

SIGNIFICANT EVENTS DURING THE YEAR

The main events which occurred during the year that closed on 31 December 2021 are described below.

Initiatives of Banco BPM Group within the context of the international Covid-19 emergency

2021 was still strongly impacted by the international emergency triggered by the Coronavirus epidemic. In this context, characterised by heavy repercussions on the global economy as well as on business operations, the Group continued to implement the measures put in place during the previous year in order to protect customers and its employees, as well as provide concrete support to businesses, households and the communities in which the Group operates, in observance of regulations in force.

During 2020, the Covid-19 emergency had led to the introduction of strict generalised restrictive measures, which had a significant impact on economic activity; regulatory measures were adopted for banks, with a view to limiting pro-cyclical aspects in the calculation of capital and liquidity requirements.

Following the first measures taken in response to the emergency and the revision of operating procedures, the opportunity had arisen to implement a structured reaction and coordination mechanism to respond to the changing operating context as effectively as possible. Banco BPM Group had therefore launched a structured initiative called the "Reaction Project", with a Steering Committee, chaired by the CEO and with the involvement of top management, focused on three areas, entrusted to dedicated working groups:

- Commercial: with the objective of proposing targeted ideas to manage relations with the borrowing companies and/or to increase revenues both in the very short term, and sustainable in the "new normal", also in the light of new legislation;
- Costs: with the objective of drawing up a plan to curb operating costs to counterbalance, wherever possible, the fall in revenue;
- Balance Sheet: with the objective of managing and mitigating the impact of the crisis on asset quality, capital and the funding/liquidity situation.

Project activities also continued in 2021, focusing on the "Commercial" area, while those relating to "Costs" were completed in 2020 and those relating to the "Balance Sheet", in the first few months of 2021, with the update of three-year income statement and balance sheet forecasts, strictly observing the recommendations of the Supervisory Authorities and with the full involvement of the Management Bodies.

With regard to the first area, "Commercial", measures were implemented and further enhanced to guarantee personal physical safety and to redirect customer relations towards the use of digital channels, with particular attention on the topic of the IT safety of transactions: stronger measures were implemented to revise the operating and service model to guide customer relations towards "remote" operations and to boost the direct channels already available (Internet Banking, Contact Centre, Phone Banking, ATM).

Efforts continued to fully implement the government measures to support the economy, such as for example, granting moratoria on mortgage payments, boosting the liquidity available to businesses by granting or renegotiating loans against public MCC and SACE guarantees, and advancing the redundancy fund.

With the contribution of the commercial network and the central functions, the processes and procedures needed to speed up the stages of credit approval and disbursement and to simplify operations, were updated. To identify the most suitable solutions to be able to implement these provisions, the necessary controls were always guaranteed through the preventive involvement of the control functions.

Overall, based on management data, as regards the measures to support the economy during the Covid emergency, the disbursements secured with state guarantees in 2021 amounted to around 7 billion, bringing the total stock of these secured loans as at 31 December 2021 to 16.8 billion; instead, as regards the moratoria envisaged by the Heal Italy Decree and by the ABI Protocol, at the beginning of 2022, they have all expired, with a default rate which, also including the payments charged in January 2022, stood at 1.5%.

The following paragraphs illustrate the main initiatives implemented by the Group for its Private and Business segment customers.

Support to private customers - moratoria

In 2021, Banco BPM applied what was set forth in Decree Law no. 73 of 25 May 2021 ("Sostegni bis" [Support two] Decree), converted into Law no. 106 of 23 July 2021, which renewed the majority of that envisaged by Art. 54 of the Cura Italia ("Heal Italy") Decree, which expired on 17 December 2020.

With the 2022 Budget Law, the subsidies envisaged were further extended to 31 December 2022.

The decree provides for a moratorium on the payment of first home mortgages by making recourse to the "First home mortgage solidarity fund" (referred to as the Gasparini Fund or the CONSAP Fund), with a suspension of instalments for up to 18 months.

This solution envisages the payment of a benefit corresponding to 50% of the interest accrued during the suspension period.

