Consolidated 2022 Annual Report

This document is a courtesy translation into English, for the convenience of international readers, of the non-official consolidated financial statements of Banco BPM Group in PDF format; this PDF document, prepared in Italian language, is a courtesy copy which is not compliant with the provisions of the Commission Delegated Regulation (EU) 2019/815 (European Single Electronic Format – ESEF) but consistent with the official annual consolidated financial Statements prepared in compliance with the Directive 2004/109/EC (so-called Transparency Directive) in Italian language and published in the new format (ESEF) within the legal deadlines.

In case of any discrepancies or doubts between the English and the Italian versions of the Report, the Italian version prevails.

Banco BPM S.p.A.

Registered office: Piazza F. Meda, 4 - 20121 Milan, Italy
Administrative headquarters: Piazza Nogara, 2 - 37121 Verona, Italy
Fully paid-up share capital as at 31 December 2022: Euro 7,100,000,000.00
Tax Code and Milan Companies' Register Enrolment No.: 09722490969
A company representing Banco BPM VAT Group, VAT no. 10537050964
Member of the Interbank Deposit Guarantee Fund and the National Guarantee Fund
Parent Company of Banco BPM Banking Group
Enrolled in the Bank of Italy Register of Banks and the Register of Banking Groups

OFFICERS, DIRECTORS AND INDEPENDENT AUDITORS AS AT 31 DECEMBER 2022

	Board of Directors
Chairman	Massimo Tononi
Deputy Chairman	Mauro Paoloni
Chief Executive Officer	Giuseppe Castagna
Directors	Mario Anolli
	Maurizio Comoli
	Nadine Farida Faruque
	Carlo Frascarolo
	Alberto Manenti
	Marina Mantelli
	Giulio Pedrollo
	Eugenio Rossetti
	Manuela Soffientini
	Luigia Tauro
	Costanza Torricelli
	Giovanna Zanotti
	Board of Statutory Auditors
Chairman	Marcello Priori
Standing Auditors	Maurizio Lauri
	Silvia Muzi
	Alfonso Sonato
	Nadia Valenti
Alternate Auditors	Francesca Culasso
	Gabriele Camillo Erba
	Wilmo Carlo Ferrari
	General Management
Co-General Manager	Domenico De Angelis
Co-General Manager	Salvatore Poloni (*)
	Manager responsible for preparing the Company's financial reports
	Gianpietro Val
	Independent Auditors
	PricewaterhouseCoopers S.p.A.

(*) on 31 December 2022, Mr. Salvatore Poloni resigned from the position of Co-General Manager - Resources Area of Banco BPM to access the Solidarity Fund.

CONTENTS

NOTICE OF CALL OF ORDINARY SHAREHOLDERS' MEETING

Pursuant to Articles 12 and 13 of the Articles of Association, the ordinary Shareholders' Meeting of Banco BPM S.p.A. ("Banco BPM" or the "Company") is hereby convened on single call on **Thursday, 20 April 2023, at 10:00 am, in Milan, at Banco BPM's registered office, Piazza Meda no. 4**, to discuss and resolve on the following

AGENDA

1) Approval of the financial statements as at 31 December 2022 of Banco BPM S.p.A., accompanied by the reports of the Board of Directors, the Board of Statutory Auditors and the Independent Auditors. Presentation of the consolidated financial statements of Banco BPM Group.
2) Resolutions on the allocation and distribution of profits.
3) Policy-on-remuneration report and payouts awarded of Banco BPM Group 2023 (section I and section II).
    - 3.1) Approval of the remuneration policy (section I) pursuant to the applicable regulatory provisions. Related and consequent resolutions.
    - 3.2) Approval of the report on payouts awarded in 2022 (section II) pursuant to the applicable regulatory provisions. Related and consequent resolutions.
4) Approval, within the framework of the remuneration policy, of the criteria for determining any amounts to be granted in the event of early termination of employment or early departure from office of all personnel, including the limits set on such amounts. Related and consequent resolutions.
5) Banco BPM S.p.A. share-based compensation plan: approval of the short-term incentive plan (2023). Related and consequent resolutions.
6) Request for authorisation to purchase and dispose of own shares for the Banco BPM S.p.A. share-based compensation plans. Related and consequent resolutions.
7) Appointment of the members of the Board of Directors for the financial years 2023-2024-2025, including the Chairman and the Deputy Chairman.
8) Appointment of Statutory Auditors and of the Chairman of the Board of Statutory Auditors for the financial years 2023-2024-2025.
9) Determination of the remuneration of the members of the Board of Directors.
10) Determination of the remuneration of the Statutory Auditors.

The Shareholders are hereby informed that the Company has decided to exercise the option - in accordance with Art. 106 of Italian Decree Law no. 18 of 17 March 2020, converted into Italian Law no. 27 of 24 April 2020 (the effects of which were recently extended by Decree Law no. 198 of 29 December 2022, converted into Italian Law no. 14 of 24 February 2023; the "Decree") - to provide that **participation in the Shareholders' Meeting and the voting right shall be exercised by those entitled exclusively through the proxy designated pursuant to Article 135-undecies of Italian Legislative Decree no. 58 of 24 February 1998** as subsequently amended ("Consolidated Finance Law" or "TUF") according to that specified below, **therefore without the physical participation in the meeting of the shareholders**.
Directors, statutory auditors, the meeting secretary, representatives of the Independent Auditors and the designated proxy shall take part in the meeting in compliance with legislative provisions in force, including, if applicable, using remote connection systems.
The manner in which the Shareholders' Meeting is held may be supplemented and/or changed and will be promptly disclosed.

******

Please find below all necessary information in compliance with Article 125-bis of the TUF.

PARTICIPATION IN THE SHAREHOLDERS' MEETING AND REPRESENTATION

All shareholders with voting rights, for whom within the third trading day prior to the date of the Shareholders' Meeting, i.e., **by 17 April 2023,** the Company has duly received the authorised intermediary's notification certifying that they are entitled to participate in the Shareholders' Meeting and to exercise their voting rights, are entitled to participate in the Shareholders' Meeting **exclusively** through the designated proxy pursuant to Art. 135-undecies of the TUF (the "Designated Proxy"), according to that set forth below.

In compliance with Article 83-sexies of the TUF and Article 42 of the Joint Order on post-trading issued by CONSOB and the Bank of Italy on 13 August 2018, as subsequently amended ("**Joint Order**"), the authorised intermediary's notification to the Company shall be based on the records at the end of the accounting day of the seventh trading day prior to the date of the Shareholders' Meeting **(11 April 2023 – "record date")**.

Anyone whose shareholding has been recorded after the above date will not be entitled to attend and vote at the Shareholders' Meeting.

Shareholders - whose shares are already deposited in a custody and administration account with the Parent Company Banco BPM S.p.A. or with Banca Aletti S.p.A., and as such have already been dematerialised - must in any case, under Article 42 of the Joint Order, give specific instructions **by 17 April 2023** that the notification be issued, and obtain an immediate copy thereof, to be used as an admission ticket to the Shareholders' Meeting.

For Shareholders whose shares are deposited with other authorised intermediaries, note that, pursuant to the above-mentioned Article 42 of the Joint Order, the notification instructions must still be submitted no later than **17 April 2023**, making sure to obtain a copy of the notification.

Shareholders holding shares not yet dematerialised must deliver them to Banco BPM S.p.A. or another Banco BPM Group Bank or another authorised intermediary to proceed with their dematerialisation and therefore request the issue of the notice for participation in the Shareholders' Meeting.

COMPANY'S DESIGNATED PROXY

Pursuant to Article 106 of the Decree, those entitled to vote who wish to participate in the Shareholders' Meeting will need to either:

(i) grant proxy free of charge (except for transmission expenses) – to Computershare S.p.A. – Via Nizza 262/73, 10126, Turin – in its capacity as "Designated Proxy" together with voting instructions on all or some of the proposed resolutions on the items on the agenda.
In this regard, to facilitate sending the proxy and the voting instructions, in the section of the Banco BPM website dedicated to the Shareholders' Meeting, *www.gruppo.bancobpm.it* "*Corporate Governance - Shareholders' Meeting*", it will be possible to complete and transmit online via a guided procedure the dedicated form prepared by the Designated Proxy, **until 12:00 p.m. on 19 April 2023**.
Shareholders are advised to make use of the on-line procedure.
Instead of completing the form on-line, the form can be downloaded from the same website and can be used and transmitted by **18 April 2023** to the addresses and according to the procedures indicated on said form.
The proxy to the Designated Proxy, with voting instructions, along with an ID – and if the delegating party is a legal entity, a document proving the powers for issuing the proxy – must be transmitted, in the form of a digital copy (PDF) to Computershare S.p.A. at the certified email address *bancobpm@pecserviziotitoli.it*, provided that the delegating party, even if a legal entity, uses its own certified email address or, lacking this, its own ordinary email address.
The original proxy, voting instructions and a copy of the correlated documentation must be sent to Computershare S.p.A. (Ref. "Banco BPM S.p.A. Shareholders' Meeting Proxy"), Via Nizza 262/73, 10126, Turin.
The proxy shall be valid exclusively for the proposals for which voting instructions have been given. The proxy and the voting instructions may be revoked within the same deadline as above (by 18 April 2023) and with the same procedures for the assignment;

(ii) be represented by Computershare S.p.A., as Designated Proxy pursuant to Article 135-novies of the TUF in derogation of Article 135-undecies, paragraph 4 of the TUF, via proxy and/or sub-proxy, with voting instructions on all or some of the proposed resolutions concerning the items on the agenda, with the possibility to that end to use the proxy/sub-proxy form available on the Banco BPM website *www.gruppo.bancobpm.it* (*"Corporate Governance - Shareholders' Meeting"* section) and to send it to Computershare S.p.A., by the deadline specified on the form itself, at the certified email address *bancobpm@pecserviziotitoli.it*, provided that the delegating party, even if a legal entity, uses its own certified email address or, lacking this, its own ordinary email address.

