or liability held for trading and is measured at fair value;
- the host contract is classified under liabilities valued at amortised cost.

Leasing payables must be redetermined in the event of modification of the payments due (lease modification); the impact of the redetermination will be recorded as a counter-item to the right-of-use asset.

Derecognition criteria

Financial liabilities are derecognised from the financial statements or interim reports when expired or cancelled. Derecognition also takes place in the event of repurchases of securities issued. The difference between the book value of liabilities and the purchase price paid is recorded in the income statement. The subsequent placement of own securities following their repurchase is accounted for as a new issue, recognised at the new placement price, with no effects on the income statement.

Other information

a) Contents of other financial statement items

Other assets

This item includes assets not attributable to the other balance sheet asset items. For example, this item may contain:

- gold, silver and precious metals;
- accrued income other than that capitalised on the related financial assets, including those deriving from contracts with customers pursuant to the IFRS 15 standard;
- receivables associated with providing non-financial goods or services;
- payable tax items other than those recognised in "110. Tax assets".

These may also include any remainders (of the "borrower's balance") of items in transit or suspended not attributed to the specific accounts, because they are of immaterial amounts.

b) Illustration of other significant accounting treatments

Leasing

IFRS 16 defines a lease as a contract, or part of a contract, on the basis of which the lessor grants to the lessee the right to use an identified asset (ROU, Right Of Use) for a certain period of time in exchange for a certain consideration. The key elements for defining whether a contract, or part of it, comes under the definition of a lease are the fact that the asset is identified, and that the lessee has the right to control the use of the same and to receive substantially all its economic benefits.

Accounting in the lessee's financial statements

For the lessee, the accounting model provides for recognition in the statement of financial position of a liability on the basis of the present value of the future instalments to be paid for the contractual term as a counter-item of recognition, among the assets, of the right of use of the asset covered by the leasing contract.

In detail, the date of initial recognition of the asset and the liability in the company's statement of financial position corresponds to the start date of the contract, that is the date on which the asset is made available to the lessee.

At this date the lessee recognises:
- among "Property, plant and equipment", the right-of-use asset, determined by the sum of the following amounts:
  - present value of the future payments (amount of the liability recognised);
  - initial direct costs (such as costs for agents);
  - prepaid leasing instalments (maxi-instalment);
  - estimate of any costs for removal and reinstatement, recognised in accordance with IAS 37;
  - net of any leasing incentives received from the lessor;
- among "Financial liabilities designated at amortised cost", the financial liability, equal to the present value of the payments due for the leasing. The discounting rate used is equal to the incremental borrowing rate as at the date on which the contract is signed. This rate was identified as that used for managerial purposes and expresses the average cost of Group funding, both secured and unsecured.

In identifying a leasing contract, the Banco BPM Group avails itself of the option given by IFRS 16 to not consider "short-term" contracts, that is those expiring at less than 12 months, and "low-value" ones, that is those with a value of the assets when new of less than € 5,000. For contracts in the above categories, the costs of the instalments are recognised directly in the income statement at the moment that they fall due.

With reference to the lease duration, in addition to the period that cannot be cancelled, during which the Group cannot avoid paying charges, extension options were considered if their exercise by the Group was held to be reasonably certain, considering all facts and circumstances. More specifically, with reference to contracts envisaging the faculty of the lessor to renew the lease at the end of the first period, the Group considers the initial term of the rental contract (e.g. 12 years for 6 + 6 year rental contracts) and, once this term has ended, the following first renewal period (e.g. next 6 years), where there is no reasonable evidence that may lead to another renewal period or, vice versa, the end of the contract. In addition it is assumed that the leasing contract is renewed in the subsequent period if in the 18 months before expiry of the first period or of the subsequent renewal the lessee has not given notice to the lessor.

After recognition:
- the right-of-use asset must be measured at cost on the basis of IAS 16 and subject to depreciation and any impairment along the term of the contract or the useful life of the asset;
- the liability is measured at amortised cost, that is it is increased following the accrual of the interest payable and gradually reduced as a result of payment of the instalments.
  In the event of changes in the payments due for the leasing, the liability must be redetermined, as a counter-item of the right-of-use asset.

Accounting in the lessor's financial statements
The lessor must distinguish in its financial statements, the accounting for the assets granted in finance leases (which represents the only kind present in the Group) from those of assets granted in operating leases.

A lease is classified as financial if it transfers substantially all the risks and benefits to the lessee. Finance leasing represents, in practice, a loan contract with which the leasing company purchases an asset, on behalf of the lessee, granting it the right of use.

The accounting in the lessor's financial statements is done with the financial method, through recognition of a loan of an amount equal to the principal of the instalments to be received (plus "up-front" external transaction costs not recovered and minus "up-front" transaction revenues that contribute to the remuneration of the loan), as if it were a loan operation.

Subsequently, the loan is measured at amortised cost, equal to the initial recognition value decreased by repayments of principal, decreased/increased by the amortisation - calculated according to the effective interest rate method - of the difference between the amount disbursed and the amount repayable at maturity, typically comparable to the costs/income directly associated with the individual loan. The loans are subject to the rules on impairment. For more details of the rules on accounting for loans measured at amortised cost please see the contents of the Annual Financial Report at 31 December 2018 ("Part A.2 – Key financial statement items – 3. Financial assets designated at amortised cost

A.3 - Information on transfers of financial assets among portfolios

During the period there were no transfers between portfolios of financial assets.
In this regard, it should be noted that during the period there was no change in the Banco BPM Group's business model, i.e. the way in which the Group manages financial instruments.

A.4 – Fair value disclosure

Methods of determining the fair value for 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 measured on the basis of the method for discounting the expected cash flows, suitably adjusted to account for issuer risk;
- loans that do not pass the SPPI test are measured on the basis of the discounting of the expected cash flows determined using models that vary according to the status of the counterparty at an interest rate considered representative with a view to 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 comparable company market multiples method, and subordinately using financial, income and equity measurement methods;
- investments in UCITS units, 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 and similar funds, real estate funds and hedge funds;
- OTC derivative contracts are measured on the basis of multiple models, according to the type of instrument and the input factors (interest rate risk, volatility, exchange rate risk, price risk, etc.) which affect the related measurement; for the purposes of discounting the future cash flows, the Banco BPM Group uses as a reference the OIS ("Overnight Indexed Swap") curve, considered as expression of a risk-free rate. The amounts thus obtained are then adjusted to take into account all the factors considered significant by market participants, with the objective of best reflecting the selling price of an actually possible market transaction (model risk, liquidity risk, counterparty risk). With reference to the counterparty risk of performing derivatives, referred both to the credit risk of the counterparty "Credit Valuation Adjustment" (CVA) and to the risk of non-fulfilment of own contractual obligations "Debt Valuation Adjustment" (DVA), the corresponding corrective factor is determined for each legal entity of the Group according to the

expected future exposure generated by the contracts, the probabilities of default of the parties and the related losses. In particular, the expected future exposure is calculated variously in consideration of the existence or non-existence of "netting and collateral agreements" capable of mitigating the counterparty risk, while the probability of default is estimated making use of quotations of Credit Default Swaps, if available, as a priority with respect to internal parameters. In the model for the quantification of the CVA/DVA correctives, for each derivative, the counterparty risk must be equal to the sum of the following components:

- "Bilateral CVA": this is the possible loss in the event that the future exposure is positive for the Group, adjusted to take into account the possibility that the Group may go bankrupt before the counterparty;
- "Bilateral DVA": aimed at measuring the benefit in the event of non-fulfilment of own contractual obligations, if the expected exposure is negative for the Group. This benefit is then mitigated to take into account the probability that, during the operation, the counterparty may go bankrupt 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.

The following financial instruments are generally considered level 3:

- hedge funds characterised by significant levels of illiquidity, and for which the process to evaluate the equity of the fund requires a considerable amount of assumptions and estimates. The fair value is measured on the basis of the NAV. Said NAV may be suitably corrected to account for the fund's diminished liquidity, i.e., the period of time between the date of the request for redemption and that of the actual redemption, as well as for possible exit commissions relating to the investment;
- real estate funds measured on the basis of the last available NAV;
- private equity, private debt and similar funds measured on the basis of the last available NAV, adjusted if necessary to take into account events that were not recognised in the measurement of the price or to reflect a different valuation of the assets underlying the fund in question;
- illiquid stock for which no recent or comparable transactions have been observed, usually measured on the basis of the equity model;
- debt securities characterised by complex financial structures, for which sources that are not publicly available are typically used. These are non-binding quotations and moreover not corroborated by market data;
- debt securities issued by parties in financial difficulty, for which the management has to use its own judgement to establish the "recovery rate", as no significant prices can be observed on the market;
- OTC financial derivatives 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 more details on the methods of measuring the fair value of financial assets and liabilities, the techniques and the inputs used, the methods of compiling the tables of transfer between the levels please see what is presented in the Annual Financial Report at 31 December 2018 ("Part A – Accounting policies", "A4 – Fair value disclosure").

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

Given the above, the table below provides a breakdown of the financial assets and liabilities measured at fair value on a recurring basis, in the fair value hierarchy. As established by the previously cited standard IFRS 13, recurring valuations refer to those assets or liabilities measured at fair value in the balance sheet, on the basis of that envisaged or permitted by the relevant international accounting standards.

In this regard, note that for the Banco BPM Group, the only assets and liabilities measured at fair value on a recurring basis are financial assets and liabilities.

Assets/liabilities designated at fair value	30/06/2019			31/12/2018		
	L1	L2	L3	L1	L2	L3
1. Financial assets designated at fair value through profit and loss	4,590,700	1,799,389	960,966	3,046,528	1,786,460	905,607
a) Financial assets held for trading	4,382,078	1,658,407	6,057	2,870,969	1,646,475	5,085
b) Financial assets designated at fair value	-	-	-	-	-	-
c) Other financial assets mandatorily at fair value	208,622	140,982	954,909	175,559	139,985	900,522
2. Financial assets designated at fair value through other comprehensive income	13,287,653	265,525	210,768	14,820,629	317,177	213,755
3. Hedging derivatives	-	144,837	-	-	130,511	-
Total	**17,878,353**	**2,209,751**	**1,171,734**	**17,867,157**	**2,234,148**	**1,119,362**
1. Financial liabilities held for trading	1,590,472	5,721,484	886	608,311	5,893,298	913
2. Financial liabilities designated at fair value	316,078	265,604	-	424,375	268,515	-
3. Hedging derivatives	-	790,776	-	-	726,307	-
Total	**1,906,550**	**6,777,864**	**886**	**1,032,686**	**6,888,120**	**913**

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

Financial assets designated at fair value on a recurring basis

At 30 June 2019, instruments measured significantly on the basis of non-observable parameters (Level 3) are made up for 81.5% of instruments classified in the portfolio of "Financial assets measured at fair value through profit and loss c) Other financial assets required to be measured at fair value" and for 18.0% of instruments classified in the category of "Financial assets designated at fair value through other comprehensive income"; the remainder is classified in "Financial assets measured at fair value through profit and loss a) Financial assets held for trading".
More specifically, level 3 financial assets amounted to 1,171.7 million euro and are represented by the following types of investment:

- unlisted equity instruments for € 362.9 million;
- UCITS units of euro 363.5 million euro, represented by private equity, private debt and similar funds (271.9 million euro), real estate funds (81.8 million euro) and hedge funds (9.8 million euro); these funds are characterised by significant levels of illiquidity, and for which the process to evaluate the equity of the fund requires a considerable amount of assumptions and estimates;
- loans to customers amounting to 379.6 million euro, measured at fair value, for failure to pass the SPPI test, as the related cash flows do not exclusively represent the payment of interest and principal;
- debt securities amounting to 60.2 million euro, consisting mainly of structured debt securities amounting to 56.7 million euro;
- OTC derivatives of 5.5 million euro for which either the non-observable input parameters used by the pricing model are deemed significant in order to measure the fair value, or third party sources are deemed to be reliable.

Financial assets comprise 1,942.7 million euro in derivative instruments held for trading, and almost entirely (1,937.2 million euro or 99.7%) classified as hedges at levels 1 and 2 of the hierarchy. In particular:

- listed derivatives (futures and options), corresponding to 145.9 million euro, are measured on the basis of the prices provided by the Clearing Houses (level 1);
- Over The Counter (OTC) derivatives, for 1,791.3 million euro, are measured on the basis of models, which use observable market parameters to a significant extent, or on the basis of prices originating from independent sources (level 2).

Financial liabilities designated at fair value on a recurring basis

Financial liabilities held for trading classified as level 1 refer to listed derivatives amounting to 167.6 million euro and to technical overdrafts on securities listed in active markets of 1,422.9 million euro; the remaining financial liabilities held for trading, corresponding to 5,722.4 million euro, were almost entirely classified as level 2.

The amount of financial liabilities designated at fair value is represented by own bond issues subject to hedging by means of derivative instruments, for which the fair value option has been activated. In particular, securities classified as Level 1 amounted to 316.1 million euro and consisted of issues for which an active market was considered to exist (regulated market, electronic trading circuits, organised or similar trading systems), unlike the remaining 265.6 million euro for which, in the absence of listing on active markets, models were relied on using inputs considered observable on the market (Level 2).

Hedging derivatives have a negative fair value of 790.8 million euro and are fully classified as level 2.

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

In the period transfers from level 1 to level 2 concerned only financial assets for € 2.7 million and refer to a single debt security, for which, at 30 June 2019, the conditions required by the Group's Fair Value Policy to be able to take a quoted price on an active market had not been met, as had been the case at the beginning of the year.

In the same period transfers occurred, from level 2 to level 1, for € 40.6 million (amount at the beginning of the year) referred to a limited number of bonds for which, at the end of the period, it was possible to rely on prices observed in markets considered active.

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

	Financial assets designated at fair value through profit and loss				Financial assets designated 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 at fair value		
1. Opening balance	**905,607**	**5,085**	**-**	**900,522**	**213,755**	**-**
2. Increases	**246,547**	**1,194**	**-**	**245,353**	**9,423**	**-**
2.1. Purchases	102,236	2	-	102,234	-	-
2.2. Profits charged to:	22,635	148	-	22,487	8,968	-
2.2.1. Income statement	22,635	148	-	22,487	2,513	-
- of which capital gains	19,556	145	-	19,411	-	-
2.2.2. Shareholders' equity	-	X	X	X	6,455	-
2.3. Transfers from other levels	10	10	-	-	-	-
2.4. Other increases	121,666	1,034	-	120,632	455	-
3. Decreases	**(191,188)**	**(222)**	**-**	**(190,966)**	**(12,410)**	**-**
3.1. Sales	(129,306)	(12)	-	(129,294)	(4,085)	-
3.2. Redemptions	(38,543)	-	-	(38,543)	(1,472)	-
3.3. Losses charged to:	(22,634)	(14)	-	(22,620)	(4,344)	-
3.3.1. Income statement	(22,634)	(14)	-	(22,620)	(753)	-
- of which capital losses	(19,928)	(14)	-	(19,914)	-	-
3.3.2. Shareholders' equity	-	X	X	X	(3,591)	-
3.4. Transfers to other levels	-	-	-	-	-	-
3.5. Other decreases	(705)	(196)	-	(509)	(2,509)	-
4. Closing balance	**960,966**	**6,057**	**-**	**954,909**	**210,768**	**-**

Period changes in financial 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	**913**	**-**	**-**
2. Increases	**-**	**-**	**-**
2.1. Issues	-	-	-
2.2. Losses charged to:	-	-	-
2.2.1. Income statement	-	-	-
- of which capital losses	-	-	-
2.2.2. Shareholders' equity	X	-	-
2.3. Transfers from other levels	-	-	-
2.4. Other increases	-	-	-
3. Decreases	**(27)**	**-**	**-**
3.1. Redemptions	-	-	-
3.2. Buy-backs	-	-	-
3.3. Profits charged to:	(27)	-	-
3.3.1. Income statement	(27)	-	-
- of which capital gains	(27)	-	-
3.3.2. Shareholders' equity	X	-	-
3.4. Transfers to other levels	-	-	-
3.5. Other decreases	-	-	-
4. Closing balance	**886**	**-**	**-**

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 Consolidated Balance Sheet”.

A.5 Disclosure on “day one profit/loss”

Under the terms of IFRS 7 paragraph 28 in the context of the Group’s financial instruments, we can note that in the period no transactions occurred that would have entailed the recognition of “day one profit/loss”. Therefore at 30 June 2019, as in December 2018, no suspended costs or revenues associated with this effect were recognised.

Disclosure on structured credit products

Note that as at 30 June 2019, the Group’s exposure to structured credit securities amounted to 2,846.4 million euro and referred to Asset Backed Securities (ABSs) deriving from third-party securitisations. In this case:

- 1,444.9 million euro in securities issued by the Leviticus SPV, which the Group holds following the GACS securitisation of bad loans completed in February 2019 (senior tranche of 1,440.4 million euro; mezzanine tranche of 4.5 million euro);
- 1,350.7 million euro in securities issued by the SPE Red Sea SPV, which the Group holds following the GACS securitisation of bad loans completed in June 2018 (senior tranche of 1,347.7 million euro; mezzanine tranche of 3 million euro);
- 50.8 million euro for securities relating to third-party securitisations (junior tranche for 32.5 million euro; mezzanine tranche for 5.8 million euro; senior tranche for 12.5 million euro). It should be noted that the junior exposure refers almost exclusively to the security issued by the vehicle company “BNT Portfolio SPV” (€ 31.8 million), set up in 2014 to complete the securitisation of agricultural loans of Banca della Nuova Terra, financed by the issue of a single tranche of securities.

PART B – INFORMATION ON CONSOLIDATED BALANCE SHEET

ASSETS

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

2.1 Financial assets held for trading: breakdown by product

Items/Amounts	Total 30/06/2019			Total 31/12/2018		
	L1	L2	L3	L1	L2	L3
A. Cash assets						
1. Debt securities	3,103,163	11,931	6	2,138,997	37,387	2
1.1 Structured securities	66,803	9,441	3	53,620	34,470	-
1.2 Other debt securities	3,036,360	2,490	3	2,085,377	2,917	2
2. Equity instruments	1,132,904	-	31	607,252	-	17
3. UCITS units	151	-	446	137	-	455
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total (A)	**4,236,218**	**11,931**	**483**	**2,746,386**	**37,387**	**474**
B. Derivative instruments	-	-	-	-	-	-
1. Financial derivatives	145,860	1,646,462	5,574	124,583	1,608,231	4,611
1.1 held for trading	145,860	1,632,684	5,574	124,583	1,596,042	4,611
1.2 connected with the fair value option	-	13,766	-	-	12,173	-
1.3 other	-	12	-	-	16	-
2. Credit derivatives	-	14	-	-	857	-
2.1 held for trading	-	14	-	-	857	-
2.2 connected with the fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total (B)	**145,860**	**1,646,476**	**5,574**	**124,583**	**1,609,088**	**4,611**
Total (A+B)	**4,382,078**	**1,658,407**	**6,057**	**2,870,969**	**1,646,475**	**5,085**

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

2.5 Financial assets mandatorily at fair value: breakdown by product

Items/Amounts	Total 30/06/2019			Total 31/12/2018		
	L1	L2	L3	L1	L2	L3
1. Debt securities	41,501	111,535	53,331	46,003	110,008	57,892
1.1 Structured securities	-	-	2,989	-	-	2,940
1.2 Other debt securities	41,501	111,535	50,342	46,003	110,008	54,952
2. Equity instruments	27,828	29,447	158,972	3,068	29,977	182,884
3. UCITS units	139,293	-	363,012	126,488	-	365,345
4. Loans	-	-	379,594	-	-	294,401
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	379,594	-	-	294,401
Total	**208,622**	**140,982**	**954,909**	**175,559**	**139,985**	**900,522**

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

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

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

Items/Amounts	Total 30/06/2019			Total 31/12/2018		
	L1	L2	L3	L1	L2	L3
1. Debt securities	13,122,839	152,000	6,882	14,642,675	203,652	8,401
1.1 Structured securities	-	-	6,882	-	-	8,401
1.2 Other debt securities	13,122,839	152,000	-	14,642,675	203,652	-
2. Equity instruments	164,814	113,525	203,886	177,954	113,525	205,354
3. Loans	-	-	-	-	-	-
Total	**13,287,653**	**265,525**	**210,768**	**14,820,629**	**317,177**	**213,755**

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

Through level 2 equity securities, Banco BPM holds 4,541 shares of the Bank of Italy's share capital, corresponding to 1.5137% of the full share capital. The book value is 113.5 million euro, obtained by applying the value of 25,000 euro to each unit. More specifically, 3,668 shares, for a value of 91.7 million euro derive from those previously held by the former Banco Popolare. The remaining 873 shares with a value of 21.8 million euro were acquired following the merger of the former BPM Group on 1 January 2017.

These shares derive from the capital increase operation carried out by Bank of Italy in 2013 as an effect of Decree Law 133 of 30 November 2013, converted with Law 5 of 29 January 2014, leading to the issuing of new shares, with a value of 25,000 euro per share.