The main subsidies confirmed are illustrated below:

- applications submitted by independent contractors, independent professionals and sole proprietors are eligible in the case of a reduction in revenue exceeding 33% in a quarter subsequent to 21 February 2020 compared to the revenue of the last quarter of 2019 or in the shorter period of time between 21 February 2020 and the date of the application, if one quarter has not yet passed, as a result of the closure or restriction of activity in response to the provisions adopted by the competent authority for the Coronavirus emergency;
- applications relating to mortgages backed by the First Home Guarantee Fund are eligible;
- the submission of the ISEE (Equivalent Economic Situation Indicator) form is not required;
- all mortgages that have already taken advantage of the previous suspensions are also eligible, provided the regular amortisation of instalments has resumed for at least 3 months; if the mortgages have not resumed regular amortisation for at least 3 months, previous suspensions will be calculated and will be accumulated to reach the total 18 months set forth by law;
- loans disbursed (or subrogated) up to 400 thousand euro are eligible;
- furthermore, the term for the eligibility of loans in amortisation for less than one year until 9 April 2022 is also confirmed.

In 2021, Banco BPM processed 1,516 applications for CONSAP moratoria for 145 million in expiring debt.

Furthermore, Banco BPM granted other types of moratorium to private customers that did not meet the requirements to access the solidarity fund, processing 9,354 applications, broken down as follows:

- commercial moratorium, which envisages the suspension of the entire instalment for a maximum period of 12 months. As at 31 December 2021, 9,252 suspensions had been agreed, for a total of 885 million in expiring debt;
- ABI consumers moratorium, expired 31 March 2021: as at 31 December 2021, 102 suspensions had been agreed, for a total of 9.3 million in expiring debt.

Support to business customers

Support to business customers - moratoria

With regard to the topic of moratoria, in 2021, Banco BPM worked in compliance with the government provisions, which resulted in subsequent automatic extensions, unless the customer waived said right, of moratoria pursuant to Art. 56 of the "Heal Italy" Decree Law to 30 June 2021. In total, in the "Business" segment, around 5,434 moratoria were extended for a principal amount of 1.7 million.

Support to business customers - loans

The activity to support business customers continued through the significant use of the facilitation instruments made available by the "Liquidity" Decree Law of 8 April 2020, which was subsequently converted into Law no. 40 of 5 June 2020 and the relative possibility to access specific loans guaranteed by the Guarantee Fund for SMEs and by SACE.

During the period, requests for extensions were also followed up, in particular for the transactions referred to in the "Liquidity" Decree Law - Article 13, paragraph 1, letter m).

Other forms of customer support

Furthermore, already since last year, Banco BPM has been able to meet the rising trend in the demand for digital services, also thanks to project work undertaken in previous years as part of the Group's Digital Omnichannel Transformation Programme, by developing new products and tools that enabled the even greater use of digital channels by customers and colleagues.

More specifically, Banco BPM's performance indicators continuously increased during 2021:

- remote transactions reached 83% of the total (74% in 2019), backed by a significant increase in transactions from mobile phones: +124% in 2021 compared with 2019;
- customer's operations through digital channels reached a level much higher than the market average (+7 percentage points for payment transactions through digital channels, based on specific market research);
- over 400 thousand customers have already adopted the new Digital Identity solution, which enables sales deeds to be managed remotely, and permits a "paperless" approach in branches.

Thanks to the continuous development of tools and models for advanced analytics and for marketing engineering, the contribution of customer journeys to sales rose by almost 10 percentage points, reaching over 20% of total retail customer sales (private and businesses), encompassing over 400,000 sales deeds.

Lastly, in the fourth quarter, a new application for SMEs was launched, which in just a few weeks recorded over 10 thousand downloads, boasting very positive comments from users right from the beginning.

Derisking activities

During 2021, the Group further accelerated the derisking process, conducted by means of disposal transactions with respect to that envisaged in the 2020 financial statements.

More specifically, in June 2021, a transactions entailing the assignment of bad loans was carried out (Project Rockets) for a gross value of around 1.5 billion. More specifically, the transaction was finalised in the form of a securitisation, with the assignment of the loans to the special purpose vehicle Aurelia SPV S.r.l., which issued three classes of Notes (Senior, Mezzanine and Junior). 95% of the Mezzanine and Junior notes were purchased by subsidiaries of Elliott funds, while 5% is held by the Group. The Senior notes are backed by a State guarantee (so-called GACS), and are wholly held by the Group. For further details on the transaction in question, please refer to the content of "Part A - Accounting policies" of the Notes to the Consolidated Financial Statements.