The Designated Proxy will be available to provide clarifications or information at 011/0923200.
As participation in the Shareholders' Meeting and the exercise of voting rights by those entitled shall take place **exclusively** through the Designated Proxy, which must be provided with voting instructions on all or some of the proposed resolutions concerning the items on the agenda, and considering the deadline established for the submission by Shareholders of lists of candidates for the appointment of the Board of Directors and the Board of Statutory Auditors, pursuant to items 7 and 8 on the agenda, as described below, as well as the deadline established for the submission of any individual resolution proposals referred to below, the proxy forms shall be made available, with the methods laid out above, starting on 31 March 2023.
There is no electronic voting or voting by correspondence.

ADDITIONS TO THE AGENDA AND PRESENTATION OF NEW RESOLUTION PROPOSALS
Shareholders who even jointly represent no less than 1/40 of the share capital may ask, **by 18 March 2023** (within ten days of the publication of this notice calling the shareholders' meeting), to make additions to the list of items on the Meeting's agenda (with the exception of matters to be resolved by the Shareholders' Meeting, under the law, based on a proposal by the Board of Directors or based on a project or report submitted by the latter, other than those specified in Article 125-ter, paragraph 1, TUF), specifying in the request the additional subject matters they propose, pursuant to Art. 13.3 of the Articles of Association and Article 126-bis of the TUF.
The written request must be sent to the Company by certified email to the certified email address *soci@pec.bancobpmspa.it* or by registered mail (Affari Societari di Gruppo, Piazza Filippo Meda, 4 - 20121 Milan).
The entitlement to exercise the right (including ownership of the minimum portion of the share capital specified above) is attested by filing a copy of the notification issued by the authorised intermediary under Article 43 of the Joint Order.
Shareholders requesting an addition to the list of items to be discussed must prepare a report stating the reasons for the proposed resolutions on the new items they would like to be discussed. The report shall be sent to the Board of Directors by the final deadline for the presentation of the request for additions, as described above. The Board of Directors shall make the report available to the public, together with any additional assessment, when it publishes the notice of the additions to the agenda, in line with the procedures prescribed by current regulations.
Any additions to the agenda shall be disclosed using the same procedure prescribed for the publication of the notice calling the shareholders' meeting, at least fifteen days prior to the date scheduled for the Shareholders' Meeting **(5 April 2023)**.

*****

Individual resolution proposals
Given that participation in the Shareholders' Meeting is envisaged exclusively through the Designated Proxy, those who have the right to vote may, by **5 April 2023**, individually submit resolution proposals on the items on the agenda, by forwarding them by electronic mail to the certified email address *soci@pec.bancobpmspa.it* or by registered mail (Group Corporate Affairs, Piazza Filippo Meda, 4 - 20121 Milan). The proposals must indicate the item on the agenda to which they refer and contain the wording of the resolution. The legitimacy to formulate the proposals must be certified by the notification sent by the intermediary to the Company pursuant to Art. 43 of the Joint Order. These proposals, if pertinent to the items on the agenda and validly presented, will be made available to the public, by the Company, in the manner prescribed by current regulations. The deadline for submitting these proposals, set to coincide with the deadline for publication of the requests for additions and resolution proposals pursuant to Art. 126-bis, paragraph 1, first sentence, of the TUF, allows those who are interested in submitting individual proposals to examine that which has been published by the Company in relation to the items on the agenda and, at the same time, where necessary, the Designated Proxy can adjust the forms for the granting of proxies pursuant to Art. 135-undecies and Art. 135-novies of the TUF, so that those entitled to vote, for the purposes of issuing voting instructions can evaluate all requests and proposals submitted at the same time and in a timely manner.

RIGHT TO ASK QUESTIONS ON ITEMS ON THE AGENDA

Shareholders with voting rights may ask questions on items on the agenda only before the Shareholders' Meeting, by sending them no later than the end of the seventh trading day prior to the date of the Shareholders' Meeting on single call (i.e., **by Tuesday, 11 April 2023**) by certified email to the address *soci@pec.bancobpmspa.it*.
The applicants must deliver to the Company – through their intermediaries – the notifications certifying their entitlement to exercise this right; in the event that they have instructed their intermediaries to issue the notification to attend the Shareholders' Meeting, it will be sufficient to specify the notification reference numbers or at least the name of the intermediary in the application.
Questions shall be answered, at the latest, at least two trading days prior to the date of the Shareholders' Meeting, via publication on the Company's website.
The Company may provide a comprehensive answer to questions covering the same content. No response will be provided if the information requested is already available in "FAQ" format in the dedicated section of the Company's website or if the response has already been published in the same section.

SHARE CAPITAL INFORMATION

The share capital subscribed and paid in by the Company at the date of this notice totals Euro 7,100,000,000.00 subdivided into no. 1,515,182,126 shares with no nominal value. At the date of this notice, the Company holds 8,578,335 own shares.

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

As regards resolutions relating to the appointment of the members of the Board of Directors and of the Board of Statutory Auditors referred to in **items 7 and 8 on the agenda** of the Ordinary Shareholders' Meeting, the procedure dictated by legal and regulatory provisions in force will be adopted, also in accordance with the provisions contained in the Articles of Association of Banco BPM (Article 20 for appointments as a member of the Board of Directors and Articles 33, 34 and 35 for appointments relating to the Board of Statutory Auditors).
The election will be based on the lists of candidates submitted in the manner indicated below; the Shareholders' Meeting is called upon to elect 15 (fifteen) Board Directors, also non-shareholders, including a Chairman and a Deputy Chairman, as well as 5 (five) Standing Auditors and 3 (three) Alternate Auditors.
The term of office of the Board of Directors and of the Board of Statutory Auditors is 3 years and the expiry coincides with the date of the Shareholders' Meeting called to approve the financial statements as at 31 December 2025.

Entitlement to submit lists

The election of the members of the Board of Directors for 2023 - 2025 will be carried out on the basis of lists - in which the candidates are assigned a progressive number - which may be submitted *(i)* by the Board of Directors (the "**Board List**"); *(ii)* by one or more shareholders who hold an equity interest of at least 1% (one per cent) in the share capital of the Company with voting rights in the ordinary Shareholders' Meeting (the "**List of Shareholders for the Board of Directors**"); *(iii)* by one or more shareholders who are at the same time employees of the Company or of companies controlled by the same and who hold an equity interest of at least 0.12% (zero point twelve per cent) in the share capital of the Company (the " **Shareholders-Employees List**").
The members of the Board of Statutory Auditors for 2023 - 2025 will be elected on the basis of lists - in which the candidates will be assigned a progressive number - submitted by one or more shareholders with voting rights that, individually or as a whole, hold shares equal to at least 1% (one per cent) of the share capital of the Bank (the "**List of Shareholders for the Board of Statutory Auditors**" and, together with the List of Shareholders for the Board of Directors, the "**Shareholders List**").
Those who obtain authorisation of the communication pursuant to Art. 43 of the Joint Order and Art. 83-sexies of the TUF and relative implementing rules (the "**Communication**") have the right to submit the Shareholders List and the Shareholders-Employees List.
As indicated above, the share capital - updated to the date of this document – amounts to Euro 7,100,000,000.00, divided into 1,515,182,126 ordinary shares without nominal value. Therefore, the minimum equity interest for the submission of the Shareholders List is equal to 15,151,822 shares and for the Shareholders-Employees List is equal to 1,818,219 shares.

Composition of the lists

Appointment of the Board of Directors

The composition of the Board of Directors must ensure gender balance in accordance with the applicable legislation in force. Pursuant to legislation in force, it is envisaged that, for six consecutive terms, at least two fifths of the elected directors be reserved for the less represented gender.

The Board List must meet the following requirements:

- it must contain a number of candidates equal to 15 (fifteen);
- the first two candidates are the candidate for the position of Chairman of the Board of Directors, in first place on the list, and the person who it wishes to propose to the Board of Directors for the position of Chief Executive Officer, in second place on the list;
- the candidate for the office of Deputy Chairman of the Board of Directors is in third place on the list.

The composition of the Lists of Shareholders for the Board of Directors and the Shareholders-Employees Lists, on the other hand, does not have to comply with the requirements envisaged for the Board List. Therefore, the submission of Lists of Shareholders for the Board of Directors and of Shareholders-Employees Lists with fewer than 15 (fifteen) candidates is permitted, provided that:

- the Lists of Shareholders for the Board of Directors and the Shareholders-Employees Lists that envisage a number of candidates equal to or greater than 3 (three) must include candidates of different genders, in order to ensure that the composition of the Board of Directors respects the balance between genders in accordance with legislation in force;
- they must also contain a number of candidates who meet the independence requirements set forth in Art. 20.1.6. of the Articles of Association to an extent equal to at least 8 (eight) if the List of Shareholders for the Board of Directors or the Shareholders-Employees List consists of 15 (fifteen) candidates or at least half (rounding down to the nearest whole number if the first decimal is equal to or less than 5 and rounding up in the other cases) if the List of Shareholders for the Board of Directors or the Shareholders-Employees List is composed of less than 15 candidates (fifteen).