Financial assets designated at amortised cost – Item 40

4.1 Financial assets designated at amortised cost: breakdown by product for amounts due from banks

Transaction type/Amounts	Total 30/06/2019						Total 31/12/2018					
	Book value			Fair value			Book value			Fair value		
	First and second stage	Third stage	of which: originated or acquired impaired	L1	L2	L3	First and second stage	Third stage	of which: originated or acquired impaired	L1	L2	L3
A. Due from Central Banks	**1,274,298**	**-**	**-**	**-**	**-**	**1,274,298**	**575,536**	**-**	**-**	**-**	**11,677**	**563,859**
1. Fixed-term deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Minimum reserve	1,251,571	-	-	X	X	X	563,859	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	22,727	-	-	X	X	X	11,677	-	-	X	X	X
B. Due from banks	**6,812,978**	**60**	**-**	**606,385**	**182,058**	**6,034,825**	**3,801,926**	**64**	**-**	**-**	**177,389**	**3,630,047**
1. Loans	6,033,997	60	-	-	-	6,034,825	3,617,519	64	-	-	-	3,630,047
1.1 Current accounts and sight deposits	916,358	60	-	X	X	X	1,094,426	64	-	X	X	X
1.2. Fixed-term deposits	390,363	-	-	X	X	X	129,295	-	-	X	X	X
1.3. Other loans:	4,727,276	-	-	X	X	X	2,393,798	-	-	X	X	X
- Reverse repurchase agreements	3,036,986	-	-	X	X	X	758,169	-	-	X	X	X
- Loans for leasing	1,875	-	-	X	X	X	2,058	-	-	X	X	X
- Other	1,688,415	-	-	X	X	X	1,633,571	-	-	X	X	X
2. Debt securities	778,981	-	-	606,385	182,058	-	184,407	-	-	-	177,389	-
2.1 Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt securities	778,981	-	-	606,385	182,058	-	184,407	-	-	-	177,389	-
Total	**8,087,276**	**60**	**-**	**606,385**	**182,058**	**7,309,123**	**4,377,462**	**64**	**-**	**-**	**189,066**	**4,193,906**

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

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

Transaction type/Amounts	Total 30/06/2019						Total 31/12/2018					
	Book value			Fair value			Book value			Fair value		
	First and second stage	Third stage	of which: originated or acquired impaired	L1	L2	L3	First and second stage	Third stage	of which: originated or acquired impaired	L1	L2	L3
1. Loans	**96,121,637**	**6,190,156**	**615,440**	**-**	**-**	**108,010,433**	**95,859,097**	**6,726,902**	**764,276**	**-**	**-**	**107,401,370**
1.1. Current accounts	10,680,884	1,014,349	194,017	X	X	X	11,198,951	999,684	195,627	X	X	X
1.2. Reverse repurchase agreements	5,222,014	-	-	X	X	X	6,233,274	-	-	X	X	X
1.3. Mortgage loans	61,195,275	3,016,094	293,513	X	X	X	58,558,496	3,118,910	417,592	X	X	X
1.4. Credit cards, personal loans and salary-backed loans	587,360	12,884	369	X	X	X	1,926,258	17,523	1,343	X	X	X
1.5. Loans for leasing	1,031,686	810,146	2,509	X	X	X	1,059,608	1,026,049	6,326	X	X	X
1.6. Factoring	182,498	89	-	X	X	X	87,992	90	-	X	X	X
1.7. Other loans	17,221,920	1,336,594	125,032	X	X	X	16,794,518	1,564,646	143,388	X	X	X
2. Debt securities	**19,933,716**	**-**	**-**	**17,128,417**	**280,857**	**2,832,660**	**16,876,482**	**-**	**-**	**14,940,783**	**278,644**	**1,485,175**
2.1. Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2. Other debt securities	19,933,716	-	-	17,128,417	280,857	2,832,660	16,876,482	-	-	14,940,783	278,644	1,485,175
Total	**116,055,353**	**6,190,156**	**615,440**	**17,128,417**	**280,857**	**110,843,093**	**112,735,579**	**6,726,902**	**764,276**	**14,940,783**	**278,644**	**108,886,545**

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

Impaired loans (third stage) amounted to € 6,190.2 million. The decrease seen during the period is attributable to the Group's derisking actions, in particular with reference to the sale of portfolios of bad loans associated with the "ACE Leasing" project illustrated in Part A of these Illustrative Notes. In particular, in June 2019 the receivables related to this project were reclassified to item 120. "Non-current assets and asset disposal groups held for sale" to which you are referred for further details.

As at 30 June 2019, the breakdown into risk stages of loans to customers is given in the table below:

Exposure types/risk stages	First Stage	Second Stage	Third stage	Total
Bad loans	-	-	1,428,421	**1,428,421**
Unlikely to pay	-	-	4,679,378	**4,679,378**
Non-performing past-due exposures	-	-	82,357	**82,357**
Non-performing exposures	**-**	**-**	**6,190,156**	**6,190,156**
Performing loans	**89,859,138**	**6,262,499**	**-**	**96,121,637**
Total loans to customers	**89,859,138**	**6,262,499**	**6,190,156**	**102,311,793**

Equity investments – Item 70

Investments in associates and companies subject to joint control as at 30 June 2019 amounted to 1,320.2 million euro, compared with 1,434.2 million euro as at 31 December 2018.

The change recorded in the period includes the impact resulting from the measurement of equity investments in associates using the equity method, relating to the portion pertaining of the results recorded by the same in the period (€ +69.4 million); the effects of the reduction of capital of Agos Ducato (€ -106.5 million), Vera Assicurazioni (€ -9.1 million), Bipiemme Vita (€ -3.8 million) and Etica Sgr (€ -0.6 million) following the distribution of dividends; as well as changes pertaining to the Group in the valuation reserves of these companies, (€ +7.5 million).

The other changes recorded in the period refer to the recognition at fair value of the interest of the company CF Liberty Servicing S.p.A. (formerly First Servicing S.p.A.) (€ +42.9 million), following the operation described above of sale of the majority of the share capital of the company, and the value adjustment of the company Agos Ducato to eliminate the portion of intercompany capital gain (€ -113.7 million), as illustrated in Part A of these Illustrative Notes.

7.1 Equity investments: information on investment relationships

Company name	Registered office	Operational headquarters	Type of relationship (a)	Investment relationship		Available % of votes
				Holder	% held	
A. Companies subject to joint control						
N/A						
B. Companies subject to significant influence						
1. Agos Ducato S.p.A. Share Capital € 638,655,160.00	Milan	Milan	1	Banco BPM	39.000%	39.000%
2. Alba Leasing S.p.A. Share Capital € 357,953,058.13	Milan	Milan	1	Banco BPM	39.189%	39.189%
3. Aosta Factor S.p.A. Share Capital € 14,993,000.00	Aosta	Aosta	1	Banco BPM	20.690%	20.690%
4. Arcene Immobili S.r.l. in liquidation Share Capital € 12,000.00	Lodi	Lodi	1	Banco BPM	50.000%	50.000%
5. Arcene Infra S.r.l. in liquidation Share Capital € 12,000.00	Lodi	Lodi	1	Banco BPM	50.000%	50.000%
6. Bipiemme Vita S.p.A. (*) Share Capital € 179,125,000.00	Milan	Milan	1	Banco BPM	19.000%	19.000%
7. Bussentina S.c.a.r.l. in liquidation Share Capital € 25,500.00	Rome	Rome	1	Bipielle Real Estate	20.000%	20.000%
8. Calliope Finance S.r.l. in liquidation Share Capital € 600,000.00	Milan	Milan	1	Banco BPM	50.000%	50.000%
9. CF Liberty Servicing S.p.A. Share capital € 150,000.00	Rome	Rome	1	Banco BPM	30.000%	30.000%
10. Etica SGR S.p.A. (*) Share Capital € 4,500,000.00	Milan	Milan	1	Banco BPM	19.444%	19.444%
11. Factorit S.p.A. Share Capital € 85,000,002.00	Milan	Milan	1	Banco BPM	39.500%	39.500%
12. GEMA Magazzini Generali BPV-BSGSP S.p.A. Share Capital € 3,000,000.00	Castelnovo Sotto (Reggio Emilia)	Castelnovo Sotto (Reggio Emilia)	1	Banco BPM	33.333%	33.333%
13. HI-MTF SIM S.p.A. Share Capital € 5,000,000.00	Milan	Milan	1	Banca Akros	25.000%	25.000%
14. SelmaBipiemme Leasing S.p.A. Share Capital € 41,305,000.00	Milan	Milan	1	Banco BPM	40.000%	40.000%
15. S.E.T.A. Società Edilizia Tavazzano S.r.l. in liquidation Share Capital € 20,000.00	Milan	Milan	1	Banco BPM	32.500%	32.500%
16. Vera Assicurazioni S.p.A. Share Capital € 63,500,000.00	Verona	Verona	1	Banco BPM	35.000%	35.000%
17. Vera Vita S.p.A. Share Capital € 219,600,005.00	Verona	Verona	1	Banco BPM	35.000%	35.000%

(a) Type of relationship:
1 = investment in share capital
(*) Companies subject to significant influence based on partnership agreements or shareholders' agreements with other shareholders.

7.2 Significant equity investments: book values, 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.	561,564	-	106,470
Alba Leasing S.p.A.	158,449	-	-
Vera Vita S.p.A.	222,723	-	-
Total	**942,736**	-	**106,470**

The "Fair value" column does not include any information, given that there are no listed investments, nor any equity investments measured at fair value, considered as the expression of the relative recoverable value after impairment.
We can also note that dividends received during the period were recognised as decreasing the book value of the equity investment, because the profits which gave rise to them were indicated in the financial statements at 31 December 2018, as a result of measuring the investment using the equity method.

Investments in companies subject to joint control and to significant influence

The commitments of the Banco BPM Group in relation to equity investments in companies subject to joint control and to significant influence are described in detail in section 7 – Equity investments of the Notes to the financial statements of last year to which you are referred.
The changes that occurred during the period are illustrated below.

Commitments deriving from agreements with Crédit Agricole for consumer loans

The former Banco Popolare (now Banco BPM) had signed a 10 year shareholders' agreement with Crédit Agricole Consumer Finance (Crédit Agricole Group), expiring on 22 December 2018, renewable upon express agreement by the parties for an additional 5 years, which among other things established that if the Bank, as part of a business combination/reorganisation project with other institutions holding a company operating in the consumer loan sector, had gained control over a company operating in said sector, it would have had to make its best efforts to allow Agos Ducato the possibility to acquire this indirectly acquired new entity at the market price.

On 20 December 2018, Banco BPM as one party and Crédit Agricole Consumer Finance SA, Crédit Agricole SA and Agos Ducato as the other formally signed the following agreements:

- (i) a Framework Agreement between Banco BPM, Crédit Agricole Consumer Finance SA and Crédit Agricole which includes, among other things, (a) the new Shareholders' Agreement, (b) the new Distribution Agreement, (c) the new Funding Agreement, and
- (ii) the ProFamily sales agreement between Banco BPM and Agos Ducato for the payment of 310 million euro upon the completion of the demerger of ProFamily's non-captive assets in favour of a newly established company over which Banco BPM will hold 100% control.

On 28 June 2019, following the issue of the authorisations provided for by the competent Authorities, the parties executed the agreements signed on 20 December 2018. In particular, Banco BPM, Crédit Agricole S.A., Crédit Agricole Consumer Finance S.A. and Agos Ducato formalised the aforementioned contractual documentation intended to confirm the existing partnership in the consumer credit segment for the next 15 years.

In the context of these agreements, the parties also confirmed that, if Banco BPM, in the context of a business combination with other institutions which hold a company operating in the consumer credit sector, or if it acquires a new entity which holds control over an entity operating in the consumer credit sector, comes to hold a new company operating in said sector, it must discuss in good faith with CACF, on the basis of a market price, the possible acquisition by Agos Ducato of the new entity indirectly acquired operating in the consumer credit sector.

Commitments deriving from leasing agreements with SelmaBipiemme Leasing S.p.A.

As of 1 January 2019, the commercial agreement signed by the former Banca Popolare di Milano (now Banco BPM) and SelmaBipiemme Leasing, the shareholders' agreement signed with Mediobanca, and consequently all the put and call options established therein, are no longer in effect.

Property, plant and equipment – Item 90

Property and equipment totalled 3,525.9 million euro at 30 June 2019, compared with the amount of 2,775.9 million euro the previous year.
The main change is related to the entry into force of the new accounting standard IFRS16 and the consequent recognition of the rights of use of properties, motor vehicles and instrumental assets. For the details on the application of the aforesaid accounting standard please see what is explained in the paragraph "Disclosure on first time adoption of the accounting standard IFRS 16 - Leases", contained in Part A of these Illustrative Notes.
During the period, as well as the normal depreciation process, impairment for a total of € 26.8 million was also recognised, in relation mainly to the Group's non-instrumental property assets.

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

Asset/Amounts	Total 30/06/2019	Total 31/12/2018
1. Owned assets	**1,350,785**	**1,382,646**
a) land	449,365	451,847
b) buildings	773,156	789,029
c) furniture	39,582	43,919
d) electronic systems	49,554	51,801
e) other	39,128	46,050
2. Rights of use acquired through leasing	**814,372**	**254**
a) land	-	-
b) buildings	813,295	254
c) furniture	77	-
d) electronic systems	-	-
e) other	1,000	-
Total	**2,165,157**	**1,382,900**
of which: obtained through enforcement of guarantees received	-	-

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

Asset/Amounts	Total 30/06/2019 Book value	Total 31/12/2018 Book value
1. Owned assets	**1,360,712**	**1,392,985**
a) land	606,705	614,287
b) buildings	754,007	778,698
2. Rights of use acquired through leasing	**-**	**-**
a) land	-	-
b) buildings	-	-
Total	**1,360,712**	**1,392,985**
of which: obtained through enforcement of guarantees received	880,184	887,869

Intangible assets – Item 100

10.1 Intangible assets: breakdown by asset type

Asset/Amounts	Total 30/06/2019		Total 31/12/2018	
	Duration defined	Indefinite duration	Duration defined	Indefinite duration
A.1 Goodwill		**76,389**		**76,389**
A.1.1 attributable to the group		76,389		76,389
A.1.2 attributable to minority interests		-		-
A.2 Other intangible assets	**680,623**	**504,272**	**697,280**	**504,272**
A.2.1 Assets designated at cost	680,623	504,272	697,280	504,272
a) Internally generated intangible assets	-	-	-	-
b) Other assets	680,623	504,272	697,280	504,272
A.2.2 Assets designated at fair value	-	-	-	-
a) Internally generated intangible assets	-	-	-	-
b) Other assets	-	-	-	-
Total	**680,623**	**580,661**	**697,280**	**580,661**

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

As at 30 June 2019, the Group's residual intangible assets with an indefinite useful life amounted to 580.7 million euro, 76.4 million euro is represented by goodwill and 504.3 million euro by trademarks.

Goodwill as at 30 June 2019 was allocated to the "Bancassurance Protezione" (51.1 million euro) and "Bancassurance Vita" (25.1 million euro) CGUs (in addition to a marginal amount relating to the investee Arena Broker).

During the period there were no changes in the CGUs indicated and, therefore, these represent values in line with the residual values as at 31 December 2018.

For the purpose of this Consolidated Interim Report, a survey was carried out to identify the existence of any impairment indicators other than those already considered for the purposes of the test conducted at 31 December 2018.

Specifically, for the purpose of the impairment test of the insurance CGUs carried out at 31 December 2018, the fair value determined by the valuation implicit in the price agreed for the sale to Cattolica Assicurazioni of 65% of the equity investments in Popolare Vita (now Vera Vita) and Avipop Assicurazioni (now Vera Assicurazioni) was taken as reference. Given the substantial confirmation of the economic values underlying the measurements made in the process of price verification by the buyer, there are no elements that could constitute indicators of impairment of the goodwill recorded.

Other intangible assets with an indefinite useful life are represented by the value of trademarks allocated to the following CGUs:

- Territorial Departments for € 485 million
- Banca Akros for € 19 million.

The trademark allocated to the CGU Territorial Departments refers to the merger transactions carried out in previous years by Banco BPM and was measured, for the purposes of the impairment test conducted at 31 December 2018, together with the goodwill allocated to the same CGU using the Dividend Discount Model.
During the first half of 2019, the cost of capital, determined using the Capital Asset Pricing Model (CAPM) method, was 9.49%, slightly lower than at 31 December 2018 (9.77%).

The trademark of Banca Akros (recognised during the Purchase Price Allocation process carried out following the merger between Banco Popolare and BPM) was valued at 31 December 2018 based on the royalties that the brand owner would receive from the sale of the brand to third parties.

From review illustrated above, no results emerged which would require early impairment testing; therefore, the estimated recovery value of intangible assets with an indefinite useful life has not been updated.

Note that assessing the existence or otherwise of effective impairment indicators, especially in a turbulent economic or market scenario such as the present one, is a particularly difficult exercise that requires a high level of judgement and that implies the use of estimates and assumptions, which may have to be changed in the future in the light of information that may become available or unexpected developments as at the date of preparation of this Report. In the second half of the year, the Group will conduct continuous monitoring in order to identify any facts or circumstances which could shed doubt on the recoverability of book values, in any event, the impairment test will be formally conducted at the time of preparation of the financial statements as at 31 December 2019.

Section 12 - Non-current assets and asset disposal groups held for sale and associated liabilities – Item 120 in the assets and item 70 in the liabilities

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

	30/06/2019	31/12/2018
A. Assets held for sale		
A.1 Financial assets	1,526,070	1,576,148
A.2 Equity investments	-	-
A.3 Property, plant and equipment	6,547	9,396
of which: obtained through enforcement of guarantees received	3,960	3,960
A.4 Intangible assets	1,527	-
A.5 Other non-current assets	10,679	7,238
Total A	**1,544,823**	**1,592,782**
of which measured at cost	1,544,823	1,587,374
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	-
of which measured at fair value level 3	-	5,408
B. Discontinued operations		
B.1 Financial assets designated at fair value through profit and loss	-	-
- Financial assets held for trading	-	-
- Financial assets designated at fair value	-	-
- Other financial assets mandatorily at fair value	-	-
B.2 Financial assets designated at fair value through other comprehensive income	-	-
B.3 Financial assets designated at amortised cost	-	-
B.4 Equity investments	-	-
B.5 Property, plant and equipment	-	-
of which: obtained through enforcement of guarantees received	-	-
B.6 Intangible assets	-	-
B.7 Other assets	-	-
Total B	**-**	**-**
of which measured at cost	-	-
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	-
of which measured at fair value level 3	-	-
C. Liabilities associated with assets held for sale		
C.1 Payables	(2,948)	(444)
C.2 Securities	-	-
C.3 Other liabilities	(36,993)	(2,599)
Total C	**(39,941)**	**(3,043)**
of which measured at cost	(39,941)	(3,043)
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	-
of which measured at fair value level 3	-	-
D. Liabilities associated with discontinued operations		
D.1 Financial liabilities designated at amortised cost	-	-
D.2 Financial liabilities held for trading	-	-
D.3 Financial liabilities designated at fair value	-	-
D.4 Funds	-	-
D.5 Other liabilities	-	-
Total D	**-**	**-**
of which measured at cost	-	-
of which measured at fair value level 1	-	-
of which measured at fair value level 2	-	-
of which measured at fair value level 3	-	-

At 30 June 2019, assets held for sale included mainly the following types:

- impaired credit exposures relative to customers, associated with the "ACE Leasing" Project, previously indicated under the portfolio of financial assets designated at amortised cost (included in item A.1 "Financial Assets" of the table above in the amount of 156.2 million euro). For the cited credit exposures, completion of the sale is expected to occur during the first half of 2020;
- real estate assets owned for which sales negotiations in progress at 30 June 2019 render probable the completion of the sale during the next year (indicated under item A.3 "Property, plant and equipment" for € 4.0 million). The change compared to the previous year is attributable to the sale of a number of property units for € 5.4 million;
- net assets attributable to the new investee ProFamily, to which the non-captive branch of consumer credit was transferred. The aforementioned net assets consist of assets for € 1,364.0 million (of which loans to customers of € 1,352 million included in the sub-item A.1 "Financial assets") and liabilities of € 35.6 million.

At 31 December 2018, assets held for sale included the following types:

- impaired loan exposures related to customers, associated with the "ACE" project (included in item A.1 "Financial assets" of the table above in the amount of € 1,330 million). These assets were no longer included in the balances at 30 June 2019 following the completion of the sale in March 2019;
- properties owned, presented in item A.3 "Property, plant and equipment" for € 9.4 million;
- net assets attributable to the non-captive branch of the ProFamily equity investment, consisting of assets for € 253.4 million (of which loans of € 246.1 million included in the sub-item A.1 "Financial assets") and liabilities of € 3.0 million. These items were no longer included in the balances at 30 June 2019 as a result of completion of the sale to Agos Ducato S.p.A. in June 2019.

For further details on the accounting treatment of operations related to sale of the loan portfolio and to reorganisation of ProFamily's consumer credit, please see what is explained in the paragraph "Application of the Group's accounting policies to completed transactions or events during the period", contained in Part A of these Illustrative Notes.

LIABILITIES

Financial liabilities designated at amortised cost – Item 10

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

Transaction type/Amounts	Total 30/06/2019				Total 31/12/2018			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Due to central banks	**21,244,286**	X	X	X	**21,289,947**	X	X	X
2. Due to banks	**9,952,494**	X	X	X	**10,343,594**	X	X	X
2.1 Current accounts and sight deposits	685,480	X	X	X	877,462	X	X	X
2.2 Fixed-term deposits	163,712	X	X	X	158,955	X	X	X
2.3 Loans	8,843,717	X	X	X	9,077,330	X	X	X
2.3.1 Repurchase agreements payable	7,745,445	X	X	X	8,194,818	X	X	X
2.3.2 Other	1,098,272	X	X	X	882,512	X	X	X
2.4 Payables for commitment to repurchase own capital instruments	-	X	X	X	-	X	X	X
2.5 Leasing payables	8,059	X	X	X	-	X	X	X
2.6 Other payables	251,526	X	X	X	229,847	X	X	X
Total	**31,196,780**	**-**	**-**	**31,196,780**	**31,633,541**	**-**	**-**	**31,633,541**

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

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

Transaction type/Amounts	Total 30/06/2019				Total 31/12/2018			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	83,787,744	X	X	X	78,713,896	X	X	X
2. Fixed-term deposits	1,839,303	X	X	X	2,410,243	X	X	X
3. Loans	9,144,314	X	X	X	8,138,991	X	X	X
3.1 Repurchase agreements payable	8,229,634	X	X	X	7,110,267	X	X	X
3.2 Other	914,680	X	X	X	1,028,724	X	X	X
4. Payables for commitment to repurchase own capital instruments	-	X	X	X	-	X	X	X
5. Leasing payables	773,479	X	X	X	-	X	X	X
6. Other payables	926,523	X	X	X	934,729	X	X	X
Total	**96,471,363**	**-**	**-**	**96,471,363**	**90,197,859**	**-**	**-**	**90,197,859**

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

1.3 Financial liabilities designated at amortised cost: breakdown by product for debt securities issued

Security type/Amounts	30/06/2019 Total				31/12/2018 Total			
	BV	Fair Value			BV	Fair Value (*)		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. Bonds	13,796,154	10,849,875	2,680,167	-	14,160,280	11,169,235	2,443,732	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	13,796,154	10,849,875	2,680,167	-	14,160,280	11,169,235	2,443,732	-
2. Other securities	109,468	-	-	109,468	168,662	-	-	168,662
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	109,468	-	-	109,468	168,662	-	-	168,662
Total	**13,905,622**	**10,849,875**	**2,680,167**	**109,468**	**14,328,942**	**11,169,235**	**2,443,732**	**168,662**

(*) The data related to division of fair value between level 1 and level 2 referred to 31 December 2018 were restated for a uniform comparison.