On 19 October 2021, the Board of Directors of Banco BPM, also considering the impacts of the "Calendar Provisioning", resolved to amend the management strategy for non-performing loans by increasing the target of likely disposals to around 650 million, against the residual target of 150 million related to ordinary disposal transactions of so-called small ticket bad loans.

Given the above management strategy, the 2021 financial statements reflect the economic effects of the alignment of adjusting provisions, calculated on the basis of a multi-scenario model, to take into account the expected lower amounts recoverable through disposal with respect to internal management activities (so-called workout).

Also considering the ordinary internal workout activities, the expected overall derisking exercise for 2022 amounts to around 1 billion.

Partnership agreements in the bancassurance sector

In March 2021, the Group signed an important agreement with Cattolica Assicurazioni, which regulates the terms and methods of continuation of the partnership in the bancassurance sector.

More specifically, the agreement provides, in exchange for Banco BPM's waiving of the call already exercised², for the recognition to it of a right of early exit from the partnership, originally due to end in 2033, which can be exercised in the period between 1 January and 30 June 2023. In particular, the parties agreed to grant Banco BPM an unconditional purchase option on the 65% stake held by Cattolica in the joint ventures Vera Vita and Vera Assicurazioni.

² On 15 December 2020, Banco BPM informed Cattolica of its intention to exercise the call option on the controlling stakes held by Cattolica in the capital of the Vera Vita and Vera Assicurazioni joint ventures.

The agreement provides for protection mechanisms for both parties linked to the exercise price of the call and to the price adjustments for any retained profits, distributions of reserves or extraordinary dividends or share capital increases or capital payments in regard to the joint ventures.

Moreover, at the end of June, Banco BPM redefined the agreements for the partnership currently in place with the Covéa Group, referring to the joint ventures Bipiemme Vita, 81%-owned by Covéa Coopérations and 19%-owned by Banco BPM, and Bipiemme Assicurazioni, wholly-owned by Bipiemme Vita.

These agreements provide for, *inter alia*, the recognition in favour of Banco BPM of an unconditional option to purchase 81% of the share capital of Bipiemme Vita, which can be exercised in the period between 8 September 2021 and 31 December 2023. Where said option is not exercised, the partnership can continue until the end of 2028, except where the put and call options recognised respectively to Covéa and the Bank are exercised in given time windows.

For additional details on the partnership agreements, please refer to the section "Interests in associates and joint ventures - Item 70 of the assets" contained in "Part B – Information on the Consolidated Balance Sheet" and section 3 - Scope of consolidation and methods in "Part A - Accounting policies" in the Notes to the consolidated financial statements.

The new Strategic Plan

At the meeting held on 4 November 2021, the Board of Directors of Banco BPM approved the Group's 2021-2024 Strategic Plan.

The new Plan³, which aims to provide significant remuneration to shareholders, with a view to achieving a sustainable growth in profitability, was developed on the basis of a full set of assumptions, which incorporate the new macroeconomic forecasts and changes in the regulatory context.

The development of the Plan is also based on a series of strategic priorities that meet the expectations of the main stakeholders, including customers, investors, staff and supervisory authorities:

- gradual development of the service model from a digitalisation perspective;
- opportunities offered by the NRRP;
- options for developing Bancassurance in light of the renegotiations of the "Cattolica" and "Covéa" partnerships;
- contribution to cutting costs, stemming from the recent agreement on the redundancy fund and rationalisation of the network of branches;
- normalisation of the cost of risk, made possible by having achieved improvements on the Asset Quality front, already above the targets which the Group set for 2023 in the former plan.

The Plan is based on 3 key pillars, which envisage a new digital-driven commercial model, aimed at growing the core business by leveraging the potential of the product factories.

More specifically, the first pillar: the implementation of the new digital-driven service model, will be addressed to the continuous evolution of daily banking, from a "mobile-first" perspective, which will lead to:

- an increase in digital customers to a share of over 80%, and in transactions made remotely to over 90%;
- an improvement in the customer experience with the implementation of new smart assistance solutions;
- the adoption of Digital Identity by over 90% of customers, with the gradual transformation of operations to paperless.

With regard to commercial activities, the new service model envisages reducing cashiers by over 30%, developing a digital branch which could, over the course of the plan, sell products and services online, and strengthening the omnichannel approach to offer a range of diversified online Retail products and services (this is already under way as part of the .DOT programme ("Digital and Omnichannel Transformation").