Appointment of the Board of Statutory Auditors

The composition of the Board of Statutory Auditors must ensure the balance between genders in accordance with the provisions of current legislation on the matter. Pursuant to current legislation, it is envisaged that, for six consecutive terms, at least two fifths of the elected Standing Auditors must be reserved for the less represented gender. Moreover, taking into account Art. 9 of Italian Ministerial Decree 169/2020, at least two of the candidates for the office of standing auditor and at least one of the candidates for the office of alternate auditor indicated in the respective sections of the List of Shareholders for the Board of Statutory Auditors must be enrolled in the register of statutory auditors and have exercised statutory audit activities for a period of not less than three years.

Pursuant to the relevant provisions of the Articles of Association, the List of Shareholders for the Board of Statutory Auditors must meet the following requirements:

- the List of Shareholders for the Board of Statutory Auditors, divided into two sections, one for candidates for the position of Standing Auditor and one for candidates for the position of Alternate Auditor, must indicate a number of candidates no higher than the number of Statutory Auditors to be elected. In each section, the candidates are listed with a progressive number;
- the List of Shareholders for the Board of Statutory Auditors which, considering both sections, presents a number of candidates equal to or higher than 3 (three) must also include, in both the section relative to the List of Shareholders for the Board relating to standing auditors and to that relative to alternate auditors, candidates of different genders so as to ensure that the composition of the Board of Statutory Auditors complies with prevailing laws on gender balance.

Procedures for submitting lists and documentation to be filed

<u>For the election of the Board of Directors</u>, each shareholder may submit or contribute to submitting only one List of Shareholders for the Board of Directors or Shareholders-Employees List and vote for only one list of candidates, even if through a third party. Shareholders who belong to the same corporate group - with this meaning the parent company, the subsidiaries and the companies subject to joint control - and shareholders who belong to a shareholders' agreement pursuant to Article 122 of the TUF regarding the shares of Banco BPM may not submit or vote more than one list, even if through third parties or through trust companies.

Each candidate may only be part of one list, if this condition is not met the candidate shall not be eligible.

The ownership of the minimum percentage of shares in the share capital required to submit the List of Shareholders for the Board of Directors and the List of Shareholders-Employees is determined with respect to the shares that are registered in favour of the individual shareholder, or by more shareholders on a joint basis, on the day on which the lists were filed with the Company.

Certification of ownership of the number of shares necessary for the submission of the Lists of Shareholders for the Board of Directors and Shareholders-Employees Lists may be received by the Bank even after the filing of the Lists of Shareholders for the Board of Directors and Shareholders-Employees Lists, provided that **it is no later than the deadline for publication of the lists which will be made by Banco BPM no later than 30 March 2023** (at least 21 (twenty-one) days before the date of the Shareholders' Meeting).

The following documents must also be filed together with each list:

- an indication of the identity of the shareholders who have submitted the List of Shareholders for the Board of Directors or the Shareholders-Employees List and of the total percentage interest held;
- exhaustive information on the personal and professional characteristics of the candidates indicated in the list (by way of example but not limited to: *curriculum vitae*, copy of an identity document, certificate of residence or equivalent document);
- the declarations with which the candidates accept the candidacy and certify, under their own responsibility, the non-existence of causes of ineligibility and incompatibility (also pursuant to Art. 36 of Law 214/2011, "interlocking prohibition"), the fulfilment of the requirements prescribed by the legal and regulatory provisions and by the Articles of Association to hold the office of Board Member (professionalism, competence, integrity, correctness, time commitment, number of offices held and, if necessary, independence, as well as communicate the list of management and control positions held in other companies, bearing in mind the limit on the number of offices held required by current legislation);
- a declaration of the Shareholders who have submitted the List of Shareholders for the Board of Directors or the Shareholders-Employees List - and other than those who hold, even jointly, a controlling interest or relative majority - certifying the absence (or presence) of relationships with the latter provided for by Art. 144-quinquies, first paragraph, of the Issuers' Regulation and the legislation in force at the time;
- copy of the Communication or declaration of commitment to transmit the Communication in question **by the deadline for publication of the Lists of Shareholders for the Board of Directors and the Shareholders-Employees Lists, which will be made by Banco BPM by 30 March 2023** (at least 21 (twenty-one) days before the date of the Shareholders' Meeting).

In addition to this documentation, the shareholders-employees who submit the Shareholders-Employees List must file the documentation confirming their status as employees of the Company or of its subsidiaries.

Any lists submitted that do not fulfil the above-mentioned procedures will be considered not to have been submitted. However, the lack of documentation relating to the individual candidates on a list will not automatically invalidate the entire list but only the candidates who are not compliant.

In submitting the lists, Shareholders are also invited to take into account the document "*Qualitative and quantitative composition of the Board of Directors*" - also drawn up pursuant to the provisions of the Bank of Italy on corporate governance, contained in Circular no. 285/2013 - which contains indications and suggestions available to Shareholders, with a view to helping them to formulate proposals for the composition of the Board of Directors of Banco BPM, as well as the document that contains the "*Operating procedures for the submission of lists for the appointment of the corporate bodies of Banco BPM SpA*", containing indications on the procedure for the appointment of the Directors and Statutory Auditors of Banco BPM and on the procedures for submitting lists for the appointment of the Board of Directors and the Board of Statutory Auditors of Banco BPM. The documents are available on Banco BPM's website. *www.gruppo.bancobpm.it* (*Corporate Governance > Shareholder's Meeting*).

For the election of the Board of Statutory Auditors, together with each List of Shareholders for the Board of Statutory Auditors, the following documents must also be submitted:

- information regarding the identity of the shareholders who have submitted the List of Shareholders for the Board of Statutory Auditors and the total percentage of shareholding held;
- an exhaustive disclosure on the personal and professional characteristics of candidates (including but not limited to: curriculum vitae, copy of ID, residence certificate or equivalent document and any certificates of registration with the Register of Auditors), noting the positions of administration and control held in other companies (also for the purposes of the disclosure pursuant to Article 2400, paragraph 4, Italian Civil Code, and considering the cumulative limit of positions provided for under prevailing laws);
- the declarations with which the individual candidates accept the candidacy and certify, under their own responsibility, the non-existence of causes of ineligibility or incompatibility (also pursuant to the interlocking prohibition), the fulfilment of the requirements prescribed by law and by the Articles of Association for the office (professionalism, competence, time commitment, number of offices, integrity, fairness and independence);

- a declaration of the Shareholders who have submitted the List of Shareholders for the Board of Statutory Auditors - and other than those who hold, even jointly, a controlling interest or relative majority - certifying the absence (or presence) of relationships with the latter provided for by Art. 144-quinquies, first paragraph, of the Issuers' Regulation and the legislation in force at the time;
- copy of the Communication or declaration of commitment to transmit the Communication **by the deadline for the publication of the lists, which will be made by Banco BPM by 30 March 2023** (at least 21 (twenty-one) days before the date of the Shareholders' Meeting).

Terms and procedures for filing and publishing lists

The Lists for the appointment of the Board of Directors and for the appointment of the Board of Statutory Auditors, together with the relative documentation required by current legislation and by the Articles of Association, must be signed by the shareholders and filed, under penalty of forfeiture, **by midnight on 27 March 2023** (by the 25th (twenty-fifth) day prior to the date set for the Shareholders' Meeting) with the following methods (alternatives to each other):

- filing at the registered office of Banco BPM (Group Corporate Affairs function), Piazza Filippo Meda, 4, Milan, on working days from 8:15 am to 5:00 pm; or
- transmission by certified email to the following address *soci@pec.bancobpmspa.it*, attaching the documents in pdf format.

The Group Corporate Affairs function, as a dedicated unit, will be available to provide shareholders who so request with the documentation and information necessary for the formation and submission of the Shareholders' Lists and the Shareholders-Employees Lists.

As regards the election of the Board of Statutory Auditors, if, by the expiration of the above deadline, only one List of Shareholders for the Board of Statutory Auditors has been submitted, or only Lists of Shareholders for the Board of Statutory Auditors submitted by shareholders who, on the basis of prevailing laws are related to each, Banco BPM will promptly give notice of this using the mechanisms provided by applicable law, and then proceed in accordance with the law.

The lists that have been duly submitted will be made available to the public at least 21 (twenty-one) days before the date of the Shareholders' Meeting (and therefore by **30 March 2023**). The Lists must be made available to the public by the Bank at the Registered Office of Banco BPM, on the Bank's website *www.gruppo.bancobpm.it - Corporate Governance> Shareholders' Meeting* and on the website of the authorised central storage mechanism, "*eMarket Storage*" *www.emarketstorage.com* and with the other methods indicated in this notice of call of the Shareholders' Meeting.