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

Securities in issue at 30 June 2019 amounted to € 13.9 billion (€ 14.3 billion at 31 December 2018). As described in more detail in the section on significant events of the period in the Interim Report on Operations, during the period the main placements regarded two senior preferred unsecured bond issues reserved for institutional investors for a total of € 1.25 billion.

The largest redemptions regarded ordinary bonds, which reached maturity in the first quarter, for a total nominal value of € 1.65 billion. In the period no repurchase operations of a significant amount were carried out.

Financial liabilities held for trading – Item 20

2.1 Financial liabilities held for trading: breakdown by product

Transaction type/Amounts	Total 30/06/2019					Total 31/12/2018				
	NV	Fair Value			Fair value *	NV	Fair Value			Fair value *
		L1	L2	L3			L1	L2	L3	
A. Cash liabilities										
1. Due to banks	2,311	4,873	-	-	4,873	3,686	4,149	-	-	4,149
2. Due to customers	1,356,708	1,417,978	-	-	1,417,978	396,231	399,786	-	-	399,786
3. Debt securities	3,291,891	-	3,265,626	-	3,265,626	3,482,866	-	3,372,238	-	3,372,238
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	3,291,891	-	3,265,626	-	3,265,626	3,482,866	-	3,372,238	-	3,372,238
3.2.1 Structured	3,291,891	-	3,265,626	-	X	3,482,866	-	3,372,238	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total A	**4,650,910**	**1,422,851**	**3,265,626**	**-**	**4,688,477**	**3,882,783**	**403,935**	**3,372,238**	**-**	**3,776,173**
B. Derivative instruments										
1. Financial derivatives	-	167,621	2,454,993	886	-	-	204,376	2,521,060	913	-
1.1 held for trading	X	167,621	2,453,998	-	X	X	204,376	2,465,165	913	X
1.2 connected with the fair value option	X	-	810	886	X	X	-	55,704	-	X
1.3 Other	X	-	185	-	X	X	-	191	-	X
2. Credit derivatives	-	-	865	-	-	-	-	-	-	-
2.1 held for trading	X	-	865	-	X	X	-	-	-	X
2.2 connected with the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	**X**	**167,621**	**2,455,858**	**886**	**X**	**X**	**204,376**	**2,521,060**	**913**	**X**
Total (A+B)	**X**	**1,590,472**	**5,721,484**	**886**	**X**	**X**	**608,311**	**5,893,298**	**913**	**X**

NV = nominal or notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3
*Fair value * = Fair value calculated excluding changes in value due to changes in the issuer's creditworthiness with respect to the issue date*

Financial liabilities designated at fair value – Item 30

3.1 Financial liabilities designated at fair value: breakdown by product

Transaction type/Amounts	Total 30/06/2019					Total 31/12/2018				
	NV	Fair value			Fair value *	NV	Fair value			Fair value *
		L1	L2	L3			L1	L2	L3	
1. Due to banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Structured	-	-	-	-	X	-	-	-	-	X
1.2 Other	-	-	-	-	X	-	-	-	-	X
of which:										
- commitments to disburse funds	-	X	X	X	X	X	X	X	X	X
- financial guarantees given	-	X	X	X	X	X	X	X	X	X
2. Due to customers	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Structured	-	-	-	-	X	-	-	-	-	X
2.2 Other	-	-	-	-	X	-	-	-	-	X
of which:										
- commitments to disburse funds	-	X	X	X	X	X	X	X	X	X
- financial guarantees given	-	X	X	X	X	X	X	X	X	X
3. Debt securities	**575,585**	**316,078**	**265,604**	**-**	**589,567**	**695,886**	**424,375**	**268,515**	**-**	**707,056**
3.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2 Other	575,585	316,078	265,604	-	X	695,886	424,375	268,515	-	X
Total	**575,585**	**316,078**	**265,604**	**-**	**589,567**	**695,886**	**424,375**	**268,515**	**-**	**707,056**

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

Liability provisions – Items 90 and 100

As at 30 June, liability provisions amount to 1,552.1 million euro (figure of 1,704.9 million euro last 31 December) and include the provisions for employee severance indemnities of 384.9 million euro (377.5 million euro at the end of last year), retirement plans of 155.9 million euro (150.7 million euro as at 31 December 2018), risk provisions for commitments and guarantees given of 120.0 million euro (123.8 million euro as at 31 December 2018) and other provisions for risks and charges of 891.4 million euro (1,052.9 million euro as at 31 December 2018).

The latter include:
- provisions for legal and tax disputes of € 136.2 million;
- provisions for personnel expenses of 406.8 million euro, primarily attributable to allocations to the Solidarity Funds relating to agreements for voluntary personnel redundancy plans;
- other provisions for risks and charges of € 348.3 million which include the 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 30/06/2019	Total 31/12/2018
1. Provisions for credit risk relating to commitments and financial guarantees given	57,856	62,357
2. Provisions for other commitments and guarantees given	62,136	61,457
3. Company pension funds	155,854	150,676
4. Other provisions for risks and charges	891,356	1,052,878
4.1 legal and tax disputes	136,228	157,456
4.2 personnel expenses	406,780	481,252
4.3 other	348,348	414,170
Total	**1,167,202**	**1,327,368**

10.6 Provisions for risks and charges – other provisions

10.6.1 Other provisions for risks and charges - legal and tax disputes

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

In addition to this, Banco BPM, the companies that merged to form the Group, the incorporated subsidiary companies and the subsidiary companies underwent various inspections by the Tax Authority in 2019 and in previous years. These activities concerned the taxable income declared for the purpose of income tax, VAT, registration tax, and more generally the manner in which the tax legislation in force at the time was applied. As a consequence of said inspections, the Banco BPM Group is involved in numerous legal proceedings.

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

i) possible obligations, in that it is still to be confirmed whether the entity has a current obligation that requires the use of resources intended to produce economic benefits;

ii) effective obligations that, nonetheless, do not meet the conditions for recognition established under IAS 37 (because it is not probable that it will be necessary to use resources intended to produce economic resources to fulfil the obligation or because a sufficiently reliable estimate of the amount of the obligation cannot be made).

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

For liabilities judged probable, the information on the amount of the allocation is not provided in order to not harm the Group relative to developments in the disputes with the counterparty, whether in court or through a settlement. As indicated in the paragraph entitled "Uncertainties with regard to the use of estimates for drawing up the consolidated condensed interim financial statements", to which we refer, 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 136.2 million euro.

<u>Legal disputes</u>

The high number of cases makes it difficult to provide a detailed list, while their varying natures makes it extremely difficult if not impossible to group them into similar types. Below we provide a brief description of the main legal disputes exiting at 30 June 2019, for which conclusion could involve a probable or possible use of financial resources.

- On 14 April 2014, Maflow S.p.A., in extraordinary receivership, summoned the former Banco Popolare before the court, requesting: (i) a court order, together with others, to pay compensation for damages of 199 million euro, corresponding to the financial difficulties of Maflow, as calculated by the counterparty; (ii) a court order to return the amount allegedly received by the bank unlawfully from loans granted to Maflow from establishment to default. The above is all based on the assumption that the bank played a dominant role by influencing the financial management of Maflow.
  In a ruling dated 14 December 2016, which was then appealed against, the Court of Milan totally rejected the claims of the petitioner in these Proceedings, also ordering the same to pay legal expenses.
- <u>Administrative Proceedings</u>
  On 17 July 2014, the former Banco Popolare received a formal written notice, insofar as jointly and severally obliged with those potentially responsible for the infringement, regarding the alleged infringement of anti-money laundering legislation (Italian legislative Decree no. 231/2007). The accusation regarded the failure to report a transaction retained as suspicious, following inspections conducted by the Finance Police; the matter in question dated back to 2009 and regarded the paying in of 41 non-transferable banker's drafts for a total amount of 10.1 million euro. On 24 June 2019 the proceeding ended with no negative economic impacts for the bank.

In the light of the successful outcomes in the courts of first instance and/or the existence of valid grounds on which to challenge the claims made by the claimants with regard to proceedings under way, the claims classified as possible but unlikely amount to a total of 591.1 million euro.
Claims classified as possible amount to a total of 278.7 million euro, against which 78.1 million euro is allocated under the item Provisions for risks and charges.

Enforcements, cases begun against non-performing loans and other disputes

The high number of cases makes it difficult to provide a detailed list, while their varying natures makes it extremely difficult if not impossible to group them into similar types. Below we provide a brief description of the main legal disputes exiting at 30 June 2019, for which conclusion could involve a probable or possible use of financial resources.

- Impresa S.p.A. - The company, under receivership, summoned the pool of lending banks, including the former Banca Popolare di Milano, as well as the directors of the company, for compensation of damages totalling 166.9 million euro. The portion of the pool pertaining to the former Banca Popolare di Milano was 8%;
- Send S.r.l. - The bankruptcy receiver for the company summoned the pool of lending banks, including the former Banco Popolare, requesting compensation for damages equal to the amount of the total loan provided (49.5 million euro). The portion of the pool pertaining to the former Banco Popolare was 28.8%;
- Ittierre S.p.A - The company was placed under extraordinary receivership. The extraordinary receivership submitted a petition requesting the return of 30.9 million euro pursuant to Art. 67 of the Bankruptcy Law. The court-appointed expert witness in accounting deemed remittances of only 35,000 euro revocable, a positive development for the outcome of the case. Negotiations are in progress with the receivership to close not only the Ittierre position but also those of the other group companies

At 30 June 2019 the provisions set aside for actions to void, cases launched for non-performing loans and other disputes amounted to a total of € 41.9 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 amounted to € 318.7 million at 30 June 2019 of which € 306.8 million relate to notices of assessment, tax demands and settlement notices and € 11.9 million relate to formal reports on findings served or to be served (based on the daily reports on findings for the inspection currently underway). In this regard we can note that the claims contained in the notices of assessment do not include any interest (with the exception of the assessments relating to 2005 of the former Banca Popolare Italiana and for liabilities classified as likely), while the claims contained in the formal reports on findings served or to be served do not include interest or fines, insofar as they are not indicated in the document (with the exception of liabilities classified as likely).
We can also note however that, as illustrated in more detail below, the group availed itself of the possibility of settling the pending tax disputes pursuant to Italian Law no. 136 of 17 December 2018. Excluding settled disputes for which we are only awaiting formal confirmation of closure by the Tax Authority, the total amount of claims related to the remaining disputes in being is € 234.5 million.

Developments during the period

New disputes arising in the year and/or escalation of existing disputes following the issue of notices of assessment and tax demands

During the period no new disputes arose.

Disputes concluded and/or settled during the period

During the period, Banco BPM and its subsidiaries, after assessing the new opportunities offered by Italian Law Decree no. 119 of 23 October 2018 converted by Italian Law no. 136 of 17 December 2018 decided that it was convenient to opt for facilitated settlement of the following pending tax disputes instead of continuing the lawsuit in the successive instances:

Disputes relating to Banco BPM

- dispute(former Banca Popolare Italiana Soc. Coop) regarding the notice of settlement of the registration tax relating to the reclassification of the disposal of a portfolio of securities made in 2002 between Cassa di Risparmio di Pisa and Banca Popolare Italiana as a business segment disposal. The claims amounted to € 14.5 million. In a ruling dated 18 October 2011, the Florence Regional Tax Commission fully upheld the appeal submitted by the former Banco Popolare against the unfavourable judgement of first instance. The discussion of the appeal to the Supreme Court filed by the Tax Authority was pending. In consideration of the divergence of judgements expressed in the previous instances it was considered convenient to settle the tax dispute paying 15% of the higher taxes claimed (€ 0.8 million).
- disputes regarding the notices of assessment served on 23 December 2014 regarding 2009 for the former subsidiaries Banca Popolare di Lodi, Credito Bergamasco and Efibanca. The total claim amounted to 58.4 million euro. The dispute essentially consisted of an alleged violation in the accounting valuation of the financial liabilities arising from the failure to consider the Banks' own creditworthiness when determining the fair value of the liabilities issued by the Banks and placed with retail clients. From the tax perspective, this accounting approach inferred an alleged violation of the "principle of competence" in the allocation of charges and revenues. The Tax Commissions upheld all appeals presented and dismissed the notices of assessment in the first and second instances. The appeal to the Supreme Court filed by the Tax Authority was pending. It was considered convenient to settle the dispute on the basis of the new Law considering the significance of the latent tax risk that was eliminated through payment of an amount limited to 5% of the higher taxes claimed (approximately € 1.5 million).
- dispute regarding the notices of settlement for the recovery of the mortgage and cadastral taxes relative to a loan stipulated by the former Banca Italease and Banca MPS in 2006. The claim amounted to a total of 3.2 million euro. The appeal submitted by Banca Italease was upheld in the first and second instance. The appeal submitted to the Supreme Court was pending. Considering the fact that the appeal at the Supreme Court is based on the grounds of legitimacy of the sentences in the first two instances and concerns, in particular, matters for which there is no evidence of a clear stance by the Supreme Court of Cassation, and considering the minor impact of the settlement fee (5% of the petitum, approximately € 0.1 million) compared to the latent risk, it was deemed appropriate to exercise the right to settle the dispute. The cost of the settlement was shared equally with Banca MPS.
- dispute relative to the notice of assessment relative to 2008 served to the former Credito Bergamasco which corrected the deductible write-down pursuant to art. 106, paragraph 3 of Presidential Decree no. 917 of 22 December 1986, in the version in force "pro tempore" which envisaged the possibility for banks and other financial brokers to deduct from taxable income the write-downs on loans recorded on the balance sheet "for the amount not covered by insurance guarantee" and formed, in this case, of loans "covered" by "Credit Default Swap" derivative contracts. Following a favourable ruling in the first instance, the Bank received an unfavourable ruling in the second instance. The appeal was pending at the Supreme Court. The tax risk related to a negative outcome amounted to 0.2 million euro. Considering the negative outcome in the second instance it was deemed appropriate to settle the dispute.

Disputes relating to other subsidiary companies

- dispute relative to the notice served to Aletti Fiduciaria to recover taxes due by the fiduciary company pursuant to the personal liability of the shareholder under Art. 36, paragraph 3, of Italian Presidential Decree no. 602/1973. The claim amounted to € 7.9 million. The company's appeal was fully upheld in the first and second instances. The appeal to the Supreme Court filed by the Tax Authority was pending. The subsidiary considered it convenient to settle the dispute considering the significance of the latent tax risk with respect to the limited cost of the settlement (€ 0.4 million, 5% of the petitum).

Overall exercising the option to settle the disputes enabled the Group to eliminate latent risks for a total of € 84.2 million against the payment of € 3.0 million of which € 2.5 million already covered by the specific provisions booked to the income statement in previous years.

We are awaiting confirmation of acceptance by the Tax Authority of the applications to settle the disputes presented.

Details of disputes unresolved as at 30 June 2019

Excluding the disputes being settled already illustrated, the main tax disputes (meaning by this those that involve claims greater than or equal to € 1 million) that remain in being as of 30 June 2019 are the following:

Disputes relating to Banco BPM

- Banco BPM (former Banca Popolare di Verona e Novara Soc. Coop.) - tax demand regarding IRAP tax paid to the Regional headquarters for Veneto for 2006. The claim refers to the application of the ordinary rate of 4.25% to the net value of production resulting from business activities performed in Veneto and in Tuscany, instead of the higher rate of 5.25% and amounts to a total of 7.1 million euro. An appeal has been submitted for this tax demand. The Provincial Tax Commission partially admitted the appeal and declared that the fines requested were not due. The Regional Tax Commission confirmed the ruling of the court of first instance, therefore cancelling the tax claim relating to higher IRAP regarding the Tuscany Regional Authority. An appeal submitted to the Supreme Court is still pending.
- Banco BPM (former Banca Popolare Italiana Soc. Coop.) - notices of assessment relating to tax year 2005 regarding the claimed non-deductibility for IRES and IRAP purposes of costs and value adjustments to receivables relating to facts or actions classified as offences (it regards offence of false corporate reporting, obstacles to supervision and market turbulence alleged to have been committed by Banca Popolare Italiana with relation to the attempted takeover of Banca Antonveneta). The claims amount to 199.8 million euro (including interest and collection commission). With separate decisions filed on 15 October 2014, no. 8562 (IRES) and no. 8561 (IRAP), the Milan Provincial Tax Commission, Section 22, fully rejected the appeal presented by the Bank, although providing no reasons underlying its confirmation of the tax claim. We have appealed against the above ruling to the Regional Tax Commission of Lombardy. On 6 May 2015, the appeals lodged on 3 February 2015 were heard before the Milan Regional Tax Commission, Section 2. By ruling no. 670, handed down on 19 May 2015, the Commission rejected the combined appeals submitted and confirmed the challenged rulings, 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 three, of Italian Presidential Decree no. no. 917 of 22 December 1986. The notices of assessment serviced therefore dispute the claimed non-deductibility of the quotas of the above-cited adjustments on loans deducted in 2006, 2007, 2008 and 2009. Total claims amount to 15.8 million euro. An appeal was presented to the Provincial Tax Commission. The commission suspended the proceedings until the 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 containing the finding regarding the failure to apply the withholding tax set forth in Art. 26, paragraph 5 of Italian Presidential Decree 600/1973 to interest due on deposits made by foreign subsidiaries resident in the US state of Delaware in relation to 2015. The claims amount to 10.2 million euro. These disputes are included in the out-of-court settlement made with the Tax Authority, which, in 2016, 2017 and 2018, resulted in the settlement of similar disputes relating to other years and other incorporated companies without the application of any fine.
- Banco BPM - the audit report delivered on 7 August 2017 regarding the 2013, 2014 and 2015 financial years containing findings regarding the failure to pay IRES and IRAP with reference to certain economic relationships between Banca Italease S.p.A. and the subsidiary Banca Italease Funding LLC as part of the capital enhancement operations implemented through the issue of preference shares. The total claim amounts to 1.6 million euro.

Classification and valuation of the claims of the Financial Administration in accordance with accounting standard IAS 37

Claims associated with the proceedings regarding the claimed non-deductibility of costs relating to the attempted takeover of Banca Antonveneta by the former Banca Popolare Italiana

The above claims, which amount to a total of € 215.6 million, were the subject of careful assessment also in the light of the unfavourable result in the first two instances which entailed the full provisional payment of the amounts claimed as a guarantee deposit.
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 similar 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 does not contain any specific grounds on the merits of the case and is based on a mere reference to the Authority's claims, with no express indication of the reasons for its decision not to accept the precise arguments laid out by Banco Popolare in support of its appeal.
In the light of this analysis, on 18 December 2015, the appeal to the Supreme Court was made, it being believed that there are grounds to challenge the ruling as, in fact, all the defensive arguments regarding aspects of legitimacy not considered by the judges in the first and second instances can be submitted again to the court.
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 risk of an unfavourable final outcome 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 2019.

Claims associated with other disputes

Residual claims associated with tax disputes amount to 18.9 million euro.

In the light of the successful outcomes in the courts of first instance and/or the existence of valid grounds on which to challenge the claims made by the Tax Authority with regard to proceedings under way and also considering the specific opinions issued by authoritative external firms, the claims classified as possible but unlikely amount to a total of 3.1 million euro.
The claims classified as probable amount in total to 16.2 million euro and were fully debited from the income statement when the tax demands received were paid or are entirely covered by provisions allocated to the item Provisions for risks and charges.

Inspections under way as at 30 June 2019

There are no inspections currently under way.

Receivables from the Tax Authorities recognised in the financial statements at 30 June 2019

Receivables due from Tax Authorities are mainly represented by:
- receivables for requests for reimbursement of direct and indirect taxes and VAT, presented by Banca Popolare and incorporated companies for a total of 426.1 million euro, of which 303.4 million euro as capital and 122.7 million euro as interest. VAT credits for various years for which reimbursement was requested by the former Banca Italease S.p.A. represent one of the largest receivables (231.3 million euro). They also include the IRPEG/ILOR receivables relative to 1995 for the former Banca Popolare Novara, repayment of which was denied by the Tax Authorities - Novara Provincial Office (90.8 million euro). In the context of the dispute begun by the former Banco Popolare following the aforesaid rejection,

both the Provincial Tax Commission and the Regional Tax Commission accepted the appeals presented, ordering the Tax Authorities to pay also legal expenses. The appeal to the Supreme Court filed by the Tax Authority is pending;

- receivables deriving from excess advance stamp duty payments, substitute taxes applied to customers during the period and which will be received through settlement during 2019 totalling 246.7 million euro;
- receivables due from the financial administration following provisional payments made while awaiting final judgement, for a total of 210.3 million euro. Of these we note the payment associated with a dispute relative to the claimed non-deductibility of costs relating to the attempted takeover of Banca Antonveneta by the former Banca Popolare Italiana in 2005 for 201.9 million euro;
- tax credits on foreign dividends for 34.7 million euro, for which reimbursement from the Swiss financial administration was requested by the subsidiary Banca Aletti for years 2008, 2009, 2015, 2017 and 2018 on the basis of the provisions established in the Convention Against Double Taxation. The reimbursement requests relative to 2015, 2017 and 2018 are being reviewed by the Swiss financial administration, following the normal process. The refund requests presented by the Bank in relation to credits accruing in 2008 and 2009 (for 34.4 million euro) were rejected by the Swiss Tax Authorities, claiming that the bank was not the effective beneficiary of the dividends relative to which the withholdings to be reimbursed were requested. The rejection of the reimbursement was formalised on 9 March 2018, after which the bank, with a specific appeal for denial of justice, received an order that the Swiss judge must order the administration to make a formal judgement on whether the credit was due. The bank has now appealed this rejection with the relevant Swiss court and the relative process is pending.

Events that occurred after the end of the interim period

For completeness of information we can note that, after the end of the interim period, the Tax Authorities - Milan Provincial Office I served on 24 July a notice of adjustment and settlement of the registration tax paid in 2017 for the sale of the business unit related to the private banking activities of the former Banca Popolare di Milano S.p.A. to Banca Aletti S.p.A..
The total demand of the Office amounts to € 3.9 million (as higher taxes, interest and sanctions) plus interest accruing.
From a first analysis and assessment of the adjustment notice there emerged valid legal and economic grounds for challenging the Tax Authorities' claim considering the Bank’s conduct valid and sustainable. On the basis of this assessment payment of the amounts claimed is not considered likely and therefore no provision has been recognised to cover the said claim.