³ Note that in March 2020, the 2020-2023 Strategic Plan was approved which, as it is based on assumptions and objectives established prior to the adoption of the restrictive measures relating to the Coronavirus emergency, could no longer be considered current.

Instead, the second pillar is focused on increasing the volumes and the profitability of the core business, with specific reference to:

- Family Banking: with the objective to seize the growth opportunities in loans for families and young people, plus the constant growth of the consumer credit sector and strengthening of activities in the non-life bancassurance sector;
- Wealth Management: with the objective to sustain the growth of the segment, by focusing on management of customer investments, turning new direct funding acquired in the last few years into asset management, and leveraging both the Bank's omnichannel strategy and the implementation of asset management and life bancassurance solutions;
- SME Segment: the growth targets will be pursued by improving the cross-selling of commercial and investment banking products and services, focusing in particular on areas where there is little presence. Furthermore, various forms of credit will be available to SME customers, which envisage the use of government and supranational incentives; specific focus also on loans, tax bonuses and services connected to the NRRP;
- Corporate/Institutional Segments and Investment Banking activities: the Group's aim is to increase the support it provides to Corporate customers through growth in business areas with high added value (structured finance and foreign activities). A further segment to be developed is the already active presence in the business of the so-called "ecobonus & superbonus", as well as promoting opportunities relating to the implementation of the NRRP with specific focus on the Private Banking Services of Banca Aletti and the Investment Banking services of Banca Akros.

Lastly, the third pillar leverages the potential of the product factories. More specifically, through the redefinition of the bancassurance partnership agreements with Cattolica Assicurazioni and Covéa, respectively, the Group guaranteed itself a purchase option on the shares in the Companies held by the respective partners, which will enable it to reach a stake of 100%. The rationale behind the insourcing of the insurance business within Banco BPM Group and the associated consolidation of the insurance companies lies in the significant room for growth in terms of the productivity of the Life segment, exploiting the capacity of the Group's commercial network in the overall placement of investment products, and, in the Non-life segment, by seizing, in particular, the growth opportunities in the Italian market.

In addition, thanks to the partnerships with Anima and Agos, asset management and consumer credit activities are expected to grow, with increased synergies over the course of the plan.

Achieving the objectives illustrated will enable the Group to create significant value (net profit of over 1 billion forecast for 2024; strong focus on improving operating profitability and careful cost control) and to maintain solid liquidity and capitalisation levels, as well as further boosting derisking and reducing the cost of credit.

The milestones envisaged by the new plan are driven by a strong "risk control culture" applied to credit management, funding and the bond portfolio, by a policy to exploit the talents and the diversity of human resources and the digital transformation of the organisation and processes, as well as by the full integration of the ESG strategy (Environmental, Social and Governance) into the Group's business model.

Streamlining of the Group's corporate and organisational structure

Acquisition of interest in Oaklins Italy S.r.l.

On 10 May 2021, the subsidiary Banca Akros entered into the deed for the purchase of shares representing 80% of the share capital of Oaklins Italy S.r.l., a company operating in the "Mergers & Acquisitions" advisory services segment, for consideration of 2.8 million.

The remaining 20% of the share capital was acquired on 28 May, for an equivalent value of 0.7 million. The sale price of 3.8 million includes the final adjustment based on an earn-out mechanism agreed by the parties.

The deeds of purchase for the two transactions were registered with the competent Companies' Register on 18 May 2021 and 11 June 2021, respectively.

Said acquisition enabled Banca Akros to access an international network operating in M&A, complementary to the domestic investment banking already conducted by the Bank, thereby enhancing its offering to its customers of M&A and financial advisory services.

The new subsidiary has been included within the Banco BPM Banking Group.

For further details on the transaction described above, please refer to Part G – Business combinations regarding companies or divisions in the Notes to the consolidated financial statements.

Merger of subsidiaries

Consistent with the initiatives to streamline the Group's corporate and operational structure, to simplify the structure, to optimise and enhance resources and to reduce costs, on 9 February 2021, the Parent Company's Board of Directors approved the proposed mergers by incorporation into the Parent Company of the subsidiaries ProFamily S.p.A. and Bipielle Real Estate S.p.A..

More specifically, on 19 July 2021, the merger by incorporation of the subsidiary ProFamily S.p.A. into the Parent Company was finalised.