DOCUMENTATION

The Directors' explanatory reports on each of the items on the agenda, including resolution proposals, together with all the other documentation to be published before the Shareholders' Meeting, shall be made available to the public at the registered office of Banco BPM S.p.A. and at Borsa Italiana S.p.A., and also published on the Bank's website (*www.gruppo.bancobpm.it*, *"Corporate Governance – Shareholders' Meeting"* section), as well as on the website of the authorised central storage mechanism *www.emarketstorage.com*, in compliance with the terms and procedures under the law.

Shareholders are entitled to receive a copy of the documentation once it has been duly filed by sending a request to Banco BPM S.p.A. at the certified email address *soci@pec.bancobpmspa.it*.

The Bank has also prepared (i) the Report on corporate governance and ownership structures pursuant to Article 123-bis of Italian Legislative Decree no. 58/1998; (ii) the Consolidated non-financial statement in compliance with Italian Legislative Decree no. 254/2016 and CONSOB Resolution no. 20267 of 18 January 2018. The documents shall be made available to the public at the registered office of Banco BPM S.p.A. and at Borsa Italiana S.p.A., and also published on the Bank's website (*www.gruppo.bancobpm.it*, "*Corporate Governance*" section), as well as on the website of the authorised central storage mechanism *www.emarketstorage.com*, in compliance with the terms and procedures under the law.

This notice of call – prepared inter alia pursuant to Article 84 of the Issuers' Regulation – shall be published in compliance with Articles 125-bis of the TUF and 13.4 of the Articles of Association, in the daily newspapers "Il Sole 24 Ore" and "MF" as well as with the other methods described above.

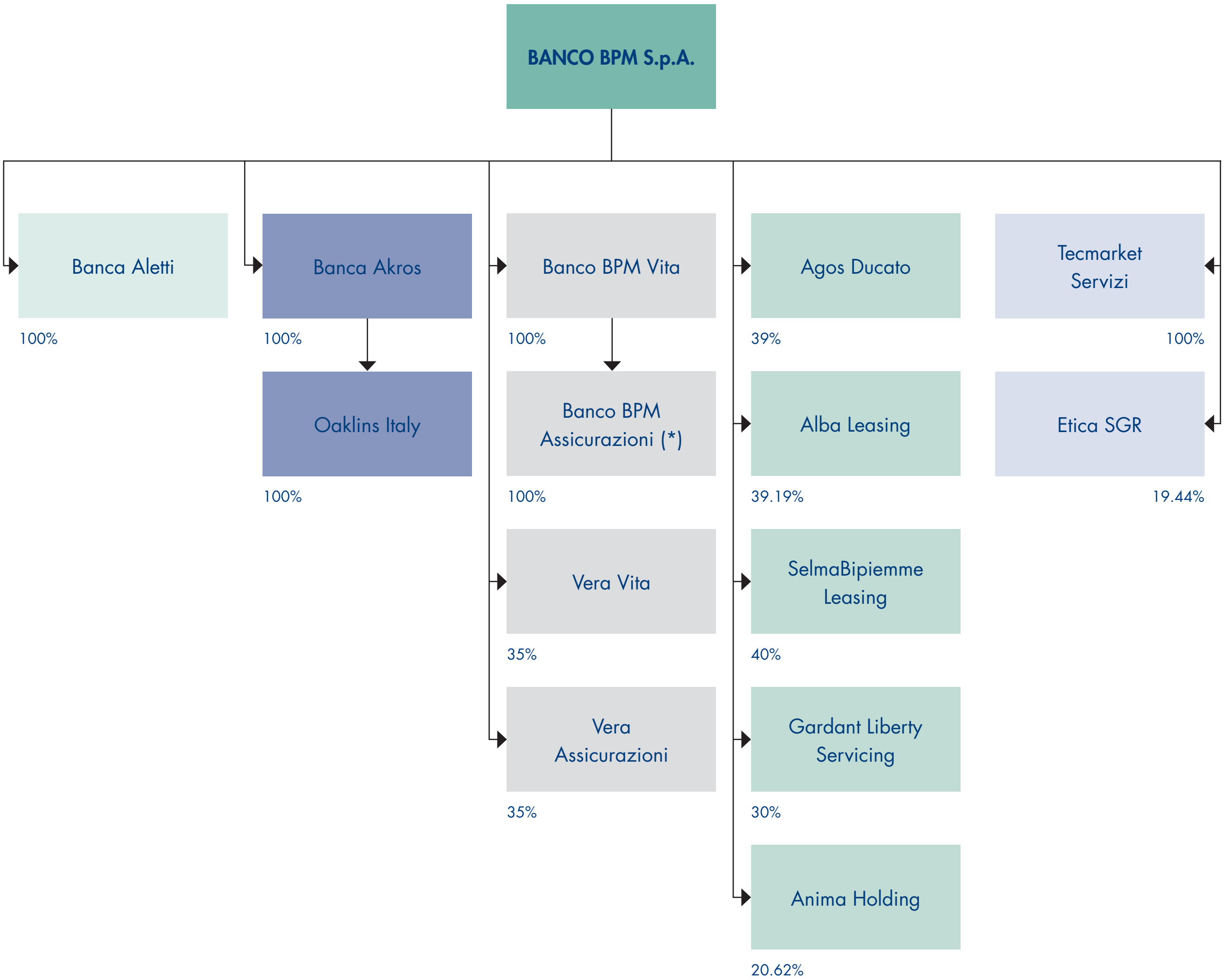
To receive additional information on the procedure to attend the Shareholders' Meeting, please contact Banco BPM S.p.A. (Affari Societari di Gruppo, Piazza Filippo Meda no. 4 – 20121 Milan) by sending a request to the certified email address *soci@pec.bancobpmspa.it*.
In compliance with legislation on the protection of personal data (Regulation (EU) 2016/679 - GDPR), the Data Controller is Banco BPM S.p.A.; the data will be processed for the sole purpose of executing the social contract of which the Shareholder is a party and fulfilling obligations or responding to requests deriving from the role of Shareholder of the Bank.
Complete information is available on the website *www.gruppo.bancobpm.it*, in the "*Corporate Governance - Shareholders' Meeting*" section.

Milan-Verona, 7 March 2023

On behalf of the BOARD OF DIRECTORS
The Chairman

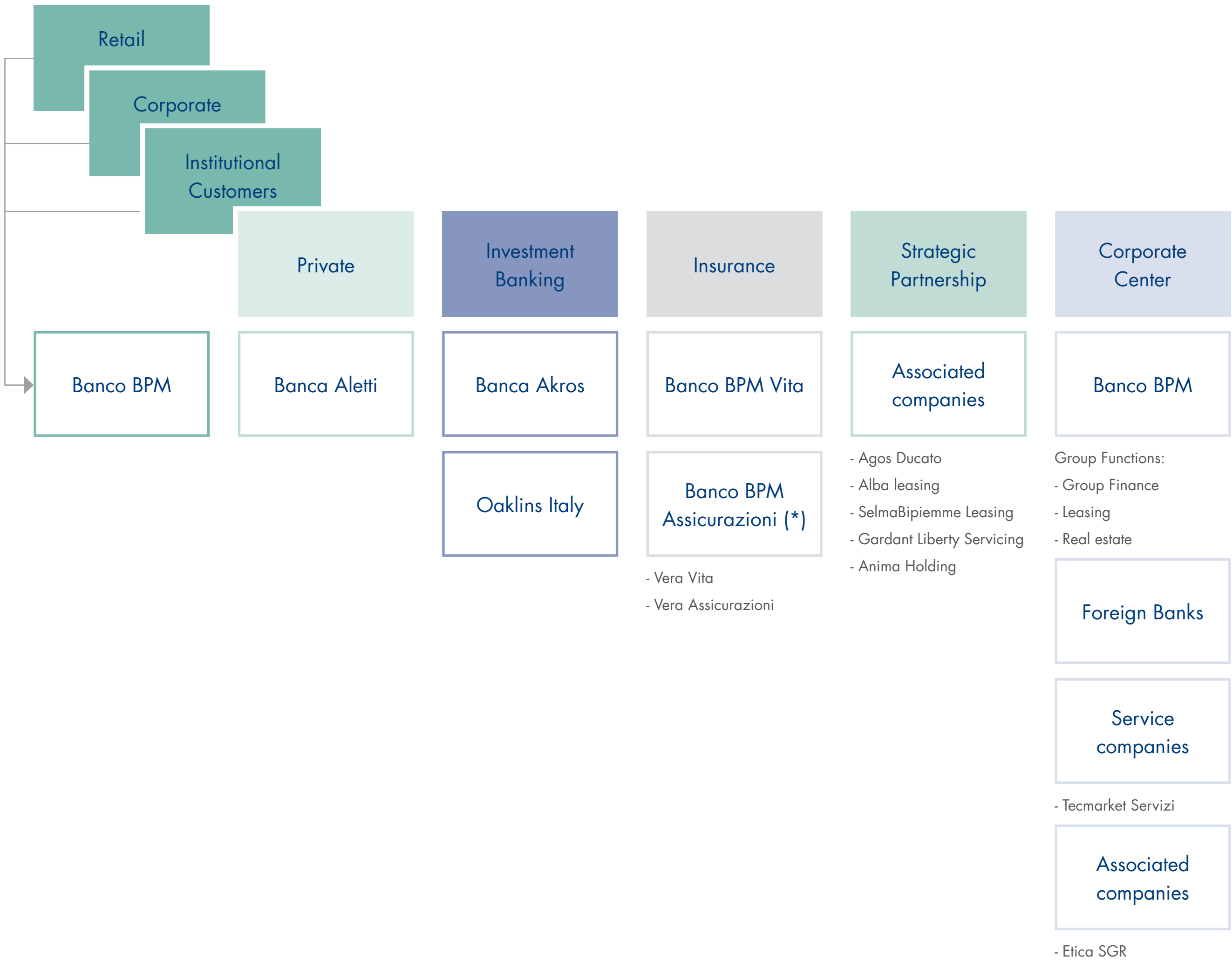
Reports on operations and consolidated financial statements for the year