10.6.2 Other provisions for risks and charges - personnel expenses

These amount to € 406.8 million (€ 481.3 million at 31 December 2018) and are mainly represented by residual charges to be paid to finance the Solidarity Fund against redundancy incentive plans for personnel begun in previous years and the estimate of charges deriving from the foreseeable payment of variable compensation in compliance with what is established in the Group's incentive systems.

10.6.3 Other provisions for risks and charges - other

This residual category of provisions amounts to a total of € 348.3 million (€ 414.2 million at 31 December 2018) and comprises mainly provisions 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 (284.1 million euro);
b) liabilities deriving from onerous contracts and other commitments following rationalisation of the distribution network (11.9 million euro);
c) estimated liabilities against probable reimbursements of fees consequent to the possible early repayment by customers of insurance policies (20.4 million euro);
d) risks associated with guarantees granted against the disposal of equity investments or other assets or groups of assets (10.3 million euro).

Category a) includes the provision made against risks associated with notification activities carried out relative to the specialised company Intermarket Diamond Business S.p.A. (“IDB”) regarding customers interested in purchasing diamonds. This was carried out in almost all years between 2003 and 2016, prior to the merger which gave rise to Banco BPM.

To that end, note that the in April 2017 the Antitrust Authority (AGCM) extended the proceedings initiated against IDB to the reporting banks, including Banco BPM, and on 30 October 2017, by finding an allegedly incorrect commercial practice under the Consumer Code, imposed an administrative penalty on IDB and the reporting banks (amounting, in the case of Banco BPM, to 3.35 million euro). The Bank paid the amount of the fine and challenged the AGCM's decision with the Tribunale Amministrativo Regionale (Regional Administrative Court). Following the rejection of the appeal by the Regional Administrative Court in November 2018, the Bank appealed its decision, which is currently pending before the Council of State.
Following the judicial investigations in progress on 19 February 2019 the Public Prosecutor's Office of Milan served (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 relation, among other things, to the allegation of aggravated fraud.
The Court of Milan declared IDB bankrupt on 10 January 2019.
In relation to these events and the claims and disputes arising with customers following the date on which the administrative penalty was applied by the AGCM, the Bank has been analysing the individual cases of customers who have made complaints and communicating with them and the Consumer Associations in order to assess, also with an eye to customer care and maintaining relationships with its customers, any possible initiatives to be taken, including repayment, in the case of customers who were not able to resell the diamonds acquired through IDB, as established under the contract between IDB and its customers.
In this context, the group banks involved recognised in their financial statements generic provisions based on a prudent assessment of the information available on the said complaints. In more detail the provisions recognised in the consolidated financial statements at 30 June 2019 amounted to € 262.3 million. These provisions are the result of the amounts set aside in the income statements of financial years 2017 and 2018 for a total of € 318.3 million net of the utilisations of the provisions recognised against the compensation already paid to customers (€ 56.0 million).
Estimating the liability deemed probable based on management of claims and disputes carried out on preparing the 2018 financial statements was especially difficult. The amount of the liability to be estimated is a function of several variables, some of which have largely evolved independently of the managerial actions carried out by the bank and actually depend on phenomena that are difficult to establish in advance. In this context, the estimation approach is necessarily based on subjective assessments, which have been and will be updated over time in order to use all of the new or additional information that has become and will be made available.
More specifically, the main variables considered in estimating the current value of the liability include:

- the total amount of claims judged to have legal grounds (also considering the statute of limitations) which will be received and disputes associated with the issue;
- an estimate of repayments to be paid to customers who have made these claims and the sums associated with the disputes.

The first variable is that which is most difficult to estimate, in that it is in large part independent of the managerial actions executed and closely dependent on unforeseeable events such as, for example, media focus on the issue in question. To that end, we also note that the Group banks do not have information about which customers have already sold their diamonds through IDB after purchase. When determining the provision, the cases already made against the Group, claims received, and an estimate of claims which can be assumed to arrive in the future were all taken into consideration, without considering any decrease in the risk of claims against possible sales of stones already completed by customers over time.
The second variable is also difficult to determine. In the face of the notably particular issue of the diamonds, the bank has had to progressively acquire, as the issue evolves, the information needed to structurally organise the process to deal with claims. The methods used to determine repayments for customers, to resolve claims with an eye to settlement, has also been refined over time. This has necessarily influenced and will continue to influence the amount of repayments proposed. Hence, the average percentage value of repayments proposed and accepted may vary over time. The estimate of financial resources deemed likely to be paid out against the total amount of legal cases and claims received and expected used the average repayment percentage paid to customers with whom settlement agreements have already been signed as the reference. In almost all cases, these agreements involved the customer retaining ownership of the stones and the bank making a cash repayment.

Considering the difficulty and uncertainty in forecasting the variables illustrated above, when preparing the 2018 financial statements, a statistical estimate based on the most recent information obtainable from the claims and dispute management process (the most updated information about developments in claims and settlements up to the month of January 2019 was used) was accompanied by an estimate based on an alternative scenario using more severe assumptions which therefore made use of a higher expected number of clams and a higher repayment percentage. This process led to identifying a range of possible figures for provisions for risks and charges within which the median figure of € 285.2 million was found. This represents the provisions recognised in the financial statements at 31 December 2018, provisions reduced at 30 June 2019 to € 262.3 million as described above.
The checks carried out considering the events and the further information on complaints that became available after approval of the 2018 draft financial statements and up to 31 July 2019 led to considering at the moment unnecessary additional provisions with respect to those remaining at 30 June 2019. No additional provisions were therefore booked to the income statement of the first half of 2019.
Note that in estimating this provision, discounting factors were not considered, given that it is held that most claims will be settled over a limited period of time. No assets for unexpected indemnities were recognised against this provision.
Considering all the aspects of uncertainty illustrated, it cannot be ruled out that the amount of the provision for risks and charges recognised in the financial statements at 30 June 2019 is revealed to be greater or smaller than the financial resources effectively paid out by the banks of the Group relative to disputes and claims with their customers. Consequently, the possibility that additional allocations or writebacks will have to be made in future income statements also cannot be ruled out.
As permitted under paragraph 92 of the reference international accounting standard (IAS 37), the information above does not include information which if provided could prejudice the position of the involved Group banks (Banco BPM and Banca Aletti) in actions to protect their own third party position with respect to the issue and existing legal cases.

Item a) also includes allocations of 21.8 million euro recognised against the bank's voluntary decision to recalculate the conditions applied to customers relative to investigation fees and the granting of credit availability relative to previous years, based on metrics recently defined under more severe regulations and interpretation notes issued by the supervisory bodies.

Item b) represents the provisions allocated against future charges to be paid following the closure of 518 branches during the previous year. This estimate considers, among other things, the rents (not falling within the scope of IFRS 16) to be paid during the contractual period which could not be cancelled, as well as costs for dismantling and restoring the internal areas.
The portion of the provisions set aside (under the terms of IAS 37) at 31 December 2018 related to onerous contracts falling within the scope of application of IFRS 16 was reclassified in FTA reducing the value of the "right of use" recognised under the terms of this standard (cf. Part A – Disclosure on first-time adoption of the accounting standard IFRS 16 – Leases).

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

Item d) includes the provision allocated against risks associated with certain guarantees granted to the buyer at the time of disposals of equity investments, asset and groups of assets which have already been completed, not associated with the achievement of established sales objectives, as better specified below.
To this end, we can note that, in the context of the contracts signed at the time of the disposal of equity investments or business units, as well as in any correlated partnership agreements, there are investment protection and guarantee mechanisms for the buyer. Specifically, these mechanisms provide for the payment of indemnities to the buyer in the case that certain sales objectives are not met, with the establishment of maximum amounts, fixed amounts, grace periods and exceptions in favour of the Banco BPM Group. These investment protection and guarantee mechanisms remain in place through the end of the partnerships.

Below is a list of the main operations carried out relative to which the disposal contracts and/or associated partnership agreements include obligations for the Banco BPM to pay indemnities, when applicable:

- the sale of the controlling interest in Aletti Gestielle SGR to Anima Holding in 2017;
- the sale of a 65% shareholding stake in the insurance companies Popolare Vita and Avipop Assicurazioni (now respectively called Vera Vita and Vera Assicurazioni) to Società Cattolica Assicurazioni in 2018;
- the sale of a business unit relative to custodian bank business to BNP Paribas Securities Services in 2018 and the consequent revision of the obligations established at the time of the sale of the custodian bank business unit of the former Banca Popolare di Milano to the same buyer in 2010;
- the sale of contracts relative to delegated insurance asset management mandates placed through the Banco BPM Group to Anima SGR in 2018;
- the sale in 2015 by the former Banco Popolare of the subsidiary B.P. Luxembourg S.A. to Banque Havilland;
- the sale of 81% of the equity investment held in Bipiemme Vita to Covéa in 2011.

If on the basis of the final objectives achieved and forecasts relative to developments in the same the payment of an indemnity to the buyer is deemed likely, the estimate of the relative liability is allocated to the provisions for risks and charges in question. In this regard we can note that the amount set aside at 30 June 2019 is related mainly to the sale completed in financial year 2018 of the contracts related to delegated management of the insurance assets and charges related to the outsourcing period after the sale of Vera Vita completed in 2018.

Section 13 - Group equity Items 120, 130, 140, 150, 160, 170 and 180

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

As at 30 June 2019, share capital was 7,100 million euro, consisting of 1,515,182,126 ordinary shares subscribed and fully paid up.

The "treasury shares" item is represented by 3,933,003 shares of the Parent Company for a book value of 12.4 million euro.

13.2 Share capital – Number of shares of the Parent Group: Annual changes

	Ordinary	Other
A. Existing shares at the beginning of the period	**1,515,182,126**	**-**
- fully paid up	1,515,182,126	-
- not fully paid up	-	-
A.1 Treasury shares (-)	(4,004,510)	-
A.2 Outstanding shares: opening balance	**1,511,177,616**	**-**
A. Increases	**71,507**	**-**
B.1 New issues	-	-
for a fee:	-	-
- business combinations transactions	-	-
- bond conversion	-	-
- exercise of warrants	-	-
- other	-	-
without compensation:	-	-
- to employees	-	-
- to directors	-	-
- other	-	-
B.2 Sale of treasury shares	71,507	-
B.3 Other changes	-	-
C. Decreases	**-**	**-**
C.1 Cancellation	-	-
C.2 Purchase of treasury shares	-	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	-
D. Outstanding shares: closing balance	**1,511,249,123**	**-**
D.1 Treasury shares (+)	3,933,003	-
D.2 Shares outstanding at the end of the period	1,515,182,126	-
- fully paid up	1,515,182,126	-
- not fully paid up	-	-

Item B.2 includes shares assigned during the first six months of the year to employees, implementing remuneration and incentive policies as detailed in Part I of the Notes.
During the period there were no other transactions involving purchases or sales of Banco BPM shares, either on the part of the parent company or subsidiaries.

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 2019, no convertible bond instruments issued by the bank were in circulation.

Equity instruments: breakdown

As indicated in the "Significant events during the period" section of the Interim Report on Operations, on 11 April 2019, Banco BPM issued Additional Tier 1 instruments for an amount of € 300 million. These were, in particular, subordinated instruments classified in Additional Tier 1 capital, under the terms of Regulation no. 575 of 2013 (CRR).
The issue is classifiable as an equity instrument, under the terms of the accounting standard IAS 32. The price received from the issue, after deducting the directly-attributable transaction costs net of the tax effect which amounted to € 1.9 million, was recognised in the item "140. Equity instruments", for an amount of € 298.1 million.

In keeping with the nature of the instrument, the coupons are recognised as a reduction of shareholders' equity ("150. Reserves"). At 30 June 2019 the shareholders' equity decreased by € 3.2 million, as a result of the payment of the coupons made on 18 June 2019 (€ 4.4 million) net of the related tax effect.

Valuation reserves: breakdown

The following table shows the breakdown of valuation reserves.

(thousands of euro)	30/06/2019	31/12/2018
Financial assets designated at fair value through other comprehensive income	(156,403)	(297,943)
Property, plant and equipment	217	217
Foreign investment hedges	643	1,051
Cash flow hedges	(6,546)	(7,034)
Exchange rate differences	22,042	20,999
Financial liabilities designated at fair value through profit and loss (changes to its own credit risk)	5,663	9,875
Actuarial gains/(losses) on defined benefit pension plans	(97,908)	(74,028)
Share of valuation reserves related to investments in associates carried at equity	5,683	(1,889)
Special revaluation laws	2,314	2,314
Total	**(224,295)**	**(346,438)**

PART C – INFORMATION ON 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 2019	Total 1st half 2018
1. Financial assets designated at fair value through profit and loss:	**27,485**	**3,779**	**1,871**	**33,135**	**30,807**
1.1 Financial assets held for trading	21,876	-	1,871	23,747	24,455
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily at fair value	5,609	3,779	-	9,388	6,352
2. Financial assets designated at fair value through other comprehensive income	**151,785**	**-**	**X**	**151,785**	**151,281**
3. Financial assets designated at amortised cost:	**124,809**	**978,478**	**X**	**1,103,287**	**1,289,241**
3.1 Due from banks	2,859	6,056	X	8,915	16,719
3.2. Loans to customers	121,950	972,422	X	1,094,372	1,272,522
4. Hedging derivatives	**X**	**X**	**(82,855)**	**(82,855)**	**(59,272)**
5. Other assets	**X**	**X**	**3,105**	**3,105**	**3,417**
6. Financial liabilities	**X**	**X**	**X**	**65,895**	**64,783**
Total	**304,079**	**982,257**	**(77,879)**	**1,274,352**	**1,480,257**

At 30 June 2019 interest income on impaired financial assets amounted to € 114.6 million, of which € 114.3 million on loans and € 0.3 million on debt securities.
Interest income on financial leasing amounted to € 16.3 million.

1.3 Interest and similar expense: breakdown

Items/Technical forms	Payables	Securities	Other transactions	Total 1st half 2019	Total 1st half 2018
1. Financial liabilities designated at amortised cost	**(108,768)**	**(146,043)**	**X**	**(254,811)**	**(276,585)**
1.1 Due to central banks	-	X	X	-	-
1.2. Due to banks	(74,523)	X	X	(74,523)	(38,728)
1.3. Due to customers	(34,245)	X	X	(34,245)	(41,827)
1.4 Debt securities issued	X	(146,043)	X	(146,043)	(196,030)
2. Financial liabilities held for trading	(2,923)	-	-	(2,923)	(34,726)
3. Financial liabilities designated at fair value	-	(4,072)	-	(4,072)	(7,642)
4. Other liabilities and funds	X	X	(349)	(349)	(656)
5. Hedging derivatives	X	X	22,202	22,202	39,868
6. Financial assets	X	X	X	(14,401)	(20,407)
Total	**(111,691)**	**(150,115)**	**21,853**	**(254,354)**	**(300,148)**

At 30 June 2019 interest expense related to leasing payables amounted to € 5.0 million.

Section 2 - Fees and commissions – Items 40 and 50

2.1 Fee and commission income: breakdown

Service type/Amounts	Total 1st half 2019	Total 1st half 2018
a) guarantees given	39,058	38,829
b) credit derivatives	-	-
c) management, brokerage and advisory services	420,179	484,137
1. financial instrument trading	15,754	19,215
2. foreign currency trading	1,554	1,772
3. portfolio management	12,132	15,233
3.1 Individuals	12,132	15,233
3.2 collective	-	-
4. securities custody and administration	4,337	3,292
5. custodian bank	683	9,396
6. placement of securities	253,531	324,107
7. receipt and transmission of orders	19,921	21,635
8. consulting	6,243	4,053
8.1 concerning investments	3,933	347
8.2 concerning financial structure	2,310	3,706
9. third party service distribution	106,024	85,434
9.1. portfolio management	1,260	1,546
9.1.1 individuals	1,260	1,546
9.1.2 collective	-	-
9.2 insurance products	67,722	53,794
9.3 other products	37,042	30,094
d) collection and payment services	87,756	92,715
e) servicing for securitisations	-	448
f) factoring services	-	-
g) tax collection and treasury services	-	-
h) management of multilateral trading facilities	-	-
i) keeping and managing current accounts	107,647	113,236
j) other services	264,203	253,955
Total	**918,843**	**983,320**

2.2 Fee and commission expense: breakdown

Services/Amounts	Total 1st half 2019	Total 1st half 2018
a) guarantees received	(2,610)	(2,559)
b) credit derivatives	-	-
c) management and brokerage services:	(14,467)	(18,929)
1. financial instrument trading	(4,868)	(10,910)
2. foreign currency trading	(4)	-
3. portfolio management:	-	(279)
3.1 own assets	-	(279)
3.2 delegated to third parties	-	-
4. securities custody and administration	(4,478)	(3,258)
5. placement of financial instruments	(529)	(1,470)
6. off-site offer of financial instruments, products and services	(4,588)	(3,012)
d) collection and payment services	(5,078)	(5,900)
e) other services	(27,621)	(28,419)
Total	**(49,776)**	**(55,807)**

Profits (losses) on trading – Item 80

4.1 Profits (losses) on trading: breakdown

Transactions/Income components	Capital gains (A)	Profit from trading (B)	Losses (C)	Losses from trading (D)	Net result [(A+B) - (C+D)]
1. Financial assets held for trading	**103,101**	**83,693**	**(29,532)**	**(29,611)**	**127,651**
1.1 Debt securities	38,879	48,783	(7,042)	(20,909)	59,711
1.2 Equity instruments	64,183	33,842	(22,487)	(8,615)	66,923
1.3 UCITS units	39	186	(3)	(39)	183
1.4 Loans	-	-	-	-	-
1.5 Other	-	882	-	(48)	834
2. Financial liabilities held for trading	**15,624**	**11,114**	**(94,046)**	**(37,155)**	**(104,463)**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	639	7,390	(7,917)	(6,443)	(6,331)
2.3 Other	14,985	3,724	(86,129)	(30,712)	(98,132)
Financial assets and liabilities: conversion differences	**X**	**X**	**X**	**X**	**34,193**
3. Derivative instruments	**845,240**	**1,208,897**	**(867,589)**	**(1,389,140)**	**(254,648)**
3.1 Financial derivatives:	844,930	1,206,161	(865,571)	(1,384,637)	(251,173)
- on debt securities and interest rates	630,480	858,622	(681,990)	(993,661)	(186,549)
- on equity instruments and equity indices	211,038	275,857	(180,287)	(319,305)	(12,697)
- on currencies and gold	X	X	X	X	(52,056)
- Other	3,412	71,682	(3,294)	(71,671)	129
3.2 Credit derivatives	310	2,736	(2,018)	(4,503)	(3,475)
of which: natural hedges associated with the fair value option	X	X	X	X	-
Total	**963,965**	**1,303,704**	**(991,167)**	**(1,455,906)**	**(197,267)**

Fair value adjustments in hedge accounting – Item 90

5.1 Fair value adjustments in hedge accounting: breakdown

Income components/Amounts	Total 1st half 2019	Total 1st half 2018
A. Revenue from:		
A.1 Fair value hedging derivatives	102,200	86,596
A.2 Hedged financial assets (fair value)	386,341	80,164
A.3 Hedged financial liabilities (fair value)	17,921	27,900
A.4 Cash flow hedging derivatives	-	356
A.5 Assets and liabilities in foreign currency	610	191
Total income from hedged assets (A)	**507,072**	**195,207**
B. Charges related to:		
B.1 Fair value hedging derivatives	(277,520)	(57,815)
B.2 Hedged financial assets (fair value)	(167,082)	(95,955)
B.3 Hedged financial liabilities (fair value)	(62,957)	(41,706)
B.4 Cash flow hedging derivatives	-	-
B.5 Assets and liabilities in foreign currency	-	(191)
Total charges from hedging activities (B)	**(507,559)**	**(195,667)**
C. Fair value adjustments in hedge accounting (A - B)	**(487)**	**(460)**
of which: profit/(loss) of hedging on net positions	-	-

Profits (losses) on disposal or repurchase – Item 100

6.1 Profits (losses) on disposal or repurchase: breakdown

Items/Income components	Total 1st half 2019			Total 1st half 2018		
	Income	Losses	Net result	Income	Losses	Net result
Financial assets						
1. Financial assets designated at amortised cost	540,132	(501,456)	38,676	634,260	(894,812)	(260,552)
1.1 Due from banks	-	-	-	-	(1,662)	(1,662)
1.2. Loans to customers	540,132	(501,456)	38,676	634,260	(893,150)	(258,890)
2. Financial assets designated at fair value through other comprehensive income	165,470	(140)	165,330	174,198	(44,415)	129,783
2.1 Debt securities	165,470	(140)	165,330	174,198	(44,415)	129,783
2.2 Loans	-	-	-	-	-	-
Total assets	**705,602**	**(501,596)**	**204,006**	**808,458**	**(939,227)**	**(130,769)**
Financial liabilities designated at amortised cost	**-**	**-**	**-**	**-**	**-**	**-**
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Debt securities issued	91	(2,328)	(2,237)	-	(1,002)	(1,002)
Total liabilities	**91**	**(2,328)**	**(2,237)**	**-**	**(1,002)**	**(1,002)**

Profits (losses) on other financial assets and liabilities designated at fair value through profit and loss – Item 110

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

Transactions/Income components	Capital gains (A)	Gains on disposal (B)	Losses (C)	Losses on disposal (D)	Net result [(A+B) - (C+D)]
1. Financial assets	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-
1.2 Loans	-	-	-	-	-
2. Financial liabilities	**1,184**	**14**	**(944)**	**(224)**	**30**
2.1 Debt securities issued	1,184	14	(944)	(224)	30
2.2. Due to banks	-	-	-	-	-
2.3. Due to customers	-	-	-	-	-
3. Financial assets and liabilities in foreign currencies: conversion differences	**X**	**X**	**X**	**X**	**-**
Total	**1,184**	**14**	**(944)**	**(224)**	**30**

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

Transactions/Income components	Capital gains (A)	Gains on disposal (B)	Losses (C)	Losses on disposal (D)	Net result [(A+B) - (C+D)]
1. Financial assets	**47,199**	**48,775**	**(23,541)**	**(2,705)**	**69,728**
1.1 Debt securities	3,373	2,843	(3,984)	(1,000)	1,232
1.2 Equity instruments	21,860	42,561	(3,183)	(1,705)	59,533
1.3 UCITS units	12,539	3,207	(6,660)	-	9,086
1.4 Loans	9,427	164	(9,714)	-	(123)
2. Financial assets in foreign currencies: conversion differences	**X**	**X**	**X**	**X**	**942**
Total	**47,199**	**48,775**	**(23,541)**	**(2,705)**	**70,670**

Net losses/recoveries on credit risk – Item 130

8.1 Net value adjustments for credit risk related to financial assets designated at amortised cost: breakdown

Transactions/Income components	Value adjustments (1)			Value recoveries (2)		Total 1st half 2019	Total 1st half 2018
	First and second stage	Third stage		First and second stage	Third stage		
		Write-off	Other				
A. Due from banks	(1,296)	-	-	65	15	(1,216)	1,845
- loans	(713)	-	-	1	15	(697)	1,909
- debt securities	(583)	-	-	64	-	(519)	(64)
of which: originated or acquired impaired credit	-	-	-	-	-	-	-
B. Loans to customers	(4,255)	(22,787)	(775,836)	2,075	432,150	(368,653)	(422,720)
- loans	(1,786)	(22,787)	(775,836)	551	432,150	(367,708)	(424,708)
- debt securities	(2,469)	-	-	1,524	-	(945)	1,988
of which: originated or acquired impaired credit	-	-	-	-	-	-	-
Total	**(5,551)**	**(22,787)**	**(775,836)**	**2,140**	**432,165**	**(369,869)**	**(420,875)**

8.2 Net value adjustments for credit risk related to financial assets designated at fair value through other comprehensive income: breakdown

Transactions/Income components	Value adjustments (1)			Value recoveries (2)		Total 1st half 2019	Total 1st half 2018
	First and second stage	Third stage		First and second stage	Third stage		
		Write-off	Other				
A. Debt securities	(1,317)	-	-	3,503	-	2,186	(3,198)
B Loans	-	-	-	-	-	-	-
- to customers	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-
of which: originated or acquired impaired financial assets	-	-	-	-	-	-	-
Total	**(1,317)**	**-**	**-**	**3,503**	**-**	**2,186**	**(3,198)**

Profits (losses) on disposal of investments - Item 280

The item amounted to € 337.7 million and refers mainly to capital gains, before the tax effects, achieved through reorganisation of the consumer loan segment (€ 189.5 million) and establishment of the partnership with Credito Fondiario to manage recovery activities for impaired loans (€ 142.7 million).