This transactions is to be made in accordance with the agreements signed with the Crédit Agricole Group, with a view to further consolidating their partnership in the consumer credit sphere in Italy.

The merger took place according to the simplified form established for wholly-owned companies, with no exchange ratio or adjustment in cash; the accounting and tax effects were recognised in the financial statements of the incorporating company as of 1 January 2021.

Instead, on 20 December 2021, the deed of incorporation of Bipielle Real Estate S.p.A. into the Parent Company was signed, registered with the relevant Companies' Register on 21 December 2021. As illustrated in the section dedicated to events occurring after the reporting date, Part A of the Notes to the consolidated financial statements, the merger was finalised with effect from 1 January 2022 and was completed according to the simplified procedures envisaged for wholly owned companies.

The aim of this transaction is to concentrate the overall ownership of real estate assets directly in the Parent Company, which will also control the complex of organisational structures responsible for managing said real estate.

Lastly, on 20 July 2021, the Banco BPM and Release Boards of Directors approved the plan for the merger by incorporation of the subsidiary Release into the Parent Company.

This transaction was also carried out according to the simplified forms established for wholly-owned companies as, in January 2021, Banco BPM acquired full control over the investee Release, by acquiring 39,923,532 ordinary shares of the investee from BPER Banca S.p.A.

As illustrated in the section dedicated to events occurring after the reporting date, Part A of the Notes to the consolidated financial statements, the merger transaction, which obtained ECB authorisation on 13 October 2021, was finalised on 21 February 2022, with accounting and tax effect from 1 January 2022.

The transactions described do not have any impact on the capital ratios or on the Group's balance sheet or income statement.

Sale of interests in subsidiaries

On 15 July 2021, Banco BPM entered into the deed for the sale of 100% of the share capital of the company Immobiliare Marinai d'Italia S.r.l. in liquidation, which in turn controls 100% of the companies Perca S.r.l. and Meleti S.r.l., to the company "Arcidiacona Consulenza & Servizi Immobiliari di Arcidiacona Toni Maurizio", for a consideration of 100 thousand euro.

The deed of sale of the share capital was registered with the competent Companies' Register on 22 July 2021.

This transaction did not have any significant impact on the Group's balance sheet or the income statement.

Liquidation of subsidiaries

In early July 2021, the liquidation procedure of the subsidiary FIN.E.R.T. S.p.A. was concluded, with no allotment between the shareholders. The company was then struck off from the Companies' Register and removed from the Banking Group. In October, the liquidation of the subsidiary Milano Leasing S.p.A. was also completed, and cancelled from the Company Register in November.

The above transactions did not have any impact on the Group's balance sheet or the income statement.

Furthermore, on 22 July 2021, the shareholders' meeting of Italfinance Securitisation Vehicle S.r.l. (special purpose loan securitisation vehicle pursuant to Law no. 130/1999, consolidated by Banco BPM), following the early closure of the last outstanding securitisation transaction, approved the early dissolution and placement in liquidation of the company. The liquidation began on 29 July 2021.

Lastly, on 25 October 2021, the shareholders' meeting of BP Trading Immobiliare S.r.l. (a company that is part of the Banking Group, wholly owned through Bipielle Real Estate) approved the early dissolution and the start of voluntary liquidation with legal effect from 1 November 2021.

As illustrated in the section dedicated to events occurring after the reporting date, Part A of the Notes to the consolidated financial statements, on 21 January 2022, the shareholders' meeting approved the final liquidation statements as at 30 November 2021, and on 16 February 2022, the company was removed from the relevant Companies' Register.

Rationalisation of the structure and of the commercial network

With reference to the agreement entered into with the Trade Union Organisations on 30 December 2020 concerning support for the voluntary retirement of 1,500 people, in agreement with the Trade Union Organisations, the agreed number of employees concerned was increased from 1,500 to 1,607 (without additional expenses) while the number of new hires to be carried out was increased from 750 to around 800. More than half of agreed retirements took place by June.

Lastly, during the year, the reorganisation and streamlining plan on the commercial network was completed, with the closure of around 300 small branches.

Other events during the year

Important funding operations completed

In January 2021, the Parent Company finalised the issue of an Additional Tier 1 perpetual instrument for the amount of 400 million, intended for institutional investors.

The securities, issued at par, may be called by the issuer from 19 January 2026 and subsequently every six months; the fixed six-monthly coupon, non-cumulative, was set at 6.50% and the payment of the same is fully discretionary and subject to certain limitations.