GROUP STRUCTURE: MAIN COMPANIES



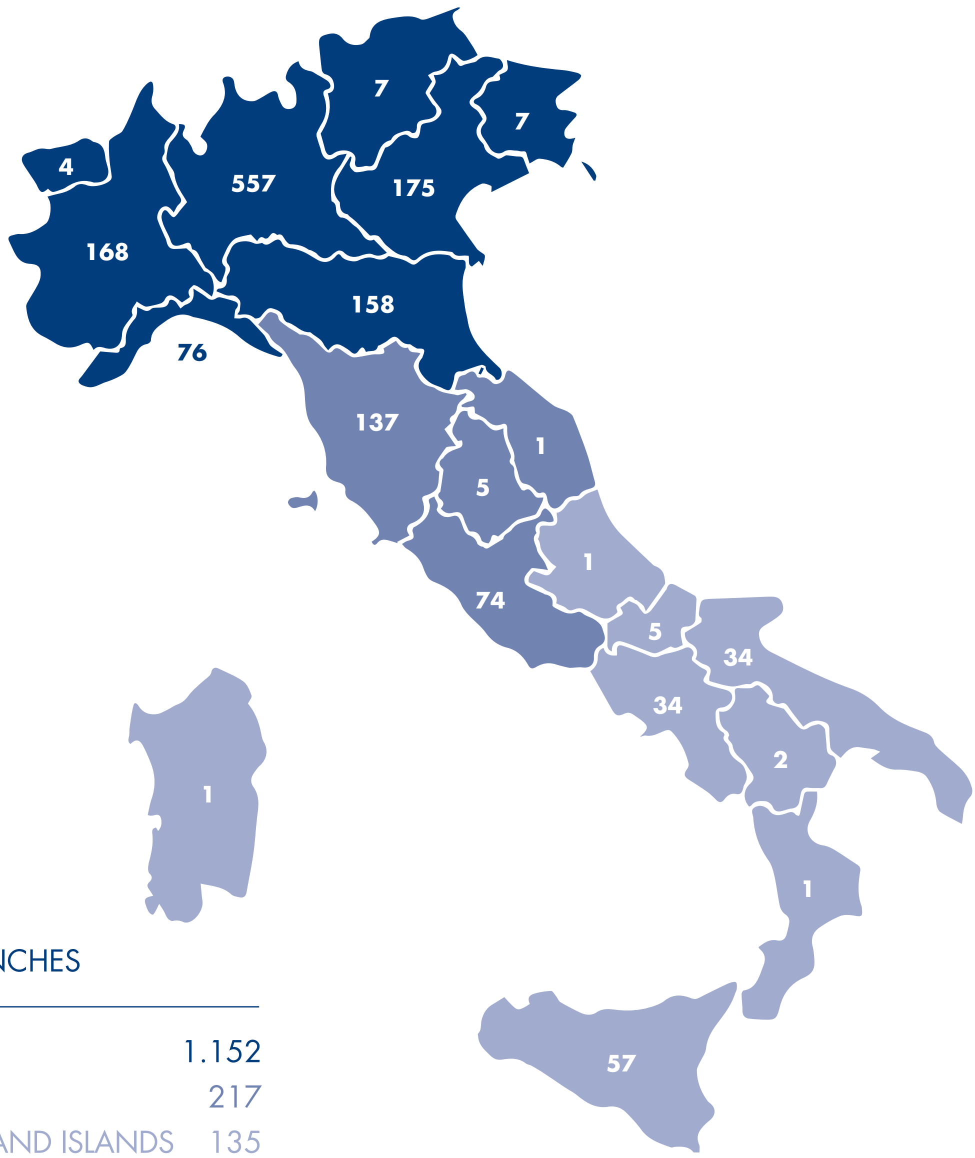
(*) Company held for sale pursuant to IFRS 5.

GROUP STRUCTURE: BUSINESS LINES



(*) Company held for sale pursuant to IFRS 5.

GROUP TERRITORIAL NETWORK



N° BRANCHES

●	NORTH	1.152
●	CENTRE	217
●	SOUTH AND ISLANDS	135
	TOTAL	1.504

Banco BPM Group Branches in Italy	Number
Banco BPM	1,451
Banca Aletti	52
Banca Akros	1
Total	**1,504**

Presence abroad

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

Group financial highlights and economic ratios

Highlights

The tables below provide the income statement and balance sheet highlights of the Group, calculated based on the reclassified financial statements. The underlying calculations for these are illustrated in the "Results" section of this Report.
Some economic and financial ratios are also provided, based on accounting data, corresponding to those used by the Company Management to analyse performance and consistent with the most widespread practices in the banking sector.

The alternative performance measures (APM) provided in this report were identified by the directors to facilitate the understanding of the economic and financial performance of Banco BPM Group's operations. The APMs are not envisaged in IAS/IFRS and, although they are calculated based on financial statements data, they are not subject to a full or limited audit.

When using the aforementioned measures, the guidelines of the European Securities and Markets Authority (ESMA) of 5 October 2015 (ESMA/2015/1415), incorporated in CONSOB communication no. 0092543 of 3 December 2015 are taken into consideration.

In this regard, it should also be noted that for each APM, evidence of the calculation method has been provided and, unless otherwise specified, the figures used can be inferred from the information contained in the following tables and/or in the reclassified financial statements provided in the "Results" section of this Report.
These statements were prepared on the basis of the financial statements set forth in Bank of Italy Circular no. 262/2005 and subsequent updates, following the same aggregation and classification criteria adopted in the previous year, with the additions needed to reflect the consolidation of the insurance companies Banco BPM Vita and Banco BPM Assicurazioni, which took place from 1 July 2022, as illustrated in more detail in the "Results" section of this report.

The attachments to the consolidated financial statements provide a statement of reconciliation between the reclassified financial statements and those prepared on the basis of Circular no. 262.

(millions of euro)	2022	2021	% Change
Income statement figures			
Financial margin	2,471.9	2,273.6	8.7%
Net fee and commission income	1,887.3	1,911.2	(1.2%)
Operating income	4,705.5	4,510.7	4.3%
Operating expenses	(2,539.4)	(2,515.8)	0.9%
Profit (loss) from operations	2,166.1	1,995.0	8.6%
Profit (loss) before tax from continuing operations	1,311.5	921.0	42.4%
Profit (loss) after tax from continuing operations	902.5	667.2	35.3%
Parent Company's profit (loss) for the year	702.6	569.1	23.5%

(millions of euro)	31/12/2022	31/12/2021	% Change
Balance sheet figures			
Total assets	189,685.9	200,489.2	(5.4%)
Loans to customers (net)	109,455.0	109,383.4	0.1%
Financial assets and hedging derivatives	43,093.5	36,326.4	18.6%
Group shareholders' equity	12,769.6	13,095.0	(2.5%)
Customers' financial assets			
Direct bank funding	120,639.1	120,213.0	0.4%
Direct funding without repurchase agreements with certificates	*123,449.5*	*123,168.0*	*0.2%*
Indirect funding	95,029.1	102,187.9	(7.0%)
Indirect funding without protected capital certificates	*91,327.8*	*99,067.3*	*(7.8%)*
- Asset management	59,408.7	65,347.9	(9.1%)
- Mutual funds and SICAVs	39,916.6	45,762.8	(12.8%)
- Securities and fund management	3,969.4	4,135.1	(4.0%)
- Insurance policies	15,522.7	15,449.9	0.5%
- Administered assets	35,620.4	36,840.1	(3.3%)
- Administered assets without protected capital certificates	*31,919.1*	*33,719.4*	*(5.3%)*

	31/12/2022	31/12/2021	Absolute change
Information on the organisation			
Average number of employees and other staff (*)	19,278	19,949	(671)
Number of bank branches	1,504	1,508	(4)

(*) Arithmetic average calculated on a monthly basis in terms of full-time equivalent resources. Does not include the Directors and Statutory Auditors of Group Companies.