Other operating expenses/income – Item 230

16.1 Other operating expenses: breakdown

	Total 1st half 2019	Total 1st half 2018
Expenses on leased assets	(11,561)	(7,821)
Amortisation of leasehold improvements costs	-	(9,060)
Other	(20,703)	(34,471)
Total	**(32,264)**	**(51,352)**

16.2 Other operating income: breakdown

	Total 1st half 2019	Total 1st half 2018
Income on current accounts and loans	10,955	22,791
Recoveries on tax	125,545	125,900
Recoveries on expenses	3,894	21,039
Rents receivable on real estate	17,565	27,956
Other	40,120	166,688
Total	**198,079**	**364,374**

Income per share

	30/06/2019		30/06/2018	
	Basic EPS	**Diluted EPS**	**Basic EPS**	**Diluted EPS**
Weighted average of ordinary shares (number)	1,511,191,858	1,511,191,858	1,510,759,980	1,510,759,980
Attributable result (in thousands of euro)	593,133	593,133	352,577	352,577
EPS (euro)	**0.392**	**0.392**	**0.233**	**0.233**
Annualised attributable result(*) (in thousands of euro)	1,186,266	1,186,266	705,154	705,154
EPS (euro)	**0.785**	**0.785**	**0.467**	**0.467**

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

As at 30 June 2019, 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 2019, the Board of Directors of the Parent Company Banco BPM approved the new Risk Appetite Framework (RAF), on a consolidated level and as an individual legal entity, whereby the Body with Strategic Supervision Functions (*Organo con Funzione di Supervisione Strategica* - OFSS) 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 summarise risk exposure;
3. the system of thresholds, which defines the risk appetite;
4. the escalation process, activated with different intensities and players when the various thresholds are reached;
5. the Risk Appetite Statement (RAS), in which the methods for calculating the thresholds and metrics are analysed;
6. instruments and procedures, which support the representation and operational management of the RAF, including Significant Transactions (ST) and leveraged operations.

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

- activities are performed taking into account the risks assumed and the controls set in place to mitigate the same from a short and medium-long term perspective;
- particular attention is paid to capital and liquidity adequacy and to the credit quality of the portfolio, also in the light of the introduction of new legislation and of regulatory restrictions imposed by the Supervisory Body.

The RAF's set of indicators is based on the Risk Identification process and takes into account recent regulatory guidance on Risk Governance. All significant risks identified at the end of this process are considered when defining the Risk Appetite Framework, and specific indicators are identified for their monitoring. In particular, the Group's RAF has identified a set of indicators for the main risk areas: First and Second Pillar Capital Adequacy, Liquidity Adequacy, Credit Quality, Profitability, Operational/Conduct and Other Significant Issues.
The indicators that summarise the Group's risk profile in these areas have been divided into 3 levels, differentiating between strategic indicators, which enable the Board of Directors to guide the Group's strategic decisions, and operational indicators, in order to integrate and anticipate the dynamics - where possible - of the strategic indicators.
More specifically:

- the Strategic RAF is a set of metrics and thresholds that enable the Group's risk strategy to be defined and monitored. It includes a limited and exhaustive number of indicators which express the risk appetite

approved by the Board of Directors and represent the summary performance of the overall risk profile;
- the Operational RAF (with Trigger) is a set of metrics that supplement and provide more detail on the strategic indicators and anticipate the trend of the risk profile. These metrics enable specific aspects of the main business processes to be encompassed and are usually monitored with greater frequency in line with their task of anticipating critical situations;
- the Operational – Early Warning RAF is a set of metrics that enables the strategic and managerial indicators to be integrated and broken down and the evolution of the risk profile to be anticipated. These metrics enable specific aspects of the main business processes to be encompassed, and are usually monitored with greater frequency in line with their task of anticipating critical situations.

The system of thresholds for the strategic indicators envisages the definition of the following limits:
- Risk Target (Medium to Long Term Objective): normally the risk objective defined in the Industrial Plan at Group level. It indicates the level of risk (overall and by type) to which the Group is willing to be exposed to pursue its strategic objectives.
- Risk Trigger: this is the threshold, differentiated by indicator, the exceeding of which activates the various escalation processes envisaged by the Framework. The Risk Trigger is also determined by the use of stress tests. The system of limits used for operational purposes is defined in accordance with the Risk Limits.
- Risk Tolerance: this is the maximum permitted deviation from the Risk Appetite; the tolerance threshold is set in such a way so as to ensure that the Group has sufficient margins to operate, even in conditions of stress, within the maximum risk that may be assumed.
- Risk Capacity: this is the maximum level of risk that the Group is able to assume without infringing regulatory requirements or other restrictions imposed by the shareholders or by the Supervisory Authority.

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

The Risk Function, in collaboration with the Planning and Control Function and the other relevant Functions, develops the RAF, providing support to the Managing Body (MB), from a legislative and operating perspective, consistent with strategy, business plans and capital allocation in ordinary conditions and in stress situations. The RAF is updated at least once a year, also in the event of changes in the internal and external conditions in which the Group operates.
From an operating perspective, risk prevention activities are also found in the process to manage the Most Significant Transactions (relating to credit, finance, disposal of loans, etc.) and the leveraged transactions which primarily involve the Risk Function, which must express a prior and non-binding opinion on all transactions categorised as such based on criteria established and regulated internally.

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

Monitoring and reporting activities

Risk monitoring and control activities carried out by the Risk Function are meant to ensure, at the Group and individual company levels, unitary oversight over the applicable risks, guaranteeing appropriate and timely information to the Corporate Bodies and the Organisational Units involved in risk management, ensuring the development and continuous improvement of risk measurement methodologies and models.
To this end, the Parent Company prepares monthly reports for the Corporate Bodies in line with the Group's internal policies. Risk monitoring and control activities carried out by the Risk Function are meant to ensure, at the Group and individual company levels, unitary oversight over the applicable risks, guaranteeing appropriate and timely information to the Corporate Bodies and the Organisational Units involved in risk management, ensuring the development and continuous improvement of risk measurement methodologies and models.

Benchmarking analysis of the main Italian and European banks allows Corporate Bodies and top management to gain a more integrated view of Group risks.
A verification of current and future capital adequacy, both from a Pillar I (regulatory) perspective and from a Pillar II (economic) perspective, in accordance with the provisions of the ECB ICAAP Guidelines, is also reported quarterly to the Committees and Corporate Bodies.

First and second pillar capital adequacy

To provide its management team and the Supervisory Authority with a complete and informed disclosure, which confirms the adequacy of its own funds, the first defence against the risks assumed, the Banco BPM Group assesses its capital situation from a current and future perspective, both as regards Pillar I and Pillar II, based on Basel III rules (which are applied through CRR/CRD IV) and the specific guidelines that the banks receive from the Supervisory Authority.
As regards Pillar I, the Group's capital adequacy entails continuously monitoring and managing the capital ratios, calculated on the basis of the information provided by the Administration and Financial Statements Function through the application of the rules established by Supervisory Regulations, in order to verify compliance with regulatory limits and to ensure that the minimum capitalisation levels required by Supervisory Regulations are maintained. These ratios are also estimated during the Budget or Strategic Plan preparation process and their consistency with the thresholds established in the Risk Appetite Framework and the estimates made in the Capital Plan is verified.
As regards Pillar II, the Risk Function is tasked with coordinating the internal process to determine the Group's capital adequacy, in accordance with regulatory provisions, and with making the current and forward-looking estimates, in both a baseline and stressed scenario, reported 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 difference between Available Financial Resources (AFR) and capital requirements, calculated using advanced methods developed internally and validated by the competent corporate function), using the Risk Appetite Framework, as well as qualitative elements.
The outcome of the self-assessment of capital adequacy, conducted on a multi-year basis, takes into consideration both the simulations made from a regulatory perspective and via the application of internal management methods (economic perspective). The simulations are conducted under normal operating conditions and also consider the results of the application of stress scenarios.
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.
The Scenario Council 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.

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, it 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

The Banco BPM Group pursues lending policy objectives that seek to:

- support the growth of the business activities in its market territories, with the goal of overseeing and governing the evolution of the Group's positioning, in line with the policies of the Risk Appetite Framework and the budget 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 at the Group level.
The loan portfolio monitoring, carried out by the Function, is focused on the performance analysis of risk profile of economic sectors, geographical areas, customer segments and types of granted credit lines, as well as on other analysed spheres of action, allowing the definition of possible corrective actions at central level.
The role of the Parent Company's Risk Function is to support to Top Management in planning and controlling the risk of exposure and capital absorption, in order to maintain the stability of the Group, checking capital adequacy forecasts and in stress conditions and compliance with the RAF thresholds, the Group's risk limits and its propensity for risk. In particular, the Function's task is to develop, manage and optimise internal rating models (Pillar I), the loan portfolio model (Pillar II) over time, and to supervise- as part of second level controls—the calculation of risk-weighted assets using advanced methods.
Portfolio risk monitoring is based on a default model that is applied on a monthly basis to credit exposures of the Banco BPM Group.

Credit quality

The Banco BPM Group uses an elaborate set of instruments to grant and manage credit and to monitor portfolio quality.
Rating plays a key role in loan granting, credit product disbursement, monitoring and management processes. In particular, it plays a role in deciding on the competent bodies to approve loans, influences the mechanism for the automatic renewal of uncommitted credit facilities, and contributes to determining automatic interception in the monitoring and management process (Watchlist).
The internal rating system, which is structured based on probability of default (PD), loss given default (LGD) and exposure at default (EAD) risk parameters, is used not only to assess the counterparty when granting, monitoring and renewing credit lines, but also to collectively write down receivables in the financial statements.
The classification of non-performing exposures is conducted in line with the criteria established by the EBA.
To a great extent, the management of non-performing loans in the Group is based on a model that assigns the management of a specific set of loans (portfolio) to specialist resources. In particular, the Group established units specialised in the management of impaired positions, including through portfolio disposal. These units aim to manage non-performing loans with a view to optimising recovery efficiency and speed and creating opportunities for maximising value.
The credit assessment made to establish the amount of expected loss relating to non-performing loans establishes different procedures depending on the status and the size of the exposure. Expected losses evaluated analytically by the manager are periodically reviewed.
The Risk Function, in accordance with the current instructions of the Supervisory Body, monitors the credit sector by performing second-level controls on the Performing–problem and Non-Performing portfolios. In the first half of 2019, the control activities involved credit profiles, the consistency of provisions, the adequacy of the loan recovery process, performance monitoring and the consistency of classifications. The activities were carried out by performing aggregate analyses and reviewing individual positions.

Methods for measuring credit risk for prudential purposes

When measuring credit risk, the bank uses an econometric model for management purposes, supplied with an extensive set of data and risk variables.
Using Credit-VaR (value at risk) metrics, the model makes it possible to define the probability distribution of losses within the loan portfolio, whether performing or defaulting. 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 traditional measures of Expected Loss and Unexpected Loss (Economic Capital), is affected by concentration risk (as a result of high levels of exposure to individual counterparties or to types of counterparties, which are similar in terms of economic sectors—single name concentration) and systematic risk (as a result of the impact of unexpected changes in macroeconomic factors on the likelihood of insolvency of individual counterparties—systemic risk), respectively.
The impact of these components on credit risk depends not only on the degree of concentration of the loan portfolio, but also on the relationship between macroeconomic factors, the default probability and the loss given default. These ratios were estimated using PD and LGD quantitative satellite models (developed and updated internally), capable of linking the risk factors of homogeneous relationships by type of counterparty and exposure to a set of "first-level" economic and financial factors (international and national).
Lastly, the portfolio model periodically undergoes stress testing to evaluate the Group portfolio's credit risk sensitivity to plausible extreme changes in one (sensitivity analysis) or more (scenario analysis) economic and financial factors.

At 30 June 2019 the total loss (expected and unexpected loss measured using the C-Var method with a confidence level of 99.9%) of the Banco BPM loan portfolio amounted to 6.44% of the Group's exposure, corresponding to riskiness of 3.15% on performing customers and 39.05% on customers in default.
Net of the unexpected component of risk, only expected loss (measured by the portfolio model) is 4.03% of total exposure; in detail, in relation to the performing portfolio the expected loss is 0.64% of the corresponding exposure, while in the non-performing perimeter the expected loss (ELBE) is 37.64% of the exposure.

The internal models for estimating PD and LGD are subject to an internal assessment process by the Internal Validation service 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, the Banco BPM Group adopts internal estimates of PD, LGD and EAD.
The comparison between estimates and empirical data is made for all risk parameters through backtesting conducted by the Internal Validation service.
With reference to the PD models, the Banco BPM Group adopts performance measurements to check the accuracy ratio (AR) of the estimates and calibration tests ("classical" binomial tests on a multi-year and annual period) to compare the decay rates (DRs) recorded over an annual time horizon with the estimated PD values.
Regarding the Corporate segment, the latest backtesting exercise showed a good discriminatory range of models, both in terms of single modules and final integrating ratings, which produced values comparable to those obtained during the development phase.
In regards to the calibration, satisfactory values were found for all business models (Large Corporate, Mid Corporate Plus, Mid Corporate and Small Business), demonstrating greater prudence in the value of class PD compared to the decay rate recorded.
Overall, the model performed well for the Private customer segment. With regard to calibration, the results of the binomial tests were satisfactory.
The analysis conducted when the LGD model was extended to the Banco BPM perimeter demonstrated that the model is substantially valid. Verification concerned the discriminatory range of the model. Recent analysis into the "Probability of Non-Performance" parameter is in line with expectations when compared with the results obtained with estimates for both the Business segment and the Private customer segment.
The analysis conducted on the first validation of the EAD model for the retail component demonstrated that the model is substantially valid. The validation framework for this parameter also includes statistical tests aimed at verifying its durability over time.
Generally, it was noted that in the first half of 2019 fine-tuning was carried out on all the models in order to overcome the aspects identified as requiring attention by the Internal Validation function when it conducted its verification activities.

Methods for measuring IFRS 9 expected losses for financial reporting purposes

The methods used at 30 June 2019 for estimating the expected losses of impaired loans and performing loans were unchanged with respect to those in use at 31 December 2018, except for some refinements introduced in the calculation of expected losses of performing loans with particular reference to the way of including forward-looking factors as illustrated below .

With reference to the model for calculation of expected losses on performing loans (Stage 1 and Stage 2) it must be specified that its development is based on the internal model for measuring credit risk for prudential purposes. In detail, making specific adjustments to the credit risk parameters of the internal models, new risk parameters are developed which are IFRS 9-compliant, in terms of Probability of Default (PD) at one year and lifetime, Loss Given Default (LGD) and Exposure at Default (EaD). In defining the aforementioned parameters of the model, with respect to the regulatory parameters, the conditions of the current economic cycle (Point-in-Time risk measures) were taken into account, as was the forecast information regarding the future trend of the macroeconomic factors (Forward looking risk measures) on which the expected loss depends. In addition, the factors relevant only for regulatory purposes (such as the downturn component to take account of the adverse economic cycle) were removed.
For the purposes of determining the expected losses on performing loans at 30 June 2019, besides the updates of the parameters necessary to incorporate the most recent historical series and the latest macroeconomic forecasts available, during the first half of 2019 a number of methodological refinements were introduced. The main change consists of the methodology followed for inclusion of the aforementioned forward-looking factors, which took as a reference three macroeconomic scenarios (negative, baseline and positive), replacing the previous five (very negative, negative, baseline, positive, very positive); at the same time the process of selecting the aforesaid scenarios was revised - in keeping with the scenarios used by the Group for the purposes of the planning processes, ICAAP and RAF and the assignment of the related probabilities.
The following table provides evidence of the minimum and maximum values ("range of values") referring to annual changes in the main macroeconomic factors for each of the three scenarios, included in the satellite models, considered capable of influencing the expected losses of the Group's performing credit exposures, and the relative probability of occurrence.

Macroeconomic indicators	**negative**		**baseline**		**positive**	
	range of values		**range of values**		**range of values**	
GDP Italy	-1.2%	0.0%	0.5%	0.8%	0.8%	1.3%
Household spending	-0.1%	0.4%	0.6%	0.7%	0.7%	1.0%
Construction investments	-1.8%	0.1%	0.9%	2.0%	1.3%	3.0%
Index of residential property prices	-0.3%	-0.1%	1.0%	1.6%	0.5%	2.1%
Unemployment rates	10.9%	11.6%	10.1%	10.5%	9.7%	10.4%
Probability of occurrence		25%		50%		25%

Counterparty Risk

Counterparty risk is defined as the risk that the counterparty in a transaction defaults before the final settlement of the cash flows of the transaction (Art. 272 EU Regulation no. 575/2013). In calculating exposure to counterparty risk, for Supervisory Reporting, the Group uses the standardised approach. Specifically, the Mark-to-market Method (Art. 274 Regulation EU/575) and the Financial Collateral Comprehensive Method (Arts. 223-224 Regulation EU/575).
The capital requirement is calculated by applying the credit parameters envisaged by the models used from time to time by the Group to the afore-mentioned exposure.
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.
More specifically, for the Parent Group 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 given by the risk margin period for each contract. The measurement is also implemented in the Parent Company and Banca Akros lending process chain, alongside a daily monitoring and reporting system.

For the remainder of the derivative exposures, the estimation is calculated using another EPE method (expected positive exposure) methodology (analytical or simplified formula).
The indirect membership (through Clearing Brokers) of a Clearing House for operations in OTC derivatives enabled the following objectives to be achieved:

- the mitigation of counterparty risk through netting mechanisms, leading to a reduction of credit facilities to market counterparties with regard to the plain vanilla swaps transferred to LCH and ICE Clear Europe for operations in Credit Default Swaps;
- the reduction of capital requirements;
- compliance with the European Directive - European Market Infrastructure Regulation (EMIR);
- mitigation of operating risk.

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

- own funds for the Credit Valuation Adjustment (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 Qualified Central Counterparties (QCCP) by adopting the methods established by Arts. 306-308 of EU Regulation no. 575/2013.

Financial risks

Trading portfolio

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

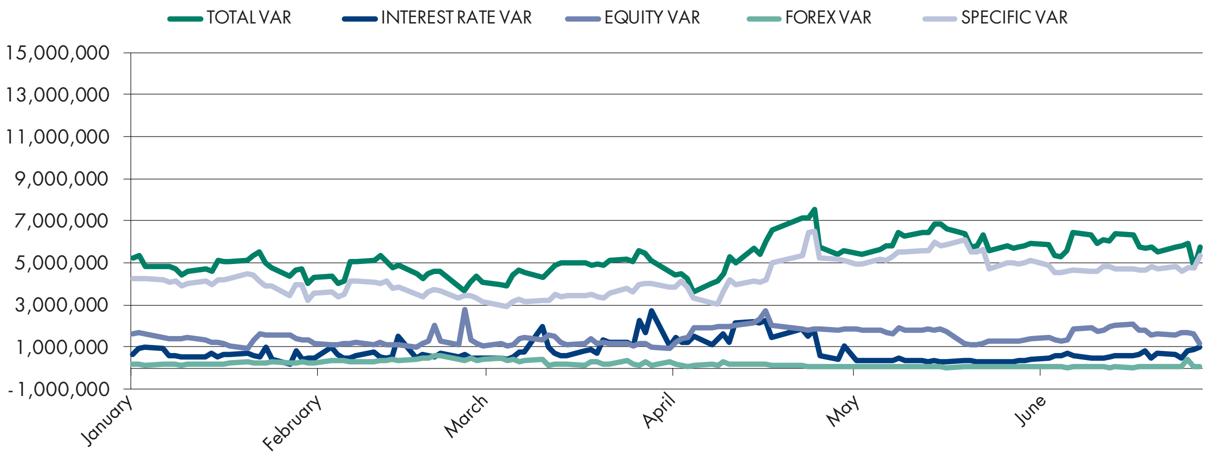
- the centralisation of the management of Treasury and of Proprietary Portfolio positions in Parent Group Finance;
- the centralisation in the subsidiary Banca Akros of the risk positions and the operating flows associated with trading of securities, currency, OTC derivatives and other financial assets.