The investors that participated in the transaction are asset managers, hedge funds and banks, and are mostly foreign.

The transaction is part of the drive to render the capital structure more efficient and enables the Tier 1 capital target to be achieved, further strengthening the Group's capital position.

In June 2021, the placement of a 300 million 10-year Tier 2 subordinated bond issue for institutional investors was also concluded, which is included within the Group's Euro Medium Term Notes Programme.

The bond, primarily subscribed by foreign investors, provides for a fixed coupon of 2.875% for the first five years.

Lastly, in early July 2021, Banco BPM successfully concluded the placement of its first senior preferred Social Bond issue intended for institutional investors for an amount of 500 million, maturing in 2026.

The bond, issued within the sphere of the Green, Social and Sustainability Bond Framework under the 25 billion EMTN programme, is intended to finance a selected portfolio of SMEs that have been granted disbursements covered by the public guarantee envisaged by the Liquidity Decree to address the Covid-19 emergency.

For the entire duration of the bond, Banco BPM will publish an annual report to ensure transparency on the allocation of the proceeds of the issue and the social benefits for the purpose of safeguarding the jobs of SMEs affected by the health emergency.

The security is listed on the Luxembourg Stock Exchange, has a five-year duration and an annual coupon of 0.875%. The issue was subscribed by institutional investors, primarily banks and Italian funds.

The transaction is part of the Group's ESG strategy and represents the effective implementation of the environmental and social sustainability objectives that will increasingly guide and characterise the Bank's various business areas.

Furthermore, as illustrated in more detail in the section dedicated to significant events occurring after the end of the financial year in the Notes to the consolidated financial statements, in January 2022, Banco BPM completed a new subordinated Tier 2 bond issue, with a 10-year maturity and fixed coupon of 3.375%, for the amount of 400 million.

The bond, intended for institutional investors, is part of the Group's Euro Medium Term Notes Programme.

Realignment of tax values (Decree Law of 14 August 2020)

Art. 110 of Decree Law no. 104 of 14 August 2020 (known as the "August" Decree) reintroduced the option, for companies that prepare their annual financial statements according to IAS/IFRS accounting standards, to realign mismatches between tax values and book values with regard to property, plant and equipment (excluding merchandise), intangible assets (excluding goodwill) and interests in associates and joint ventures. The above-mentioned article was supplemented by the 2021 Budget Law which, in Art. 1, paragraph 83, provided the possibility of performing the realignment also for goodwill and other intangible assets set forth in the financial statements for the year under way at 31 December 2019.

Banco BPM and several Group companies decided to take advantage of the right to realign the tax value of some properties with the higher book values recognised in the financial statements as at 31 December 2020.

The total capital benefit recognised as at 31 December 2021 is 202.9 million, of which 81.7 million against the income statement and 121.2 million against valuation reserves.

The realignment in question is additional to that already approved by the Parent Company's Board of Directors on 26 January 2021 with reference to intangible assets represented by trademarks and client relationships recognised in the separate financial statements following the merger by incorporation of the former subsidiary Banca Popolare di Milano.

Please refer to Part A of the Notes to the financial statements - section "Other significant aspects relating to Group accounting policies", the paragraph entitled "Realignment of mismatches between the tax value and the higher book value (DL 14 August 2020)" for an exhaustive description of the effects of this realignment.

Change in company officers

The Shareholders' Meeting on 15 April 2021, appointed Silvia Muzi as standing auditor and Francesca Culasso as alternate auditor to the Board of Statutory Auditors, who shall remain in office until the Shareholders' Meeting called to approve the financial statements for the year that will end on 31 December 2022.

As a result of the above-mentioned appointments, Wilmo Carlo Ferrari will stop acting as Standing Auditor and also, in accordance with gender balance laws, will return to acting as an Alternate Auditor.

EU-Wide Stress Test 2021: Banco BPM achieves better results than in the previous stress tests (2018)

On 30 July 2021, the EBA announced the results of the EU-wide stress tests, in which Banco BPM also participated. The stress tests were conducted using a particularly penalizing adverse scenario, together with a starting point (final data as at 31 December 2020) which had already been impacted by the consequences of the pandemic.

Banco BPM achieved significant results, highlighting:

- the ability to generate value in the Baseline scenario;
- resilience to significant shock in the adverse scenario, achieving better results than in the previous stress tests conducted in 2018, even considering the particularly penalising scenario, as noted;
- results exceeding the minimum capital requirements.