Financial and economic ratios and other Group figures

	31/12/2022	31/12/2021
Profitability ratios (%)		
Return on equity (ROE) (1)	6.58%	4.98%
Return on tangible equity (ROTE) (2)	7.39%	5.50%
Return on assets (ROA) (3)	0.37%	0.28%
Financial margin / Operating income	52.53%	50.40%
Net fee and commission income / Operating income	40.11%	42.37%
Operating expenses / Operating income	53.97%	55.77%
Operational productivity figures (thousands of euro)		
Loans to customers (net) per employee (4)	5,677.6	5,483.1
Operating income per employee (euro) (4)	244.1	226.1
Operating expenses per employee (euro) (4)	131.7	126.1
Credit risk ratios (%)		
Net bad loans / Loans to customers (net)	0.66%	0.83%
Net unlikely to pay / Loans to customers (net)	1.44%	2.11%
Net bad loans / Shareholders' equity	5.64%	6.92%
Texas ratio (5)	20.30%	27.16%
Other ratios		
Financial assets and hedging derivatives / Total assets	22.72%	18.12%
Total derivatives / Total assets	2.34%	1.06%
- trading derivatives / total assets	1.44%	1.00%
- hedging derivatives / total assets	0.91%	0.06%
Net trading derivatives (6) / Total assets	0.03%	0.02%
Loan to deposit ratio (net loans/direct funding)	90.73%	90.99%
Regulatory capitalisation and liquidity ratios		
Common equity tier 1 ratio (CET1 capital ratio) (7)	14.32%	14.68%
Tier 1 capital ratio (7)	16.62%	16.52%
Total capital ratio (7)	19.58%	19.59%
Liquidity Coverage Ratio (LCR)	191%	209%
Leverage ratio	5.21%	5.92%
Banco BPM stock		
Number of outstanding shares	1,515,182,126	1,515,182,126
Official closing prices of the stock		
- Final	3.334	2.640
- Maximum	3.630	3.040
- Minimum	2.268	1.781
- Average	2.877	2.542
Basic EPS	0.464	0.375
Diluted EPS	0.464	0.375

(1) Calculated as the ratio of net profit (loss) for the year to shareholders' equity (excluding the profit (loss) for the year and AT1 equity instruments). The figure for the previous year has been restated to ensure a like-for-like comparison.
(2) Calculated as the ratio of net profit (loss) for the year to shareholders' equity, determined by excluding the profit for the year, AT1 equity instruments and intangible assets, net of the related tax effects, from shareholders' equity.
(3) Calculated as the ratio of net profit (loss) for the year to total assets.
(4) Arithmetic average calculated on a monthly basis in terms of full-time equivalent resources, as shown in the previous table. Does not include the Directors and Statutory Auditors of Group Companies.
(5) Calculated as the ratio between the net value of non-performing loans and the tangible shareholders' equity of the Group, determined by excluding intangible assets from the book value of shareholders' equity, net of the related tax effects.
(6) The aggregate of net trading derivatives corresponds to the mismatch, in absolute terms, between the derivatives included under the Balance Sheet item 20 a) of assets, "Financial assets at fair value through profit and loss - held for trading", and item 20 of liabilities, "Financial liabilities held for trading".
(7) The capital ratios as at 31 December 2022 were calculated by including the net result for the year 2022 net of the proposed dividends and other allocations of profit. It should be noted that the transitional provisions established by Articles 473 bis and 468 of EU Regulation no. 575/2013 (CRR) have been applied.

Group report on operations

ECONOMIC SCENARIO

The international scenario

During 2022, global growth prospects gradually but significantly deteriorated. This was impacted by the vigorous strengthening of the inflationary trend, made acute in Europe by the outbreak of the war in Ukraine in the first few months, which triggered a serious continental energy crisis. In the initial part of the period, the disruptive aftermath of the pandemic on global supply chains became more evident. Lastly, the slowdown in growth was accentuated by the widespread and aggressive monetary tightening adopted to counteract inflationary pressure; the consistent erosion of household purchasing power in the face of the sharp increase in energy and food prices. This resulted in a global crisis of the cost of living, particularly for the most vulnerable social groups. The International Monetary Fund estimates that global growth slowed down from 6.2% in 2021 to 3.4% in 2022, the weakest growth profile since 2001, with the exception of the GFC (Great Financial Crisis) and the acute phase of the pandemic. The IMF also estimates that global inflation increased from 4.7% in 2021 to 8.8% in 2022.

In the light of this scenario, international trade is still expected to grow (in volume) in 2022 by 5.4%, a significant slowdown compared to 10.4% recorded in 2021. The energy crisis has given further impetus to the transition to a green economy, especially in Western countries.

More specifically, in 2022, China, still struggling with the limitations and lockdowns imposed by the "Zero-Covid" policy adopted by the Government, recorded a significant block of economic activity. Outbreaks in factories created serious problems for global supply chains. The restrictions heavily affected consumption, favouring precautionary saving and constituting one of the main reasons of concern for the authorities. The real estate crisis, which has not yet been overcome, added volatility and irregularities to the growth of the many related sectors. Despite the efforts of the authorities to loosen the restrictions on the real estate sector, the bankruptcy of numerous construction companies continued, provoking a strong reaction in public opinion. More specifically, GDP growth slowed down to 2.9% yoy in the fourth quarter (after +3.9% in the third quarter and +0.4% in the second, the lowest in the last two years). Towards the end of the year, the severe restrictions to contain the spread of Covid were loosened in the face of widespread popular protests, providing a glimpse of generalised and sustained recovery for economic activity: preliminary estimates indicate an overall increase in GDP to approximately +3.0% in 2022 (the Government's objective was 5.5%).

In the USA, economic growth was affected, especially in the first half of the year, by supply constraints linked to the severe difficulties encountered in global supply chains. In the following months, the economic scenario deteriorated due to the tense conditions of the labour market, high inflation and the associated and consequent aggressive monetary tightening policy of the FED, which also had a negative impact on the real estate market. The tight conditions of the labour market were reflected by year-on-year increases in average hourly wages above, on average, 5% in the second half of the year, after reaching a peak in April (+5.6%). Disposable personal income therefore grew, by 5.4% in particular in the third quarter, but to a lesser extent than the inflation rate. Despite the decrease in purchasing power, household consumption was sustained, substantially reducing the savings rate.

To boost growth and, at the same time, maintain the commitments related to the green transition towards a "carbon-free" economy, in August the Government launched the Inflation Reduction Act, which authorises 391 billion dollars of expenditure for energy and climate change, with a favourable tilt towards US industries.

The year ended successfully for the US economy after a slow start: in the fourth quarter, GDP rose by 2.9% annualised quarterly after increasing by 3.2% in the third quarter (-0.6% in the second and -1.6% in the first). The positive figure mainly reflects the healthy consumer spending trend (+2.1%), and the increase in gross fixed investments (+1.4%). Growth estimates for the entire year indicate GDP growth of +2.1% against +5.9% in 2021. In terms of inflation, in December the consumer price index (CPI) fell to +6.5% (+7.1% in November), after reaching a year-on-year high of +9.1% in June. The core component closed the year at +5.7% (+6.0% in November).

In Japan, despite the significant depreciation of the yen during the year, exports struggled - especially to the Asian area - reflecting the fall in Chinese demand. The difficulties were accentuated - in the first half of the year - due to the aforementioned supply chain disruptions, slowing down investments and production. Lastly, the negative impact on GDP was exacerbated by the sharp increase in imports of services. In the third quarter, the contribution of foreign demand therefore became negative: -0.6% compared to the previous quarter. The contribution of domestic demand, on the other hand, remained positive: +0.4% qoq. The resilience of private consumption, which had characterised growth in the first part of the year and during the pandemic upsurge, albeit recording a marginally positive increase (+0.1% qoq), decreased considerably. However, domestic demand was sustained by the launch of two support measures by the Government to limit the increase in prices and to support vulnerable households and businesses,

including reserve funds for unforeseen events and multi-year expenses, to support longer-term growth, with investments in digitalisation and the green transition.
More specifically, after two positive quarters, economic growth declined in the third quarter: -0.2% compared to the previous quarter (-0.8% annualised quarterly). The evolution of domestic demand in the last quarter, together with other factors, suggests that the economy is in any case continuing to recover at a moderate pace: annual GDP growth expectations are +1.2%.
Among the newly industrialised and emerging economies, the most satisfactory results were generally achieved by countries that produce raw materials, while economic growth was slower for countries that import said materials. Focusing on the main ones, in Brazil expanded access to Covid-19 vaccines and government aid to the weakest segment of the population supported demand. Despite a deceleration in GDP in the third quarter (+0.4% qoq against +1.2% in the second), held back by inflation and high interest rates, forecasts for the entire year are 3.1% growth (against previous estimate of 2%). Although inflation, 5.8% in December, was halved compared to the beginning of the year, thanks to the measures approved by Congress to reduce taxes on key assets, it remains above the Central Bank's target, set at 2% for 2022. In the third quarter of the year, the Indian economy recorded GDP growth of +6.3% annualised (+13.5% in the second quarter). Against sustained domestic demand, the negative contribution of real net exports slowed the trend down: -4.3%, penalised by the trend in imports. For the whole of 2022, estimated growth is +6.7%, also thanks to its role as a neutral transit country for Russian goods sanctioned by the West. Inflation is expected to rise on average to +10.8% for the year, up from +6.7% in 2021.