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.
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.

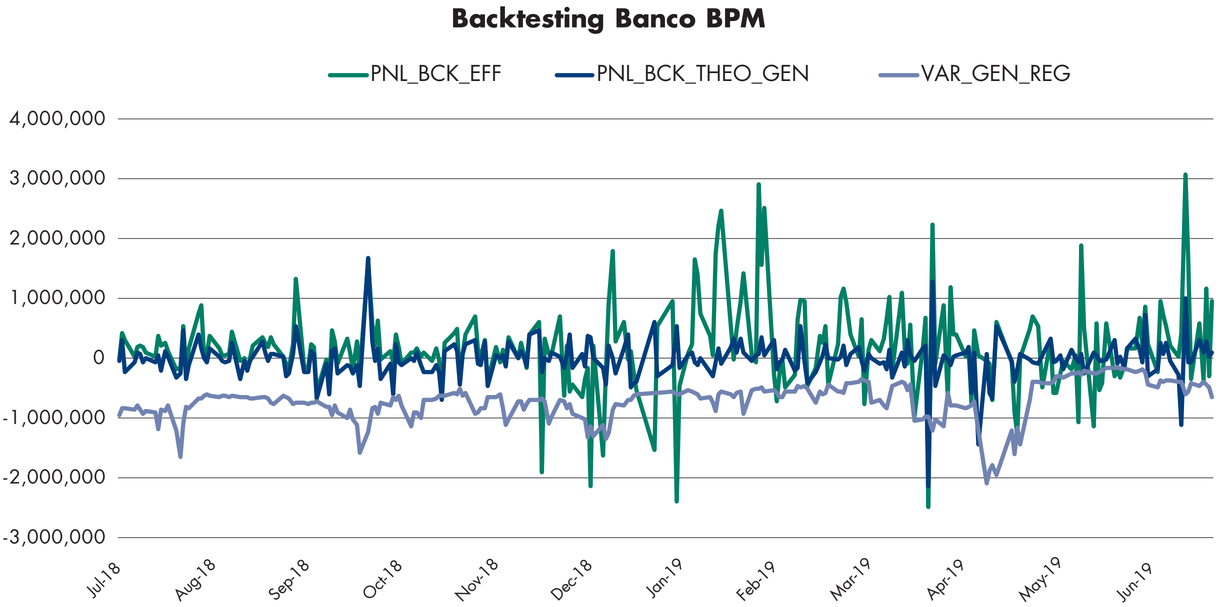
Operationally, trading portfolio risks are measured using the Global Historical VaR, which includes all the risk factors to which the bank is exposed, and also extends to issuer risk.
Below is the portfolio risk, in which the precise data relating to 28 June 2019 also include the risk positions present in the Banco BPM Group trading portfolio.

Regulatory trading portfolio	**1st half 2019**			
(in millions of euro)	**28 June**	**average**	**maximum**	**minimum**
Interest rate risk	0.999	0.784	2.699	0.186
Exchange rate risk	0.050	0.187	0.575	0.034
Equity risk	1.149	1.491	2.793	0.921
Dividends and Correlations	0.479	0.802	1.386	0.285
Total uncorrelated	**2.677**			
Diversification effect	-1.231			
Total generic risk	**1.447**	**1.904**	**5.106**	**1.121**
Specific debt securities risk	**5.359**	**4.286**	**6.503**	**2.920**
Combined risk	**5.731**	**5.232**	**7.550**	**3.618**

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 portfolio 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 envisaged by supervisory regulations in force, we used the equally-weighted VaR measurement instead of using a decay factor used in operational approaches. The backtesting P&L also includes the P&L component deriving from the change in the credit spread, despite it not being a risk factor included in the VaR model. In 2019, the Group requested to extend the model to the specific risk of debt securities.



Outcomes of the internal validation activity

The Banco BPM Group adopts internal models to quantify capital requirements for Market Risk, on which the Internal Validation function conducts qualitative and quantitative analyses to assess their soundness and the accuracy of the estimates for all significant risk components. Additionally, it expresses an opinion on the regular functioning, on the predictive capacity, on the performance of internal risk measurement methods and on the adequacy of operating processes to ensure, on a continuous basis, the compliance of internal methods with company needs and the evolution of the reference market and legislation.
In relation to backtesting overruns, the analysis produced to support overruns are analysed, as well as specific statistical tests (Proportion of Failures test, Time Until First Failure test, Christoffersen Interval Forecast test, Mixed Kupiec test, Conditional Coverage test) that are conducted in regard to different portfolio hierarchical levels and time horizons for Banca Aletti, Banca Akros and the Parent Company. The results of the analysis showed that the model has a good capacity to predict the number of backtesting overruns 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 method.
To verify the severity of the stressed period used in the Stressed VaR risk measure, appropriate analysis is carried out to assess any alternative periods that are more conservative than the one currently used to quantify the risk. The analyses showed that the current stressful period was appropriate and could continue to be used.
Lastly, the Internal Validation function validates sample pricing models and performs benchmark models in order to evaluate the robustness of those in production.

Banking portfolio

The interest rate risk relating to the banking portfolio 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 Bank's Finance Function is responsible for managing interest rate risk and operates in compliance with the limits for exposure to interest rate risk defined by the RAF and the indications of the Finance Committee.
The Parent Company's Risk Function is in charge of monitoring and controlling the interest rate risk of the banking portfolio, also for the financial subsidiaries. This activity is performed on a monthly basis to verify that the limits in terms of changes in interest margin or equity or the economic value of the banking portfolio are complied with, as regards own funds.

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

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

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

In the first half of 2019, 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 2019 in accordance with operational risk measurements.

Risk ratios (%)	2019 financial year (1st half)			
	30 June	average	maximum	minimum
For shift of + 100 bps				
Financial margin at risk / Financial margin	20.1%	19.7%	20.9%	18.7%
For shift of - 100 bps (EBA floor)				
Financial margin at risk / Financial margin	-8.5%	-10.5%	-8.5%	-11.6%
For shift of + 100 bps				
Economic value at risk / Economic value of capital	-1.4%	-0.1%	1.7%	-1.9%
For shift of - 100 bps (EBA floor)				
Economic value at risk / Economic value of capital	-1.9%	-3.6%	-0.9%	-5.5%

Outcomes of the internal validation activity

The Banco BPM Group adopts behavioural models in order to identify idiosyncratic elements of customer segments and to produce interest rate risk estimates more suited to the characteristics of the banking portfolio. In this context, Internal Validation conducts reperforming, benchmarking and backtesting analyses in order to assess the robustness of the interest rate risk estimates.

Operational Risks

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.
The Banco BPM Group was authorised by the European Supervisors to adopt, for regulatory purposes, a combination of the AMA (Advanced Measurement Approach) relating to the validated scope of the former Banco Popolare Group (Banco Popolare, including the recently incorporated companies SGR, SGS BP and BP Property Management, and Banca Aletti), the TSA (Traditional Standardised Approach) on the scope of the former Banca Popolare di Milano Group (Banco BPM business segments deriving from said scope, ProFamily and Banca Akros) and the BIA (Basic Indicator Approach) for the other remaining companies making up the 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 operating risk and envisages the deduction of provisions transferred to the income statement to the extent of the expected loss.
The Banco BPM Group is adopting a reporting model, consisting of a management IT system for the Corporate Bodies and Top Management (significant losses and related recoveries, overall assessment of the risk profile, capital absorption and risk management policies implemented and/or planned) and an operational reporting system, for the purposes of adequate risk management in the relevant areas.

Outcomes of the internal validation activity

The Banco BPM Group adopts internal models to quantify capital requirements for Operating Risk, on which the Internal Validation function conducts qualitative and quantitative analyses to assess their soundness and the accuracy of the estimates for all significant risk components. Additionally, it expresses an opinion on the regular functioning, on the predictive capacity, on the performance of internal risk measurement methods and on the adequacy of operating processes to ensure, on a continuous basis, the compliance of internal methods with company needs and the evolution of the reference market and legislation.
With reference to the evaluation of the operational risk management framework, Internal Validation carries out qualitative analyses (on loss data collection, continuous assessment, risk self-assessment) and quantitative analyses (reperforming and benchmarking) in order to verify the robustness of the estimates of the internal model. It also contributes annually to European benchmarking on internal models required by the ECB, which for the last year analysed also showed good 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, namely 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 quarterly basis, in order to test the Group’s ability to withstand unfavourable scenarios and estimates of how much liquidity can be generated with the countermeasures are updated (so-called action plan, an integral part of the Liquidity Contingency Plan) implemented in a stress scenario.
More specifically, the Group uses a monitoring system that includes short-term liquidity indicators (with a time horizon from infra-day to twelve months) and long-term ones (beyond twelve months). To this end, both regulatory metrics (LCR, NSFR, ALMM) and metrics processed internally, which include the use of estimation models of behavioural and/or optional parameters, are adopted.
In the first half of 2019, the liquidity profile of the new Banco BPM Group showed adequacy in the short and long term, complying with both internal and regulatory risk limits.

Outcomes of the internal validation activity

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

Covered bond transactions and securitisations

Significant events during the period

Under the BP CB1 Programme, in March 2019 the final term of the retained Series 7 was amended so as to (i) extend the maturity from 31 March 2019 to 31 March 2023 and (ii) allow for, if necessary, the exercising of the right to early repayment, even if part of the nominal value, at any time; in addition, on 27 March 2019 the early partial repayment of Series 7 was made for 500 million euro. On the interest payment date of 1 April 2019, the vehicle company BP Covered Bond S.r.l. repaid the subordinated loan to Banco BPM for an amount equal to 1 billion euro.

As regards the BPM CB2 Programme, on 28 March 2019 Banco BPM sold a new portfolio of eligible residential mortgage loans with a residual overall debt equal to 1 billion euro to the vehicle company BPM Covered Bond 2 S.r.l., with the signing of the relative contracts. To pay the purchase price for the portfolio, the SPE used a subordinated loan granted by Banco BPM. On the interest payment date of 18 April 2019, the vehicle company BPM Covered Bond 2 S.r.l. repaid the subordinated loan to Banco BPM for an amount equal to 150 million euro.

In May 2019, Moody's increased the rating of the Group's three CB programmes (BP CB1, BPM CB1 and BPM CB2) from "A1" to "Aa3".

As regards the securitisation transactions, as part of the "BPL Mortgages 5" transaction restructuring, with the signing of the relative contracts (i) on 8 February 2019 the sale by Banco BPM of an additional portfolio of loans deriving from land and residential mortgages was completed for a total residual debt (excluding accruals) of approximately 1.9 billion euro and (ii) on 26 February 2019, the vehicle company sold to Banco BPM the "non-performing" loans and loans eligible for the BPM CB2 Programme of Banco BPM for a total residual debt of approximately 326 million euro. The amount of this sale was settled by offsetting (for a corresponding amount) the amounts due by the vehicle company to Banco BPM as purchase price of the portfolio transferred.
To finance the purchase of the loans, on 14 March 2019 ("Second Subsequent Issue Date"), the vehicle company issued an additional series of asset-backed securities ("Series 3"); in particular (i) A3 (senior) securities issued for a nominal value equal to 1,504.3 million euro and (ii) B3 (junior) securities issued for a nominal value equal to 69.7 million euro. Both securities were fully subscribed by Banco BPM and the A3 senior securities were used for Eurosystem monetary policy operations.
Furthermore, on 14 March 2019, (i) the rating agency DRBS assigned an "A" rating to the new A3 senior securities and at the same time decreased the rating of the A1 and A2 senior securities from "A (high)" to "A", while Moody's assigned an "A1" rating to the new A3 senior securities, confirming the same "A1" rating already existing for the A1 and A2 senior securities and (ii) the cash reserve was increased by 24.6 million euro through the disbursement by Banco BPM of an additional limited loan for the same amount, bringing the balance of the cash reserve account to the new level of 88.6 million euro.

In April 2019, with the signing of the relative contracts, the "BPM Securitisation 2" transaction was dismantled. In particular, on 3 April 2019 Banco BPM repurchased the entire residual portfolio of loans underlying said transaction and, on the repayment date of 15 April 2019, the vehicle company made the early repayment of the outstanding securities. Lastly, on 16 April 2019 a termination agreement was concluded with which all the contracts signed and accounts opened within the context of the operation were closed.

On 19 March 2019, the Shareholders' Meeting of Tiepolo Finance S.r.l. approved the early dissolution and put the company into liquidation with effect as of 1 April 2019, and on 17 June 2019, approved the final liquidation financial statements as at 31 May 2019 together with the relative distribution plan.

With reference to the “BPL Mortgages 7” securitisation transaction (i) on 12 April 2019, the rating agency DBRS increased the rating of the A1 and A2 senior securities from “A” to “AAL” and the rating of the B1 and B2 mezzanine securities from “BBBH” to “A”, and (ii) on 10 June 2019, Moody’s increased the rating of the A1 and A2 senior securities from “A2” to “A1” and the rating of the B1 and B2 mezzanine securities from “Baa1” to “A3”.

Significant events after the end of the interim period

The vehicle company Tiepolo Finance S.r.l. in liquidation was removed from the Business Register on 5 July 2019.

With reference to the “BPL Mortgages 5” securitisation transaction, on 5 July 2019 Moody’s increased the rating of the A1, A2 and A3 senior securities from “A1” to “Aa3”.

Under the BPM CB1 Programme, on 8 July 2019, the Fourth Series, held entirely by Banco BPM, were fully extinguished early for a nominal value of 500 million euro.

On the interest payment dates in July 2019, the vehicle companies BPM Covered Bond S.r.l. and BPM Covered Bond 2 S.r.l. repaid the subordinated loan to Banco BPM for 350 million euro and 150 million euro respectively.

PART G - BUSINESS COMBINATIONS REGARDING COMPANIES OR DIVISIONS

Transactions achieved during the period

During the first six months of the year, no business combinations occurred involving companies external to the Group.

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

During the process of defining the corporate and organisational structure of the Banco BPM Group certain infragroup operations were carried out, described below.

These operations do not fall within the scope of application of IFRS 3 and, on the basis of the provisions found in Bank of Italy Circular 262/2005, are conventionally illustrated in this section. In the absence of a relevant accounting standard, "under common control" operations are recognised using the principle of continuity in accounting values. Specifically, the values used are those found in the Group's consolidated financial statements as of the date the assets were transferred.

Operations of merger by incorporation of subsidiaries

As described in more detail in the section on significant events of the period contained in the Interim Report on Operations, during the period the operations were completed for the merger by incorporation of the subsidiaries Società Gestione Servizi BP and BP Property Management into the Parent Company Banco BPM and of the subsidiaries Sviluppo Comparto 6, Sviluppo Comparto 8 and Manzoni 65 into Bipielle Real Estate.

These operations, which took effect for accounting and tax purposes as of 1 January 2019, occurred in the simplified form established for wholly-owned companies.

Reorganisation of the Group's Private Banking and Corporate & Investment Banking activities

On 1 April the deed of contribution of the so-called "Non-Portfolio Private" business unit of Banco BPM to Banca Aletti came into effect.
The unit includes the values related to the financial assets underlying the contractual relationships of administration and custody and managed savings.
As a result of this operation the restructuring of the segment of Private and Investment Banking activities launched last year was completed.

Business combinations after the reporting period

No business combination transactions were carried out outside the Group after the end of the period.

Retrospective adjustments

It was not necessary to make any retrospective adjustments.

PART H - TRANSACTIONS WITH RELATED PARTIES

Banco BPM adopted "Process rules for the management of related parties IAS 24". These Process rules, which are valid for Banco BPM and for all Group companies, establish the following operating criteria to identify related parties:

a) companies subject to significant influence and joint control: the entities in which the Parent Company Banco BPM or the subsidiary entities exercise significant influence pursuant to IAS 28 or joint control pursuant to IFRS 11. In particular, these are the "Investments in companies subject to joint control and subject to significant influence" indicated under Part B - Section 7 "Equity investments" in these Illustrative Notes;
b) executives with strategic responsibilities: the members of the Board of Directors, the acting members of the Board of Statutory Auditors, the General Manager and the Joint General Managers of the Parent Company and the Group companies are classified as such, as well as the top operations and management executives of Banco BPM, identified by a dedicated board resolution, the Manager responsible for preparing the Company's financial reports, the Head of the Compliance function, the Head of the Internal Audit function of Banco BPM, any additional structure heads identified by the Board of Directors of Banco BPM and any extraordinary liquidators;
c) close family members of executives with strategic responsibilities: only family members that are able to influence (or be influenced by) the party concerned in the relationship between the latter and Banco BPM or Group companies. The following are presumed to be as such, unless otherwise declared in writing by the executive, under the latter's own responsibility and containing adequate and analytical justification of the reasons that exclude any possible influence: spouses, common law spouses (including cohabitants whose status is not revealed in the family status certificate), offspring of the party, of the spouse or common law spouse, individuals dependent on the party, the spouse or common law spouse. Any other individual which the party believes may influence them (or be influenced by them) in their dealings with the bank or the other BPM Group companies is also a related party;
d) participative relations attributable to executives with strategic responsibilities and their close relatives: the following entities are considered to be related parties, those in which executives with strategic responsibilities or their close relatives have control pursuant to Article 2359, paragraph 1 of the Italian Civil Code, or joint control or exercise significant influence which is presumed when they hold, directly or indirectly, at least 20% of the voting rights which can be exercised during ordinary shareholders' meetings, or 10% if the company has shares listed on organised markets;
e) group pension funds: the pension funds for Group employees and any other related body;
f) holders of a significant equity investment: shareholders and the relative corporate groups (legal entities which are parent companies, subsidiaries or subject to joint control) which control the Parent Company, even jointly, or which exercise significant influence over Banco BPM, are considered related parties. As a minimum, a situation of significant influence is deemed to exist when the shareholder holds an interest with voting rights exceeding 10% of the share capital of Banco BPM. Parties not belonging to the Group who hold an interest in other Group companies greater than 20% of the voting rights that may be exercised in the shareholders' meeting, or 10% if the company has shares listed in organised markets, are also considered to be related parties;
g) parties who themselves are in a position to appoint members of the Board of Directors by virtue of the articles of association or shareholders' agreements.

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

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

The tables below indicate the balance sheet and income statement transactions as at 30 June 2019 with the companies subject to significant influence, the joint ventures, management with strategic responsibilities (which include audit bodies) and other related parties.

(thousands of euro)	Entities exercising significant influence (1)	Associated companies	Joint ventures	Executives with strategic responsibilities	Other related parties	Total	% of consolidated total
Financial assets held for trading	-	5,117	-	-	1,145	6,262	0.10%
Financial assets designated at fair value through other comprehensive income		-	-	-	25,739	25,739	0.19%
Due from banks	-	-	-	-	70,260	70,260	0.96%
Loans to customers	-	2,798,223	-	7,302	126,016	2,931,541	2.87%
Other assets	-	9,344	-	-	2	9,346	0.06%
Due to banks	-	-	-	-	269,810	269,810	0.86%
Due to customers	-	247,420	-	20,893	104,350	372,663	0.39%
Debt securities issued	-	-	-	1,419	2,262	3,681	0.03%
Financial liabilities held for trading	-	-	-	-	1,230	1,230	0.02%
Other liabilities	-	2,867	-	162	1,553	4,582	0.07%
Guarantees given and commitments	-	791,498	-	3,032	227,973	1,022,503	1.57%

(1) Funds or other authorised parties who act as a Shareholder and who possess a shareholding greater than 10% of the share capital.

(thousands of euro)	Entities exercising significant influence (1)	Associated companies	Joint ventures	Executives with strategic responsibilities	Other related parties	Total	% of consolidated total
Interest margin	-	10,595		22	131	10,748	1.05%
Net fee and commission income	-	81,379	-	5	143	81,527	9.38%
Administrative expenses/recoveries of expenses	-	590	-	(8,261)	(356)	(8,027)	0.58%
Other costs/revenues	-	860	-	-	(70)	790	2.25%

(1) Funds or other authorised parties who act as a Shareholder and who possess a shareholding greater than 10% of the share capital.

Other transactions with other related parties

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

	Purchases and sales of goods and services	Rentals receivable	Rentals payable
a) Directors	-	-	-
b) Executives with strategic responsibilities	-	-	-
c) Close family members of the parties in letters a) and b)	-	-	-
d) Subsidiary, associated company or subject to significant influence by the parties in letters a) and b)	422	973	129

Other information

In regards to paragraph 8 of Art. 5 "Disclosures to the public on related party transactions" of the CONSOB (the Italian Securities and Exchange Commission) Regulation containing provisions for related party transactions (adopted by CONSOB with resolution no. 17221 of 12 March 2010 and then amended with resolution no. 17389 of 23 June 2010), the following paragraphs illustrate the most important transactions conducted in the first half of 2019, as well as those that are less important, yet particularly significant.

The issue of Banco BPM bonds subscribed by Banca Akros, with the use of the liquidity deriving from funding activities through the issue of Certificates placed by Banco BPM and by Banca Aletti - definition of ceilings

The Board of Directors on 18 December 2018 approved (i) the issues of bonds, offered entirely in subscription to the subsidiary Banca Akros in 2019, for a maximum overall amount of 1 billion, without prejudice to the powers of the Chief Executive Officer regarding the approval of the properties, conditions and amount of the individual bond issues made, within the limits of said ceilings and (ii) the placement for 2019 by Banco BPM and Banca Aletti of the Certificates issued by Banca Akros, for which a flow of fees is expected in favour of Banco BPM for the overall amount of 22.5 million euro and in favour of Banca Aletti for an overall amount of 3 million euro.
As at 30 June 2019, Banco BPM issued 5 bonds for a total of approximately 646.9 million euro against a ceiling of approximately 1 billion euro, established by the framework resolution in question.

Contribution in the form of an increase to the shareholders' equity of the "Non Portfolio Private (NPP) Customers" division of Banco BPM in favour of Banca Aletti & C. S.p.A.