Claims, disputes and investigations regarding reports of customers involved in the purchase of diamonds in previous years by Intermarket Diamond Business S.p.A.

In the months between the dates of approval of the 2020 draft financial statements and the 2021 draft financial statements, new claims were limited both in number and as a total additional relief (corresponding to around 12.5

million). As at 31 December 2021, due to settlements reached by negotiation or final rulings, claims and disputes for total relief figure exceeding 593 million were settled against claims that on the same date amounted to a total of around 716 million.

For further details, refer to section 10 "Liability provisions - Items 90 and 100" contained in "Part B – Information on the Consolidated Balance Sheet" in the Notes to the consolidated financial statements.

Inspections and proceedings of the Supervisory Authorities

During its standard business activities, the Group is subject to inspections conducted by the Supervisory Authorities. More specifically, as regards the Single Supervisory Mechanism, the Group is subject to the prudential supervision of the European Central Bank (ECB); with regard to specific matters, supervision is the direct responsibility of the Bank of Italy and CONSOB.

Supervisory activities entail making ordinary and recurring inspections at the offices of the Parent Company ("on/off-site inspection"), accompanied by "remote" inspections, conducted through structured and continuous exchanges of information, as opposed to specific requests for documentation and in-depth examination of specific areas.

In 2019, 2020 and 2021, the Group received numerous inspections, which regarded the following areas: Credit Quality Review (both Corporate and Retail portfolios), Liquidity, Funding Risk, IRRBB, Credit Risk (AIRB) and Market Risk Estimation Models, Capital Adequacy, Anti-Money Laundering, Payment Services Transparency, Product Governance and Adequacy of transactions arranged by customers, Internal Governance and Remuneration and approval of the internal model for credit risk.

Most of the inspection activities have already been concluded with the release of the Final follow up letters or Decisions, through which the ECB communicates the corrective actions required in relation to the areas for improvement identified. If the inspections regarded aspects with a potential impact on capital, the observations made are duly considered with regard to a new valuation of the company's assets/liabilities. If the inspections have identified areas for improvement as regards the processes examined, the Group has set in place specific corrective action plans.

At the date of this report, as illustrated in detail below, several inspections are still under way (some of which open before the above-mentioned periods) or are pending receipt of the Final follow-up letter or the Final Decision from the ECB, on the other hand, for others, only the conclusion of corrective action remains.

Inspections by the ECB

- a) on internal models relating to credit risk for the following exposure classes: Corporate - Other; Corporate - SME; Retail - Other non-SME; Retail - Other SME; Retail - Qualifying revolving; Retail - Secured by real estate non-SME; Retail - Secured by real estate SME. The inspection follows an application made by Banco BPM to the ECB for material changes to the internal models used to calculate capital requirements for credit risk, made also following the transposition of the EBA Guidelines on the topic, which became effective on 1 January 2022. The afore-mentioned inspection, to be conducted off-site, is expected to start around mid-February;
- b) to assess the adequacy of the first pillar capital requirement calculation, including all accessory aspects; the on-site phase started on 25 October 2021 and ended on 23 December 2021;
- c) on credit and counterparty risk concerning the asset quality review, with reference to the Commercial Real Estate ("CRE") portfolio, including the review of commercial real estate repossessed by the Group subject to registration ("Foreclosed Assets") and the assessment of the credit risk management procedures and control and governance systems ("Credit and counterparty risk – Credit Quality Review of CRE portfolio and assess selected credit risk processes"). The off-site inspection phase started on 26 April 2021 and its completion was notified on 24 December 2021;
- d) for the assessment of the Bank's request for authorisation to adopt the new definition of prudential default (entailing a substantial amendment of the internal model to estimate credit risk pursuant to Delegated Regulation (EU) 529/14 of the Commission): the off-site phase started on 14 September and concluded on 13 November 2020. Banco BPM received the Final Decision on 7 May 2021 and on 15 June 2021 sent the corrective action plan, which is currently under way;
- e) for the approval of the internal model relating to credit risk (Credit Conversion Factor, "CCF"/Exposure at Default, "EAD"; Expected Loss Best Estimate, "ELBE"; Loss Given Default, "LGD" for non-performing assets; Probability of Default, "PD") for the following exposure classes: Corporate - Other; Corporate - Small and Medium Enterprise, "SME"; Retail - Other SME; Retail - Retail - Secured by real estate non-SME; Retail -