The economy in Europe and Italy

The Eurozone economy, heavily dependent on Russian gas supplies, suffered from the impact of the Russia-Ukraine conflict in different periods of the year. At the beginning of the year, Europe was already facing, along with the rest of the world, severe supply chain disruptions: shortages of raw materials, slow delivery times and growing labour shortages slowed down production. The adoption of trade sanctions against Russia has led to a new series of supply bottlenecks (especially of energy products) and to a deterioration in economic prospects. The confluence of risks, the exponential increases in the cost of energy caused by the energy crisis and the consequent high trend in prices, have weighed on businesses and consumers, pushing the area on a path of lower growth and higher consumption inflation. Operator confidence declined progressively and increasingly, with consumer confidence reaching a new all-time low: in September, the relative index of the European Commission reached its lowest level since the beginning of the survey (1985), falling below the level reached at the beginning of the pandemic.
The inflationary trend had an impact on the real disposable income of households, further reducing consumption, while on the business side it led to a sharp increase in input costs. In December, the purchasing managers' index stood at 47.8, after hitting a two-year low in November of 47.3. Among the countries, Germany recorded the most marked decline, due to its industrial concentration and greater energy vulnerability. However, the Eurozone showed strengths and good resilience and there were signs of a still high propensity to invest from companies. In 2021, about 40% of gas and one-fifth of crude oil imports came from Russia; in the second quarter of 2022, thanks to the diversification of supply, the dependence on Russian energy was reduced by about half. Towards the autumn, gas prices began a phase of moderation, while a favourable climate postponed the use of accumulated stock and made it less intensive, considerably reducing tensions. In 2022, the labour market held up very well: unemployment fell to a low of 6.5% in October. The number of employees increased by 0.3% in the Eurozone in the third quarter of 2022, well above pre-pandemic levels. This compares with a job vacancy rate of 3.1%. The marked recovery of the participation rate and the stagnation of labour productivity, together with the government measures to support families, contributed to curbing requests for wage increases on average in the area.
Public spending skyrocketed due to measures to limit the socio-economic impact of high energy costs, for security, defence and humanitarian assistance to the displaced from Ukraine, which burdened public finances. To help Member States meet the relative costs, the EU made 27 billion available in cohesion funds and pandemic recovery funds. The full and timely implementation of the recovery and resilience plans remained fundamental to reach higher levels of investment, while the budgetary policies therefore sought to preserve debt sustainability.
The Eurozone economy therefore continued to grow during the year, benefiting from the liveliness of the first half of the year: GDP +2.3% yoy in the third quarter of 2022 (+0.3% qoq, after +0.6% of the former and +0.8% of the latter). This growth was largely driven by domestic demand after an unexpectedly good tourist season, especially in Italy, France and Spain; many analysts had predicted stagnation. More specifically, private final consumption grew by +1.7% yoy, gross investments by 7.4%, exports by +8.0% and imports by +10.3%. Pre-final estimates indicate growth of 2.5% for the whole of 2022. After an encouraging start, the Eurozone economy ended the year with positive but weaker growth: in the fourth quarter, in the end, GDP growth slowed down to +0.1% on the previous

quarter and to 1.9% yoy, which enabled the year to close with a pre-final increase for 2022 as a whole of +3.5% (+5.3% in 2021).
The annual inflation rate of the Eurozone therefore rose sharply during the year, only to show a slight slowdown in the last quarter. In December, the yoy consumer price rate stood at 9.2%, after the peak reached in October 2022 (10.6%), against 4.9% twelve months earlier. The growth of the core price component stopped at 5.0% (compared to 5.2% in November).
In 2022, the Italian economy suffered, to a relatively greater extent than other economies in the Eurozone, the energy shock linked to the Russian-Ukrainian conflict and the consequences of the sharp rise in the prices of energy raw materials, given the high dependence on gas supplied - up until the crisis - mainly from Russia. The shock, on the supply side, was reflected along the entire production chain, with a marked acceleration in production and consumer prices. Tensions in the economic arena worsened starting from the summer months with the political crisis that led to the early electoral consultation of September 2022, from which a centre-right coalition with a clear parliamentary majority emerged.
After sustained growth in the central quarters of 2022, household consumption decreased in the final part of the year, reflecting the impact of the marked increase in consumer prices on disposable income: in the third quarter, the purchasing power of households increased by 0.3% on a quarterly basis, despite the acceleration of inflation, thanks to government support measures for households and businesses.
The savings rate also fell to 7.1% in the third quarter of 2022, the lowest level since the fourth quarter of 2012 and below the pre-Covid average. Resilient employment figures helped to limit the damage: in November, in a context of economic slowdown, employment confirmed its peak at pre-pandemic levels. The unemployment rate stood at a long-term low of 7.8%. The market was also affected by a relatively modest expansion in labour supply. The high levels of gas storage, which were just below 80% in mid-January, thanks to the unusually mild weather, further reduced the likelihood of energy rationing and limited the extent of possible short-term supply shocks. On the business side, investments in machinery and equipment were held back in the final part of the year by the deterioration of demand prospects and greater uncertainty.
The significant stimulus given by the NRRP interventions and the support measures partially offset the negative factors mentioned above: considering the budget law and the extraordinary mitigation measures launched from the beginning of the year, more than 57 billion was allocated to interventions on energy for the current year. In particular, after the previous three measures, with the Decree Law "Aiuti-quater" (Aid-quater) of 18 November 2022, additional expansionary measures were introduced for an amount equal to 0.5% of GDP, containing the extension until the end of the year of the cut in excise duties on fuels and tax credits for electricity and gas companies. With regard to the NRRP, with the achievement of all the objectives set for the first half of 2022 by the Plan, at the end of September, the European Commission approved the disbursement of the second tranche of funds of the RRF, equal to 21 billion.
In the first half of the year, GDP accelerated: the increase of +0.2% in the first quarter was followed by a marked increase of 1.1% in the second. In fact, in the spring months, the surprising performance of household consumption in many ways, accompanied by good growth in investments - especially in the sector of capital goods and construction - boosted GDP growth, reversing the prevailing negative forecasts.
Growth then continued during the summer. Overall, GDP in the third quarter increased by 0.5% compared to the previous quarter and by 2.6% compared to the same period of 2021. The main contributions to this trend came from domestic final consumption, up by +2.6% yoy, and again from gross fixed investments, up by 9.2%, while net foreign demand made a negative contribution.
Towards the end of the year, the worsening of financial conditions and the increase in financial charges linked to interest rates impacted investment in construction, which also slowed down due to the easing of incentives for the upgrading of building stock. Therefore, the year-end results were substantially stable: -0.1% growth in GDP in the fourth quarter compared to the previous one and +1.7% yoy. The preliminary figure for 2022 as a whole shows a lively increase of 3.9% (+6.7% in 2021).
In terms of prices, in November 2022 those relating to production (industry) increased by 2.6% on a monthly basis and by 29.4% yoy (+27.7% in October and +41.7% in September), mainly reflecting the downsizing of the contribution of the energy component and, more generally, of the prices of various raw materials. Consumer price inflation (IPCA index) literally exploded during the year, reaching a peak of 12.6% in November (+12.3% in December, a fractional decline), for an average annual change of +8.7%, from 1.9% in 2021. On the other hand, the basic component stood at +4.0% (net of energy and fresh food products).
With regard to public finance, on 21 November, the Government presented the draft of the 2023 Budget Plan to Parliament for approval and to the European Commission for evaluation. The Commission's ad hoc forecasts project the budgetary cost of the measures adopted to reduce the economic and social impact of exceptional increases in

energy prices to 3.3% of GDP in 2022. Despite the expected increase in debt, the Government expects a budget deficit estimated at 5.6% of GDP in 2022 and a public debt/GDP ratio estimated at 145.7% for the same period.