The Board of Directors meeting on 22 January 2019 approved the start of the contribution transaction of the "Non Portfolio Private" division ("NPP division") from Banco BPM to Banca Aletti and subsequently, on 12 March 2019, following the evaluations led by the independent expert, KPMG Advisory S.p.A., on the basis of the capital situation as at 31 December 2018, the Board of Directors approved the contribution in kind to Banca Aletti of the "Non Portfolio Private" division of Banco BPM, whose economic value was established as 42.9 million euro, in the form as an increase to the shareholders' equity of Banca Aletti, to be determined as the amount corresponding to the balance between the assets and liabilities of the capital situation of the division (imbalance) and therefore as 2.4 million euro.
On 20 March 2019 Banco BPM and Banca Aletti signed the deed of contribution, in the form of an increase in the shareholders' equity of the transferee company, Banca Aletti, of the Business Unit known as the "Non-Portfolio Private" unit of Banco BPM which took effect from 1 April 2019.

Restructuring of the BPL5 securitisation: granting of credit lines in favour of the vehicle company BPL Mortgages S.r.l.

On 6 February 2019, the Board of Directors approved the granting of new credit lines to the vehicle company BPL Mortgages (hereinafter referred to as the "SPV") as part of the restructuring of the "BPL5" securitisation transaction.
In order to finalise the transaction, it was necessary for Banco BPM to disburse, in favour of the SPV, a subordinated loan of € 24.6 million (instead of the € 35 million resolved), with maximum maturity at 31 December 2058, bullet repayment and indicative spread around 250 bps, used to increase the cash reserve required by the Rating Agencies to cover any shortfalls in liquidity over the course of the duration of the securitisation transaction.
In particular, the decision concerned the restructuring of the credit facilities granted to the SPV with their reduction from a total of 13.3 billion to a total of 8.2 billion of which (i) 7.9 billion as Banking Book lines (following the reduction from 9.0 billion to 4.0 billion of the lines maturing in December 2054 used in the BPL7 securitisation and the reduction from 4.0 billion to 3.9 billion of the lines maturing in October 2058 used in the BPL5 securitisation) and (ii) 0.3 billion as unsecured loans for the liquidity reserve as specified above.

Reorganisation project for the real estate segment through merger operations with real estate companies

The Board of Directors meeting on 27 February 2019 approved the merger by incorporation of Sviluppo Comparto 6, Sviluppo Comparto 8 and Manzoni 65 into Bipielle Real Estate.
The decision is intended to continue the process of reorganisation of the Group's real estate segment through the merger by incorporation of the aforesaid companies into Bipielle Real Estate, which holds 100% of their share capital.
The merger in question, in addition to simplifying the structure of the Group companies, makes it possible to streamline the financial structure of the subsidiaries of Bipielle Real Estate, which would otherwise need to be recapitalised.
In consideration of the investment chain of the companies involved in the merger, the merger transaction took place through the simplified procedure pursuant to Art. 2505 of the Italian Civil Code, with legal effects, pursuant to Art. 2504-*bis* of the Italian Civil Code, as of 28 June 2019. The operations of the companies being merged were recognised in the financial statements of the incorporating company from 1 January 2019. Tax effects applied from the same date.

In consideration of the fact that the transaction took place between Group companies for which there are relationships of full control, the operation did not have an effect on the consolidated capital ratios, whereas it did make it possible to create available margin for permanent partial use purposes in the exposures of the equity instruments as a result of the cancellation of the equity.

Merger by incorporation of Holding di Partecipazioni Finanziarie Banco Popolare S.p.A. into Banco BPM

On 27 February 2019, the Board of Directors approved, with a view to the process of reorganisation and simplification of the Group companies, the project for the merger by incorporation of Holding di Partecipazioni Finanziarie Banco Popolare S.p.A. ("HPF") into the Parent Company Banco BPM, which holds 100% of the share capital.
HPF is the subholding of the Group that held equity in Avipop Assicurazioni and Popolare Vita, among other companies, disposed of in 2018.
HPF continues to own the controlling interest (57.3%) in Arena Broker, in addition to non-controlling interests in S.I.A. (0.5%), Veneto Sviluppo (2.7%) and Edulife (10%) with an overall book value of € 12.6 million.
Since, with the sale by HPF of the stake in Avipop Assicurazioni and Popolare Vita, the strategic purpose of having a Group subholding responsible for the acquisition and coordination of investments in the financial sector had ceased, it became appropriate to begin the incorporation process of HPF into Banco BPM.
In consideration of the relationship of full control between the company being merged and the absorbing company, the merger will be implemented through the simplified procedure pursuant to Art. 2505 of the Italian Civil Code.
The merger will presumably come into legal effect, pursuant to Art. 2504-*bis* of the Italian Civil Code, by the end of the current financial year. The operations of the company being merged will be entered into the financial statements of the absorbing company as from the first day of the current financial year in which the mergers will come into effect. Tax effects will apply from the same date.
From the tax perspective, the merger involves (i) neutrality for IRES and IRAP purposes, (ii) exclusion from the scope of VAT and (iii) it being subject to a fixed amount of registration tax.
Furthermore, by virtue of the relationship of full control between the absorbing company and the company being merged, the merger will not have an impact on the consolidated ratios, since it is an intergroup transaction.

Reorganisation of the Consumer Credit sector

The meeting of the Board of Directors of 18 June 2019 approved the proposal to revoke the existing credit lines granted to ProFamily S.p.A. for 1.6 billion with the simultaneous transfer of said credit lines, for a lower amount of 1.5 billion, to the then Newco ProFamily S.p.A., with a maturity date revised to 30 June 2020.
Following the merger between Banco Popolare and BPM, one of the objectives of the Banco BPM Group is to streamline the product segments, including consumer credit, with the purpose of eliminating crossovers. During 2018, a project was launched to reorganise the operations of ProFamily (100% controlled) and Agos Ducato S.p.A. (in which Banco BPM has a 39% stake and which is controlled by Crédit Agricole Consumer Finance S.A., holder of the remaining 61%), on the basis of specific agreements signed on 20 December 2018 by Banco BPM, Crédit Agricole S.A., Crédit Agricole Consumer Finance S.A. and Agos Ducato.
In particular, this reorganisation project involved i) the proportional partial demerger of ProFamily S.p.A. in favour of a Newco (to be founded as the beneficiary in the demerger operation together with the assumption of the name of the demerged company) fully controlled by Banco BPM, with the aim to assign the division relating to the consumer credit activities performed through the "Non-captive Network" (monomandatory agents and own branches) of ProFamily S.p.A., ii) subject to the merger indicated in the previous point taking effect, the transfer to Agos Ducato of 100% of the share capital of the demerged company (renamed, as a result of the demerger, ProAgos S.p.A.) for an amount equal to 310 million euro. These transactions were completed on 27 and 28 June 2019. On the same date, Banco BPM, Crédit Agricole, Crédit Agricole Consumer Finance and Agos Ducato also formalised the contractual documentation aimed at confirming, for the next 15 years, the existing partnership in the consumer credit segment.
The Board of Directors of Banco BPM meeting on 27 February 2019 also resolved to approve the operation for the merger by incorporation of ProFamily S.p.A. - after the demerger (ProAgos) - into Agos Ducato S.p.A., with no exchange ratio and applying art. 2501-bis of the Italian Civil Code.
The merger was completed on 28 June 2019.

Disposal of a new portfolio of loans within the BPM CB2 Issue Programme

On 27 February 2019, the Board of Directors approved (i) the sale by Banco BPM to the vehicle BPM Covered Bond 2 S.r.l. of a new portfolio of suitable residential mortgage loans, for an overall amount equal to 1.1 billion and (ii) the use of the subordinated credit line against the available ceiling granted by Banco BPM approved during the Board meeting of 27 March 2018 and the Board of Directors meeting of the former BPM of 5 April 2018 to fully finance the purchase by the vehicle company BPM Covered Bond 2 of the new portfolio.
The transaction in question, completed on 28 March 2019, continued the aim to contribute to the achievement of the 2019 funding plan objectives.

PART I – SHARE-BASED PAYMENT AGREEMENTS

A. QUALITATIVE INFORMATION

1. Description of share-based payment agreements

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

As the Parent Company, Banco BPM S.p.A. prepares the annual Report on Pay pursuant to the provisions in force on remuneration and incentive policies and practices of the Bank of Italy (Circular no. 285/2013, 25th update of 23 October 2018, Part I, Title IV, Chapter 2 "Remuneration and bonus policies and practices"), of art. 123-*ter* of Italian Legislative Decree no. 58/1998 ("Consolidated Finance Law" or "CFL") as amended, and of art. 84-*quater* of CONSOB resolution no. 11971/1999 as amended ("Issuer Regulations").
The remuneration policies (the "Policies") define, in the interest of all stakeholders, the guidelines of the Group's personnel remuneration and incentive systems with a view to favouring the pursuit of long-term strategies, targets and results in line with the general framework of governance and risk management policies and with liquidity and capital levels, while also attracting to and retaining in the Group parties with adequate professional skills and abilities to meet business requirements, for the benefit of competition and good governance, by pursuing fairness internally and with respect to the external labour market.
The Group's pay policies also aim to guarantee adequate remuneration for long-term performance, making it possible to leverage personnel, recognise individual contributions to the achievement of results and discourage unfair conduct in relationships with customers and in terms of compliance with regulations, or conduct which tends towards excessive risk exposure or results in regulatory violations.
The pay system of Group employees includes a variable component linked to annual incentive systems (incentive). The receipt of an incentive is subject to the activation of an incentive system by the Group company in which the employee works and meeting all predefined access conditions in full (access gateways).

The incentive for key personnel (or parties whose professional activity has or may have a significant impact on the Group's risk profile, identified based on Delegated Regulation (EU) 604/2014) is broken down into an up-front instalment and deferred instalments.
The up-front instalment, irrespective of the beneficiary, is equal to:
- 60% of the incentive awarded, if it is less than € 430 thousand;
- 40% of the incentive awarded, if it is equal to or more than € 430 thousand.

The figure of € 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[1].
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, for 55% in Banco BPM ordinary shares, for key top-management personnel[2], irrespective of the amount of the incentive awarded, and for the key personnel who report directly to the Chief Executive Officer of the Italian banking subsidiaries, if the amount of the incentive awarded is equal to or more than € 430 thousand;
- three annual instalments of the same amount, deferred in the three-year period following the year in which the up-front instalment matures, for 50% in Banco BPM ordinary shares, for the key personnel not indicated in the previous point.

[1] Cf., Part One, Title IV, Chapter 2, Section III, Paragraph 2: "particularly high variable remuneration amount means the lower between: 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".
[2] Key top-management personnel for 2019 are: The CEO, Joint General Managers, top operations and management executives of the Parent Company, managers in the first line of management of the Parent Company not included amongst the company control units reporting directly to the CEO, the CEO of Aletti & C. Banca d'Investimento Mobiliare and of Banca Akros.

There is a retention period (selling restriction) on the shares vested of one year, for both the up-front and the deferred shares; for the latter, the retention period starts from the moment in which the deferred remuneration is vested. The vesting of the share instalments takes place at the same time as the respective cash instalments, while actual transfer of ownership to the beneficiary takes place at the end of the retention period.

In addition, in line with national banking system practices and in keeping with the spirit of the provisions in force, if the incentive recognised is lower than or equal to the relevant threshold of € 50 thousand and at the same time lower than or equal to one-third of the individual gross fixed annual remuneration, it is paid in a lump sum in a monetary form; this provision does not regard high-end key personnel[3] (including key top-management personnel) and personnel actually affected[4] by a ratio between variable and fixed remuneration of more than 100%, to whom, therefore, the regulations regarding the deferral and allocation of shares continue to apply in full.

Starting from 2017, a three-year long-term incentive (LTI) system was introduced in the Group (LTI incentive) correlated with the targets of the 2016-2019 Strategic Plan. This decision was made to link part of the remuneration of top company managers to the interests of shareholders which demand the creation of value for the company over time.
The receipt of the LTI incentive is also subject to meeting all predefined access conditions in full (access gateways).
The LTI incentive is paid entirely in Banco BPM ordinary shares (performance shares) and is broken down into:
- an up-front instalment equal to 40% of the LTI incentive;
- three annual instalments of equal amounts, totalling 60%, deferred over the three-year period subsequent to the year in which the up-front portion is accrued.

There is a retention period (selling restriction) on the shares vested of two years for the up-front shares and of one year for the deferred shares; for the latter, the retention period starts from the moment in which the deferred remuneration is vested. The assignment of shares to the respective recipients (and therefore actual transfer of ownership) takes place at the end of the retention period.
Both up-front and deferred instalments of both systems are subject to malus and claw-back mechanisms, as set forth in the Policy.
The Three-Year Plan, approved by the Ordinary Shareholders' Meeting of Banco BPM on 8 April 2017, which calls for the valuation of this variable component of the pay of the executive members of the Board of Directors and employees and collaborators of the Banco BPM Banking Group in the category of top Group managers, to be paid through the free assignment of ordinary shares of Banco BPM under the 2017-2019 long-term incentive system.
On 6 April 2019, the Ordinary Shareholders' Meeting of Banco BPM approved, pursuant to Art. 114-bis of the CFL and Art 84-bis of the Issuers' Regulations, the compensation plans based on shares of Banco BPM, as defined in the respective Disclosure Documents prepared for this reason by the Board of Directors on 28 February 2019, on the basis of the Policy—an Annual Plan that calls for the valuation of a share of the variable component of the pay of the Group's key personnel, to be paid through the free assignment of ordinary shares of Banco BPM under the 2019 annual incentive system.

In addition to the compensation plan based on the Bank's shares, the Ordinary Shareholders' Meeting of Banco BPM on 6 April 2019 approved:
- 2019 remuneration and incentive policies;
- the criteria for calculating the amounts to be granted in the event of early termination of employment or early cessation of service, including the limits set on such amounts.

For more information, please refer to the following documents: the 2019 Report on Pay, the Disclosure Document on the 2019 Annual Plan and the Disclosure Document on the Three-year 2017-2019 Plan, available on www.bancobpm.it (Corporate Governance — Remuneration Policies section).

[3]High-end key personnel for 2019 are: The CEO, Joint General Managers and Managers in the first line of management of the Parent Company, the CEO, Joint General Manager and Deputy General Manager (where present) of Aletti & C. Banca d'Investimento Mobiliare, Banca Akros and ProFamily.
[4] Ex ante.

1.2 Share-based compensation plans of previous years

On 6 February 2019, the Banco BPM Board of Directors verified the opening of the access gateways for the 2018 Incentive System, and:

- resolved the implementation of the 2018 Plan already approved by the Ordinary Shareholders' Meeting of Banco BPM on 7 April 2018, for an amount – observing the amount approved by the shareholders' meeting – estimated as a maximum figure of € 4.2 million (employee gross amount that corresponds to the bank's cost), of which approximately € 1.9 million related to the deferred instalments, as the case may be, in the three or five years following 2019, the vesting of which remains subordinated to the positive verification of the malus conditions provided for in the remuneration policies in force each time;
- acknowledged the vesting of the deferred share instalments of the incentives that accrued in the years 2014, 2015, 2016 and 2017 in relation to the share-based compensation plans, currently valid and approved on the basis of previous shareholders' meeting resolutions of Banco BPM, of the former Banca Popolare di Milano and of the former Banco Popolare for a total of 309,801 Banco BPM ordinary shares.

In relation to the equity instalments attributable to previous years, the number of ordinary shares of the former Banca Popolare di Milano recognised was converted into Banco BPM shares - due to the merger with the former Banco Popolare - on the basis of the value established for the share swap equal to 1 Banco BPM share for every 6.386 shares of the former Banca Popolare di Milano; the ordinary shares of the former Banco Popolare recognised were also converted into Banco BPM shares, due to the merger with Banca Popolare di Milano, on the basis of the value established for the share swap equal to 1 Banco BPM share for every share of the former Banco Popolare.
For more details on the procedures and the terms for the allocation of the shares under the above-illustrated Plans, please refer to the respective 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: Corporate Governance — Remuneration Policies section; for previous years: Corporate Governance — Historic Documentation — Shareholders' Meetings section).

1.3 Severance payments

For some parties categorised as key personnel, in specific cases of termination of the employment relationship, they are entitled to agree — in accordance with the methods defined in the Policy — on golden parachutes to the maximum extent of twenty-four months of fixed remuneration 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, correlated to the capital adequacy indicator at the consolidated level "phase-in" Common Equity Tier1 (CET1) ratio and to the liquidity adequacy indicator at the consolidated level regulatory Liquidity Coverage Ratio (LCR).
The disbursement, irrespective of the method used to define the amount, 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, in a lump sum in a monetary form;
- 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 a monetary form and for 50% in Banco BPM ordinary shares;

- with reference to each deferred portion, the component in Banco BPM ordinary shares is 55%, if the deferment in five years is applied, or 50%, in the remaining cases.

There is a retention period (sale restriction) on vested shares of one year. For deferred instalments, the retention period starts from the moment deferred remuneration is vested.
Both the up-front portion and the deferred portions are subject to malus and claw-back mechanisms, as set forth in the remuneration policies in force.

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

B. QUANTITATIVE INFORMATION

1. Annual changes

The share warehouse balance at 1 January 2019 consisted of 4,004,510 ordinary shares of Banco BPM.
During the first half of 2019, in implementation of the remuneration and incentive policies of the former BPM Group, 18 beneficiaries received a total of 71,507 Banco BPM ordinary shares of which: (i) 14 beneficiaries received 12,076 shares of the 2014 Incentive System of the former BPM Group, in relation to the third deferred portion, which matured in 2018; (ii) 16 beneficiaries received 33,173 of the 2015 Incentive System of the former BPM Group in relation to the second deferred portion, which matured in 2018; (iii) 26,258 shares were paid to one terminated person in a golden parachute recognised in 2017 by the former BPM Group in relation to the up-front portion and the first deferred portion, matured in 2019.
The share warehouse balance at 30 June 2019 consisted of 3,933,003 ordinary shares of Banco BPM S.p.A.

2. Other information

Regarding the 2018 Incentive System for key personnel, the surpassing of the access gateways relating to the 2018 performance year determined a share-based payment component totalling € 2.4 million (employee gross amount), of which € 1.3 million related to the up-front portion.
Surpassing the access gates also determined the vesting of deferred share portions related to previous years for a total of € 1.4 million.

Regarding the long-term 2017-2019 Incentive System, international accounting standards were adopted, which require the vesting period of rights to be taken into account; therefore, an amount of € 951 thousand was set aside, corresponding to one third of the up-front instalment of the LTI incentive that could reach maturity in 2020.
With regard to golden parachute packages paid, in the first half of 2019 the equity portions that reached maturity amounted to a total of € 12 thousand.

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 laid down in paragraph 13 of IFRS 8 are also highlighted.

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

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

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

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

The economic and financial data detailed by segment at 30 June 2019 are provided in the table below. These are compared respectively with the first half of 2018 and with 31 December 2018 as published in the Annual Financial Report for financial year 2018 and in the Consolidated Interim Report at 30 June 2018.
We must specify that the data of the previous periods used in the comparison are not fully comparable with those of financial year 2019 as a result of both the usual reallocation of customers among the various business lines and the reclassification of income deriving from the placement of Certificates from the item "Net financial result" to the item "Net fee and commission income" made starting from 30 June 2019.

Segment results – income statement figures

1st half 2019	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leasing	Corporate Centre
Interest margin	1,019,998	549,211	191,837	30,977	1,789	42,162	(4,618)	18,820	189,820
Profits (losses) on investments in associates and companies subject to joint control carried at equity	69,386	-	-	-	-	-	70,144	-	(758)
Financial margin	**1,089,384**	**549,211**	**191,837**	**30,977**	**1,789**	**42,162**	**65,526**	**18,820**	**189,062**
Net fee and commission income	888,191	729,490	87,169	17,561	43,832	20,257	-	3	(10,121)
Other net operating income	22,912	(6,612)	182	2,011	(2,212)	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	**994,145**	**730,151**	**90,453**	**19,574**	**41,627**	**25,951**	**8,948**	**(4,087)**	**81,528**
Operating income	**2,083,529**	**1,279,362**	**282,290**	**50,551**	**43,416**	**68,113**	**74,474**	**14,733**	**270,590**
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
Net value adjustments on property, plant and equipment and intangible assets	(171,444)	(46,586)	(1,467)	(185)	(152)	(533)	(118)	(12,191)	(110,212)
Operating expenses	**(1,345,455)**	**(1,009,756)**	**(87,185)**	**(17,948)**	**(32,701)**	**(42,110)**	**(1,468)**	**(30,842)**	**(123,445)**
Profit (loss) from operations	**738,074**	**269,606**	**195,105**	**32,603**	**10,715**	**26,003**	**73,006**	**(16,109)**	**147,145**
Net adjustments on loans to customers	(349,644)	(159,445)	(129,104)	(5,495)	167	196	-	(79,059)	23,096
Net adjustments on 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)
Profits (Losses) on disposal of investments in associates and companies subject to joint control and other investments	336,813	-	-	-	-	80	(800)	(10)	337,543
Profit (loss) before tax from continuing operations	**719,588**	**106,782**	**68,991**	**27,134**	**12,447**	**26,192**	**72,206**	**(95,308)**	**501,144**
Taxes on income from continuing operations	(74,065)	(29,365)	(18,973)	(7,462)	(3,423)	(7,936)	1,632	22,948	(31,486)
Charges related to the banking system, net of taxes	(56,861)	(29,168)	(3,672)	(3,151)	(2,572)	(952)	-	-	(17,346)
Income (loss) attributable to minority interests	4,471	-	-	-	-	-	-	4,434	37
Parent Company's net income (loss)	**593,133**	**48,249**	**46,346**	**16,521**	**6,452**	**17,304**	**73,838**	**(67,926)**	**452,349**

1st half 2018	**Total**	**Retail**	**Corporate**	**Institutional**	**Private**	**Investment Banking**	**Strategic Partnerships**	**Leasing**	**Corporate Centre**
Interest margin	1,180,109	620,542	237,514	29,616	(590)	47,352	(5,366)	27,012	224,029
Profits (losses) on investments in associates and companies subject to joint control carried at equity	75,998	-	-	-	-	-	74,792	-	1,206
Financial margin	**1,256,107**	**620,542**	**237,514**	**29,616**	**(590)**	**47,352**	**69,426**	**27,012**	**225,235**
Net fee and commission income	927,513	760,176	84,878	14,967	43,704	14,039	-	5	9,744
Other net operating income	154,179	3,319	458	2,637	(2,342)	(150)	-	9,330	140,927
Net financial result	109,490	6,953	25,405	118	8	(4,005)	8,354	(16)	72,673
Other operating income	**1,191,182**	**770,448**	**110,741**	**17,722**	**41,370**	**9,884**	**8,354**	**9,319**	**223,344**
Operating income	**2,447,289**	**1,390,990**	**348,255**	**47,338**	**40,780**	**57,236**	**77,780**	**36,331**	**448,579**
Personnel expenses	(879,149)	(586,400)	(25,786)	(3,831)	(25,798)	(12,222)	(917)	(3,447)	(220,748)
Other administrative expenses	(414,589)	(517,792)	(40,539)	(4,617)	(11,674)	(28,997)	(291)	(19,190)	208,511
Net value adjustments on property, plant and equipment and intangible assets	(96,946)	-	-	-	-	(557)	-	(8,157)	(88,232)
Operating expenses	**(1,390,684)**	**(1,104,192)**	**(66,325)**	**(8,448)**	**(37,472)**	**(41,776)**	**(1,208)**	**(30,794)**	**(100,469)**
Profit (loss) from operations	**1,056,605**	**286,798**	**281,930**	**38,890**	**3,308**	**15,460**	**76,572**	**5,537**	**348,110**
Net adjustments on loans to customers	(686,451)	(472,800)	(184,426)	(412)	(10)	75	-	(15,600)	(13,278)
Net adjustments on securities and other financial assets	635	-	-	-	-	51	-	-	584
Net provisions for risks and charges	(45,671)	(59,267)	10,066	718	(46)	5,884	-	(10,281)	7,255
Profits (Losses) on disposal of investments in associates and companies subject to joint control and other investments	178,550	-	-	-	-	-	174,656	(102)	3,996
Profit (loss) before tax from continuing operations	**503,668**	**(245,269)**	**107,570**	**39,196**	**3,252**	**21,470**	**251,228**	**(20,446)**	**346,667**
Taxes on income from continuing operations	(87,257)	67,449	(29,582)	(10,779)	(894)	(6,953)	9,798	2,520	(118,816)
Charges related to the banking system, net of taxes	(67,428)	(47,783)	(2,619)	(465)	(1,754)	(3,724)	-	-	(11,083)
Profit (loss) from discontinued operations	4	-	-	-	-	-	-	-	4
Income (loss) attributable to minority interests	3,590	-	-	-	-	-	-	3,421	169
Parent Company's net income (loss)	**352,577**	**(225,603)**	**75,369**	**27,952**	**604**	**10,793**	**261,026**	**(14,505)**	**216,941**

The following tables show the details of fee and commission income of the first half of 2019 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.