Monetary policy

The year just ended marked a clear turnaround for the monetary policies of the main Western economies, in the wake of the inflationary flare-up that materialised from the end of 2021.
In the USA, the return of inflation occurred earlier than in Europe and was closely linked to the hyper-expansionary US policies launched during the pandemic, the conditions of the labour market and the lively consumption trends. At first, the Fed considered the recovery of inflation a temporary phenomenon, maintaining high liquidity conditions in the system. In the first few months of 2022, the US Central Bank however radically changed its opinion, opting for a decisive reorientation of monetary policy in a restrictive sense. In fact, the increase in prices proved to be clearly higher than the consensus expectations, also as a result of the further inflationary impulse deriving from the conflict that broke out in Ukraine. At the press conference following the meeting in March 2022, during which he abandoned his zero-rate policy, increasing the target rate of federal funds by 25 bps, President Powell did not rule out the possibility of further more substantial increases, suggesting that he has embarked on long road of monetary tightening. In fact, this first rate hike was followed by other very significant ones: in May, June and July, the hikes were 75 bps. On this last occasion, the market metabolised the credibility of the Central Bank's commitment to continue on the path of increases until inflation shows signs of being under control. This commitment was reiterated authoritatively by Fed President Powell at the annual economic symposium of the Federal Reserve in August.
To understand the extent of the restrictive turnaround, it is worth recalling that in the last 20 years the Fed had not raised rates by more than 25 basis points: in 2022 it did so 5 times, with four increases of 75 bps and one of 50 bps. Overall, there were 8 rate hikes in 2022, with a total increase of 425 bps. At the end of 2022, the level of federal funds rates reached the corridor of 4.25% - 4.50%, the highest level in the last 15 years.
The restrictive manoeuvre was not limited to the increase in the cost of money, but also implemented so-called "quantitative tightening", to reduce the size of the Central Bank's assets. Starting from June (even though the guidelines had already been drawn up as of January 2022), the US Central Bank interrupted the reinvestment of maturing balance-sheet securities for a maximum amount of 47.5 billion dollars (of which 30 billion in Treasury securities and 17.5 billion in debt securities and mortgage-backed securities) for the first three months, which became 95 billion in September (of which up to 60 billion in Treasury securities and 35 billion in debt securities and mortgage-backed securities). The FOMC also clarified that, when fully operational, it will maintain large reserves of securities in the portfolio to effectively manage monetary policy in a situation of high demand for liquidity by banks.
In the Eurozone, the inflation rate also pushed the European Central Bank to adjust the ultra-expansionary monetary policy implemented up to that moment, from the second half of 2022. With a double decision, surprising the markets, the governor of the ECB Christine Lagarde, following a meeting held on 21 June, announced her intention to interrupt net purchases as part of the APP programme from July 2022 and to tighten official rates, for the first time in eleven years, which came with a 50 bps reference rate hike at the meeting on 21 July. At the same time, the Governing Council of the ECB announced its intention to continue with gradual rate hikes, a term that Lagarde uses to characterise the greater caution of the ECB's policy, compared to the Fed. In fact, after the 50-bps hike in July, the European Central Bank followed up with another 3: in September and October, of 75 bps, and in December of another 50 bps, bringing the overall tightening in the second half of 2022 to 250 basis points.
The announcement of the Transmission Protection Instrument (TPI) in July, a tool that allows the purchase of securities on the secondary market to combat unjustified and disorganised market dynamics, further confirmed the ECB's commitment to protecting the Eurozone from the risk of fragmentation and therefore to guaranteeing the full monetary policy transmission.
At the meeting of 15 December, the ECB also announced that, starting from March 2023, the portfolio of the APP purchase programme will decrease at a measured and predictable pace, since the Eurosystem will reinvest only part of the principal repaid on maturing securities. The decline will amount on average to 15 billion per month until the end of the second quarter of 2023. With regard to the PEEP, the Governing Council stated that the principal repaid on the securities maturing under the programme will be reinvested, at least until the end of 2024 and, in any event, the future reduction of the PEEP portfolio will be managed so as to avoid interference with an appropriate monetary policy approach. Despite the numerous interventions already carried out, in the face of inflation that only timidly began to ease off towards the end of the year, the rhetoric of the central banks remains solidly restrictive. The markets are therefore expecting further interest rate hikes by the Fed and the ECB at least until mid-2023.

The financial markets

The performance of the main financial markets of Western countries in 2022 was inevitably affected by the sharp and profound reversal of monetary policies on both sides of the Atlantic. The year ended with widespread and significant losses in value both on the stock and bond markets. Debt securities in all segments recorded an unusual drop in prices in recent decades, characterised by a constant but gradual decline in market rates.
More specifically, the yield of US government bonds increased along the entire curve. The ten-year T-bond rose from a yield of around 1.55% at the end of 2021 to over 3.80% at the end of December 2022, reaching peaks of over 4.20% in the autumn months. The two-year bond, on the other hand, went from a yield of 0.75% to 4.40% at the end of the year, causing a significant and persistent inversion of the slope of the yield curve on US government bonds. Conversely, the average loss of value on US treasury bonds was one of the most significant recorded in the statistics. The other main high-grade government bond markets also performed similarly. In fact, the yield of the ten-year Bund went from a negative value of -0.20% at the end of 2021 to over 2.40% in the last part of the year. The yield of the Italian government bond increased during the year from 1.20% to 4.70%. However, the performance of the BTP was slightly more uneven, reflecting the crisis of the Draghi government and the uncertainty linked to the electoral campaign in the summer months and, subsequently, the decisions of the ECB regarding the restructuring of the purchase plans of Eurozone government securities. Therefore, the BTP BUND spread recorded a significant increase, from 130 bps at the beginning of the year to 220 bps at the end of the year, with two peaks above 240 bps at times of greatest tension. Concern about the effects that the increased level of interest rates will gradually have on the cost of Italian debt also weighs on this trend.
As mentioned, the increase in yields also involved the markets of corporate bonds in dollars and euros. The spreads of corporate bonds with respect to the respective risk-free rates were less pronounced than would have been expected in the face of such significant movements in interest rates and share prices.
The main stock markets were also largely negative. The equity segments, in addition to the effects of the rise in interest rates, naturally suffered the multiple consequences of the international tensions caused by the conflict in Ukraine, as well as the changed expectations on the profit performance of several sectors. In the United States, share prices suffered generalised decreases, dragged down, in particular, by the downsizing of many of the "champions" of the technology sector, which had significantly contributed to the increases of the two-year period 2020/21. The S&P 500 index fell by 19.4%, the worst annual performance since 2008, and the Dow Jones Industrial by 8.78%. The downturn in the Nasdaq composite was even more pronounced, down by 37.3%. In the Eurozone, the balance was slightly less negative, partly as a result of the lower presence of technology stocks: the Euro-Stoxx 50 index fell by 11.7%. In Italy, the FTSE MIB index fell by 13.3%; the banking sector performed better, with the decrease limited to 4.6%.
On the currency front, the appreciation of the dollar against the euro, very significant at times, is certainly worth mentioning, rising from 1.14 at the beginning of the year to 1.07 at year end, after having fallen below parity between September and November, with a low of just under 0.96.

Domestic banking activity

The situation of the Italian banking sector in 2022 was solid overall, despite inflationary pressure, the aftermath of the pandemic and the repercussions of the outbreak of the conflict in Ukraine, which continued to cause uncertainty and economic difficulties for many businesses and households.
In particular, the trend in loans shows that the demand for loans was solid, although it slowed down slightly in the last quarter of the year. In fact, based on data provided by ABI, in December 2022, loans to households and businesses increased by 2.1% on an annual basis, including securitised loans and net of changes in amounts not related to transactions. In November 2022, the latest figure available, loans to businesses recorded an increase of 2.8% on an annual basis, while the increase in loans to households was 3.8%. According to the latest quarterly survey on bank lending (Bank Lending Survey - October 2022), in the third quarter of 2022 the offer criteria on loans to businesses recorded a general tightening. The demand for loans by households also weakened, both for the purchase of homes and for consumption purposes, above all due to the rise in interest rates.
With regard to credit quality, net bad loans in November 2022 amounted to 16.3 billion, down by approximately 1.3 billion compared to November 2021 and the ratio of net bad loans to total loans was 0.92%. (1.02% in November 2021). The loan default rate in the third quarter stood at 1.1% yoy (1.3% at the end of 2021), at 1.7% for loans to businesses and at 0.6% for loans to households. In addition, in 2022, the percentage of non-performing loans to total loans fell, both before and after value adjustments: as regards Italian significant banks, supervised by

the ECB, the percentage fell from 3.1% in December 2021 to 2.6% in September 2022 and from 1.4% to 1.2% respectively. The coverage rate fell slightly in the same period, from 55% to 53.9%.

On the other hand, total direct funding (deposits from resident customers and bonds), recorded a downtrend during the year: in December 2022, -1.2% on an annual basis. After the strong growth recorded in the previous two-year period (+8% in 2020 and +5.6% in 2021), the trend of direct funding showed a moderate inversion, which reflected the changed conditions. Deposits therefore decreased by 24.1 billion compared to the end of 2021 (-1.3% on an annual basis), while medium and long-term deposits, i.e. through bonds, were unchanged compared to the previous year. The reduction in deposits mainly regarded businesses (-33.4 billion between July and November 2022), which used their liquid assets to meet the growing need for working capital.

The official interest rate hike was naturally transmitted to the cost of bank credit during the year. In fact, there was an increase in interest rates both on the amounts of loans and on new loans to households and businesses. In December 2022, the rate on new loans in euro to households for the purchase of homes was 3.09% (1.40% in December 2021). The average rate on new loans in euro to non-financial companies rose to 3.44%, from 1.18% at the end of 2021. The weighted average rate on total loans to households and non-financial companies was 3.22% (2.13% in December 2021).

In addition, in December 2022, according to initial SI-ABI estimates, the average interest rate on total bank funding from customers (sum of deposits, bonds and repurchase agreements in euro to households and non-financial companies) stood at 0.62% (0.44% at the end of 2021). In particular, the deposit rate applied to households and non-financial companies was 0.46% (0.30% in December 2021), while that on bonds was 2.12% (1.76%). The banking spread was 260 bps in December 2022, up significantly compared to 169 bps in December 2021. As a result of the consistent rise in the 3-month Euribor rate, after several years, the mark-down on total funding returned to positive territory and stood at 145 bps at the end of the year (-88 bps in December 2021), while the mark-up on total loans to households and businesses decreased, reaching 115 bps.

Indirect funding grew substantially, approximately 82 billion between July and November 2022, of which 56.7 billion attributable to households, 7 billion to businesses and the remainder to the other sectors (financial companies, insurance, public administration).

From the beginning of 2022, however, the share of these forms of investment decreased in favour of deposits and current accounts, probably due to the influence of the energy crisis and the war on savers, who opted for more liquid forms.

In November 2022, the assets of open-ended Italian and foreign funds rose by 2.2% compared to the previous month, standing at around 1,095 billion (+23.1 billion). Compared to November 2021, assets fell by 12.4% as a result of the decrease of: 73.9 billion in bond funds, 37.2 billion in flexible funds, 27.6 billion in equity funds, 20.3 billion in balanced funds and 354 million in hedge funds, which corresponded to an increase of 4.4 billion in monetary funds.