1st half 2019 Service type/amounts	**Total**	**Retail**	**Corporate**	**Institutional**	**Private**	**Investment Banking**	**Strategic Partnerships**	**Leasing**	**Corporate Centre**
Distribution of savings products, order collection and trading of securities and currencies:	**379,620**	**303,739**	**632**	**2,710**	**43,284**	**45,559**	**-**	**-**	**(16,304)**
- administered, trading of securities, currencies and acceptance of orders	72,449	42,035	53	691	4,261	45,559	-	-	(20,150)
- managements and funds	264,011	223,885	258	1,724	34,791	-	-	-	3,353
- bankassurance	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, portfolio 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	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)**

1st half 2018 Service type/amounts	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leasing	Corporate Centre
Distribution of savings products, order collection and trading of securities and currencies:	**436,700**	**346,742**	**480**	**2,770**	**43,931**	**33,299**	**-**	**-**	**9,478**
- administered, trading of securities, currencies and acceptance of orders	72,448	35,216	140	864	3,426	32,382	-	-	420
- managements and funds	331,229	283,161	300	1,829	37,744	917	-	-	7,278
- bankassurance	33,023	28,365	40	77	2,761	-	-	-	1,780
Distribution of insurance products	**22,387**	**18,796**	**3**	**12**	**26**	**-**	**-**	**-**	**3,550**
Distribution of consumer credit products	**20,516**	**24,825**	**-**	**5**	**19**	**-**	**-**	**-**	**(4,333)**
Transactional banking services (e-money, portfolio and collection and payment services)	**158,465**	**138,261**	**16,124**	**6,609**	**670**	**8**	**-**	**-**	**(3,207)**
Current account management and loans:	**338,434**	**256,335**	**66,300**	**6,135**	**874**	**41**	**-**	**9**	**8,740**
- cash loans and unsecured loans	203,248	140,480	56,512	2,777	254	27	-	9	3,189
- current accounts, deposits and foreign	135,186	115,855	9,788	3,358	620	14	-	-	5,551
Other services	**6,818**	**6,892**	**1,633**	**228**	**22**	**2,901**	**-**	**-**	**(4,858)**
Fee and commission income	**983,320**	**791,851**	**84,540**	**15,759**	**45,542**	**36,249**	**-**	**9**	**9,370**
Fee and commission expense	(55,807)								
Net fee and commission income	**927,513**								

Segment results – balance sheet figures

30/06/2019	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leasing	Corporate Center
Loans to customers:	122,245,509	56,162,841	29,466,416	5,925,443	235,622	760,360	-	2,195,953	27,498,874
• loans to customers	102,311,793	56,162,841	29,363,176	5,925,443	235,622	743,585	-	2,195,953	7,685,173
• debt securities	19,933,716	-	103,240	-	-	16,775	-	-	19,813,701

31/12/2018	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leasing	Corporate Center
Loans to customers:	119,462,481	56,412,860	28,345,574	4,778,663	221,407	1,401,575	-	2,577,597	25,724,805
• loans to customers	102,585,999	56,412,860	28,245,574	4,778,663	221,407	1,385,016	-	2,577,597	8,964,882
• debt securities	16,876,482	-	100,000	-	-	16,559	-	-	16,759,923

30/06/2019	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leasing	Corporate Center
Direct funding	110,185,188	69,976,137	8,583,820	8,880,209	2,810,860	1,898,622	-	6,303	18,029,237

31/12/2018	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leasing	Corporate Center
Direct funding	105,219,691	67,696,786	9,045,237	7,474,794	2,438,999	826,764	-	5,369	17,731,742

30/06/2019	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leasing	Corporate Center
Equity investments	1,320,167		-	-	-	-	1,303,528	-	16,639

31/12/2018	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leasing	Corporate Center
Equity investments	1,434,163	-	-	-	-	-	1,416,024	-	18,139

Note that most of the assets and operating income are generated in Italy, confirming the deep-seated presence in the national territory, considered to be the Group's primary sphere of operations. The proportion 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 2019.

2. The assessment of the adequacy and the verification of the effective application of the administrative and accounting procedures for the preparation of the consolidated condensed interim financial statements at 30 June 2019 were based on an internal model defined by Banco BPM S.p.A., developed on the basis of the "Internal Control – Integrated Framework (COSO)" and, for the IT component, the "Control Objectives for IT and related Technology (COBIT)", which represent the standards for the internal audit system generally accepted at international level.

3. We also hereby certify that:

   3.1 the consolidated condensed interim financial statements at 30 June 2019:
   a) were drawn up in compliance with the applicable international accounting standards recognised in the European Community as per EC Regulation no. 1606/2002 of the European Parliament and Commission, dated 19 July 2002;
   b) correspond 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 consolidation scope.

   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.

Milan, 6 August 2019

Signed by:
Giuseppe Castagna

Chief Executive Officer

Signed by:
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 2019, comprising the balance sheet, income statement, statement of comprehensive income, statement of changes of shareholders' equity, cashflow statement and related illustrative 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 2019 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, 7 August 2019

PricewaterhouseCoopers SpA

Signed by

Pierfrancesco Anglani
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

Attachments

Reclassified consolidated balance sheet – Reconciliation between the balances at 31 December 2018 and at 1 January 2019

In order to give a better understanding of the transition to the new accounting standard IFRS 16, the following table provides the reconciliation between the balances at 31 December 2018 and at 1 January 2019 for each item on the reclassified balance sheet.
For a better understanding of the impacts concerning the transition to the new accounting standard, as well as the criteria for preparing the balance sheet in a reclassified form, please refer to:

- the section "Disclosure on first time adoption of the accounting standard IFRS 16 - Leases" contained in this condensed interim report;
- the disclosure contained within the "Results" section of Interim Report on Operations.

(thousands of euro)	31/12/2018 (IAS 17)	IFRS 16 FTA Impacts	Reclassifi cations	01/01/2019 (IFRS 16)
Cash and cash equivalents	922,017			922,017
Loans measured at Amortised Cost	108,207,732	-	-	108,207,732
- Loans to banks	4,193,119			4,193,119
- Loans to customers	104,014,613			104,014,613
Financial assets and hedging derivatives	36,852,942	-	-	36,852,942
- Designated at FV through Profit or Loss	5,869,106			5,869,106
- Designated at FV through OCI	15,351,561			15,351,561
- Designated at AC	15,632,275			15,632,275
Equity investments	1,434,163			1,434,163
Property, plant and equipment	2,775,885	801,183	72,708	3,649,776
Intangible assets	1,277,941			1,277,941
Tax assets	5,012,477			5,012,477
Non-current assets and asset disposal groups held for sale	1,592,782			1,592,782
Other assets	2,388,852		(72,708)	2,316,144
Total assets	**160,464,791**	**801,183**	**-**	**161,265,974**
Direct funding	105,219,691	-	-	105,219,691
- Due to customers	90,197,859			90,197,859
- Securities and financial liabilities designated at FV	15,021,832			15,021,832
Due to banks	31,633,541			31,633,541
Leasing payables	-	835,594		835,594
Other financial liabilities designated at fair value	7,228,829			7,228,829
Liability provisions	1,704,866	(34,411)		1,670,455
Tax liabilities	505,402			505,402
Liabilities associated with asset disposal groups held for sale	3,043			3,043
Other liabilities	3,864,345			3,864,345
Total liabilities	**150,159,717**	**801,183**	**-**	**150,960,900**
Minority interests	45,599			45,599
Group shareholders' equity	10,259,475			10,259,475
Consolidated shareholders' equity	**10,305,074**	**-**	**-**	**10,305,074**
Total liabilities and shareholders' equity	**160,464,791**	**801,183**	**-**	**161,265,974**

Reconciliation between the items in the consolidated income statement and the reclassified consolidated income statement schedule for the first half of 2019

2019	Income statement	Reclassifications		Reclassified income statement
Interest margin				**1,019,998**
10. Interest and similar income	1,274,352			
20. Interest and similar expense	(254,354)			
Profits (losses) on investments in associates and companies subject to joint control carried at equity				
250. Profits (losses) on investments in associates and companies subject to joint control		69,386	(a)	**69,386**
Financial margin				**1,089,384**
Net fee and commission income				**888,191**
40. Fee and commission income	918,843	19,124	(b)	
50. Fee and commission expense	(49,776)			
Other net operating income				**22,912**
230. Other operating expenses/income	165,815	(129,412)	(c)	
		(27)	(d)	
		(19,198)	(e)	
		5,734	(f)	
Net financial result				**83,042**
70. Dividends and similar income	52,250			
80. Profits (losses) on trading	(197,267)	(19,124)	(b)	
90. Fair value adjustments in hedge accounting	(487)			
100 Profits (losses) on disposal or repurchase	201,769	(24,799)	(g)	
110. Profits (losses) on financial assets and liabilities designated at fair value through profit and loss	70,700			
Other operating income				**994,145**
Operating income				**2,083,529**
Personnel expenses				**(843,857)**
190 a) Personnel expenses	(838,851)	(5,033)	(h)	
190 b) Other administrative expenses		27	(d)	
Other administrative expenses				
190 b) Other administrative expenses	(548,844)	5,033	(h)	**(330,154)**
		129,412	(c)	
		84,245	(i)	
Net value adjustments on property and equipment and intangible assets				**(171,444)**
210. Net adjustments to/recoveries on property and equipment	(138,349)			
220. Net adjustments to/recoveries on intangible assets	(52,293)	19,198	(e)	
230. Other operating expenses/income				
Operating expenses				**(1,345,455)**
Profit (loss) from operations				**738,074**
Net adjustments on loans to customers				**(349,644)**
130 a) Net adjustments to/recoveries on credit risk related to financial assets designated at amortised cost	(369,869)	697	(l)	
		519	(m)	
		945	(n)	
		24,799	(g)	
		(5,734)	(f)	
140. Profit/loss from contractual changes without derecognition	(1,001)			
Net adjustments on securities and other financial assets				**25**
130 b) Net adjustments to/recoveries from credit risk related to financial assets designated at fair value through other comprehensive income	2,186			

2019	**Income statement**	**Reclassifications**		**Reclassified income statement**
		(697)	(l)	
		(519)	(m)	
		(945)	(n)	
Net provisions for risks and charges				**(5,680)**
200. Net provisions for risks and charges	(5,680)			
Value adjustments on equity investments				**-**
Profits (Losses) on disposal of investments in associates and companies subject to joint control and other investments				**336,813**
250. Profits (losses) on investments in associates and companies subject to joint control	68,547	(69,386)	(a)	
280. Profits (losses) on disposal of investments	337,652			
Profit (loss) before tax from continuing operations				**719,588**
Taxes on income from continuing operations				**(74,065)**
300. Taxes on income from continuing operations	(46,681)	(27,384)	(i)	
Charges related to the banking system, net of taxes		(56,861)	(i)	**(56,861)**
Income (loss) attributable to minority interests				**4,471**
340. Income (loss) after tax from discontinued operations	4,471			
Parent Company's net income (loss)	**593,133**	**-**		**593,133**

The letters shown beside the column "Reclassifications" have been included to give a better understanding of the reclassifications carried out.
With reference to the reconciliation provided above, please note that:

- the item "**Interest margin**" is represented by the algebraic balance of interest and similar income (item 10) and interest and similar expense (item 20);
- the item "**Profits (losses) on investments in associates and companies subject to joint control carried at equity**" shows the portion of profits (losses) pertaining to investee companies carried at equity (included in item 250) totalling € 69.4 million (a), and together with the interest margin, the aggregate is defined as the "**Financial margin**";
- the item "**Net fee and commission income**" consists of the algebraic balance of fee and commission income (item 40) and expenses (item 50); it also includes up-front fees, of € 19.1 million (b), related to the placement of Certificates, accounted for in Profits (losses) on trading (item 80 of the official format);
- the item "**Other net operating income**" is represented by the accounting item "230 Other operating expenses/income" net of (i) recoveries for indirect taxes, legal expenses and other expenses for a total of € 129.4 million (c), which for reclassification purposes are shown as a reduction of the item "Other administrative expenses"; (ii) the recovery of costs for training of € 27 thousand (d) reclassified as a reduction of "Personnel expenses"; (iii) the portion of rental income of leasing contracts, of € 5.7 million (f), subject to retrocession in the context of the "ACE Leasing" project, allocated to the item "Net adjustments on loans to customers" of the reclassified income statement. The aggregate of "Other net operating income" also includes the value adjustments on intangible assets with a finite life (client relationships) for € 19.2 million (e). The effect of the aforementioned reclassifications was € 142.9 million;
- the income statement item "**Net financial result**" includes "Dividends and similar income" (item 70), "Profits (losses) on trading" (item 80), net of the amount related to up-front fees on placement of Certificates of € 19.1 million (b), booked as an increase in net fee and commission income, " Fair value adjustments in hedge accounting" (item 90), "Profits (losses) on financial assets and liabilities designated at fair value through profit and loss" (item 110). It also includes "Profits (losses) on disposal or repurchase" (item 100), with the exception of the gain of € 24.8 million (g) relating to the disposal of loans not represented by debt securities, classified in the operational aggregate "Net adjustments on loans to customers";
- the item "**Personnel expenses**" is represented by the financial statement item "190 a) Personnel expenses" and by several charges functionally related to personnel, amounting to € 5.0 million (h), recognised in the financial statements under item "190 b) Other administrative expenses" and by the recovery of training costs of € 27 thousand (d), 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 € 129.4 million (c), 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 € 5.0 million (h). Ordinary and extraordinary charges totalling € 84.2 million (i) introduced for banks under the single and national resolution funds (SRF and NRF) and the deposit guarantee scheme (DGS) are also excluded and are shown, net of the related tax effect, in the separate item "Charges related to the banking system, net of taxes";
- the item "**Net value adjustments on property, plant and equipment and intangible assets**" corresponds to the accounting items 210 and 220, net of adjustments on intangibles with a finite life (client relationships), allocated to the reclassified aggregate "Other net operating income", for € 19.2 million (e);
- the total of "**Net adjustments on loans to customers**" and "**Net adjustments on securities and other financial assets**" starts from income statement items 130 "Net losses/recoveries on credit risk" and 140 "Profits/losses from contractual changes without derecognition". In particular, "Net adjustments on loans to customers" include value adjustments on exposures classified in the portfolio of financial assets designated at amortised cost - receivables from customers – loans (for € 367.7 million), the positive result of the disposal of loans, of € 24.8 million (g) (included in item 100), the portion of rental income of leasing contracts, of € 5.7 million (f), subject to retrocession in the context of the "ACE Leasing" project (originally recognised in item "230 Other operating expenses/income" of the official income statement), and profits/losses from contractual changes without derecognition (item 140 of the income statement);
  The aggregate of "Net adjustments on securities and other financial assets" includes net adjustments on exposures classified in the portfolio of financial assets designated at amortised cost – receivables from banks – loans (l), as well as net adjustments for impairment of exposures classified in the portfolio of financial assets designated at amortised cost consisting of debt securities (included in item 130) issued by banks (m) and by customers (n) totalling € 2.2 million;
- "**Net provisions for risks and charges**" correspond to item 200 of the official income statement;
- "**Profits (losses) on disposal of investments in associates and companies subject to joint control and other investments**" correspond to item 280 of the official income statement and to the net income on the disposal of investments carried at equity (item 250 of the official income statement), net of the portion of profits (losses) of the investees carried at equity, overall a positive € 69.4 million (a) included in the reclassified aggregate "Profits (losses) on investments in associates and companies subject to joint control carried at equity";
- the item "**Taxes on income from continuing operations**" corresponds to item 300 of the official income statement, net of the tax effect of system expenses, amounting to € 27.4 million (i);
- the item "**Charges related to the banking system, net of taxes**" includes the aforementioned ordinary and extraordinary charges for a total of € 84.2 million (i) recognised in the accounts in item 190 b) of the official income statement, net of the related tax effect, amounting to € 27.4 million (i).

Reconciliation between the items in the consolidated balance sheet and the reclassified consolidated balance sheet as at 30 June 2019

Asset items (*in thousands of euro*)		30/06/2019
10.	Cash and cash equivalents	794,628
	Cash and cash equivalents	**794,628**
40. a)	Financial assets designated at amortised cost: due from banks	8,087,336
	less: debt securities to banks at amortised cost	(778,981)
	Loans designated at AC: loans to banks	**7,308,355**
40. b)	Financial assets designated at amortised cost: loans to customers	122,245,509
	plus: senior securities relative to disposal of "Red Sea" and "Leviticus" (GACS)	2,788,144
	less: debt securities to customers at amortised cost	(19,933,716)
	Loans designated at AC: loans to customers	**105,099,937**
20.	Financial assets designated at fair value through profit and loss	7,351,055
50.	Hedging derivatives	144,837
	Financial assets and hedging derivatives designated at FV through Profit or Loss	**7,495,892**
30.	Financial assets designated at fair value through other comprehensive income	13,763,946
	Financial assets and hedging derivatives designated at FV through OCI	**13,763,946**
	plus: debt securities to banks and customers at amortised cost	20,712,697
	less: senior securities relative to disposal of "Red Sea" and "Leviticus" (GACS)	(2,788,144)
	Financial assets and hedging derivatives designated at AC	**17,924,553**
70.	Equity investments	1,320,167
	Equity investments	**1,320,167**
90.	Property, plant and equipment	3,525,869
	Property, plant and equipment	**3,525,869**
100.	Intangible assets	1,261,284
	Intangible assets	**1,261,284**
110.	Tax assets	4,859,255
	Tax assets	**4,859,255**
120.	Non-current assets and asset disposal groups held for sale	1,544,823
	Non-current assets and asset disposal groups held for sale	**1,544,823**
60.	Fair value change of financial assets in macro fair value hedge portfolios (+/-)	50,197
130.	Other assets	2,869,873
	Other assets	**2,920,070**
	Total assets	**167,818,779**

Liability items ***(thousands of euro)***		**30/06/2019**
10. b)	Financial liabilities designated at amortised cost: due to customers	96,471,363
	less: leasing payables due to customers	(773,479)
10. c)	Financial liabilities designated at amortised cost: debt securities issued	13,905,622
30.	Financial liabilities designated at fair value	581,682
	Direct funding	**110,185,188**
10. a)	Financial liabilities designated at amortised cost: due to banks	31,196,780
	less: leasing payables due to banks	(8,059)
	Due to banks	**31,188,721**
	plus: leasing payables due to banks	8,059
	plus: leasing payables due to customers	773,479
	Leasing payables	**781,538**
20.	Financial liabilities held for trading	7,312,842
40.	Hedging derivatives	790,776
	Other financial liabilities designated at fair value	**8,103,618**
90.	Employee termination indemnities	384,944
100.	Provisions for risks and charges	1,167,202
	Liability provisions	**1,552,146**
60.	Tax liabilities	483,024
	Tax liabilities	**483,024**
70.	Liabilities associated with asset disposal groups held for sale	39,941
	Liabilities associated with asset disposal groups held for sale	**39,941**
50.	Fair value change of financial liabilities in macro fair value hedge portfolios (+/-)	93,072
80.	Other liabilities	4,080,613
	Other liabilities	**4,173,685**
	Total liabilities	**156,507,861**
190.	Non-controlling interests (+/-)	41,026
	Minority interests	**41,026**
120.	Valuation reserves	(224,295)
140.	Equity instruments	298,112
150.	Reserves	3,515,327
170.	Share capital	7,100,000
180.	Treasury shares (-)	(12,385)
200.	Income/Loss for the period	593,133
	Group shareholders' equity	**11,269,892**
	Total liabilities and shareholders' equity	**167,818,779**

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