- Secured by real estate SME. The on-site phase started on 14 October 2019 and ended - in off-site mode due to the Covid-19 health emergency - on 19 March 2020. In a letter dated 4 March 2021, the ECB sent its final decision concerning that inspection. The measure confirms the authorisation to adopt modifications to the models, establishing several qualitative measures for the most part aimed at regulatory improvements, as well as prudential - concerning the estimate of margins of conservatism and the methods for calculating LGD - in the application of such models, effective for supervisory reporting as of 31 March 2021. The Bank's activity plan to implement the remedial actions is currently under way; the majority of the recommendations will be closed as part of the "model change" activities included in the application for the change to the internal models referred to in the inspection of point a);
- f) regarding Internal Governance Remuneration: the on-site phase started on 9 October 2019 and ended on 13 December 2019; Banco BPM received the Final Follow-up letter on 16 December 2020 and, on 13 January 2021, sent the corrective action plan, which was completed on 30 July 2021;
 - g) for the validation of the Internal model for market risk (Value at Risk, "VaR", Stressed Value at Risk, "sVaR", Incremental Risk Charge, "IRC") for the following risk categories: "debt instruments – specific risk; Forex Risk": the on-site phase ended on 19 July 2019. On 16 November 2020, Banco BPM received the Final Decision (with the relative authorisation to use the new model) and on 16 December 2020 sent the corrective action plan, currently under way; the completion of said action plan (which, inter alia, included the results of the supplementary decision sent by the ECB in December 2020 on completion of the additional horizontal analysis conducted on the outcomes of the previous TRIMIX inspection in 2018) is envisaged following a specific application to the ECB, entailing a substantial change to the model to calculate market risk;
 - h) on liquidity risk and funding risk (Liquidity, Funding Risk and Interest Rate Risk Banking Book, "IRRBB"): the on-site phase ended on 17 May 2019. On 4 February 2020, Banco BPM received the Final Decision and on 3 March 2020 it sent the corrective action plan, which concluded on 30 June 2021 in compliance with the deadline;
 - i) as regards "Credit Risk" (PD; LGD; CCF) with regard to the "Corporate - Other" and "SME" portfolios: the on-site phase started on 17 September 2018 and ended on 16 November 2018. Banco BPM received the Final Decision on 7 October 2020, indicating the binding supervisory measures and recommendations; on 5 November 2020, Banco BPM sent the corrective action plan, which is currently under way; the recommendations, which are currently at an advanced stage of completion, will be closed with the application to amend internal models referred to in point a);
 - j) as regards credit risk, the credit quality review, with reference to the corporate, asset based and project finance portfolios: the on-site phase ended on 3 October 2018. Banco BPM received the Final Decision on 21 October 2019, and the corrective action plan, sent on 7 November 2019, was completed on 30 June 2021;
 - k) on internal models to estimate credit risk (PD and LGD) with regard to the Corporate and SME portfolios: the on-site inspection phase started on 19 February 2018 and ended on 20 April 2018. Banco BPM received the final decision on 25 April 2019. The corresponding corrective action plan, sent on 24 May 2019, has been incorporated into the internal model changes referred to in point e) above.

Inspections by the Bank of Italy

- a) with regard to combating money laundering in online transactions set in place through digital channels: the on-site phase ended on 2 August 2019. On 6 November 2019, the outcome of the inspection was presented; on 17 December 2019, Banco BPM submitted the concluded corrective action plan, in compliance with the deadline, on 31 March 2021;
- b) as regards the prevention of money laundering, with a view to confirming compliance with the obligations envisaged by Legislative Decree no. 231/2007, also through an assessment of the legislative, procedural and control structure at the Verona Offices: the inspection phase (initially on-site) which started on 4 October 2021, was completed off-site on 21 December 2021, the date on which the conclusion of the proceeding was notified;
- c) as regards transparency, with a view to assessing fulfilment of the obligations deriving from the implementing provisions of Directive 2014/92/EU, the "Payment Accounts Directive". The off-site inspection started on 11 November 2021, and from 22 November 2021 it continued on-site at several Bank branches and is still in progress.

Inspections by CONSOB

- a) with regard to product governance and procedures to assess the adequacy of transactions arranged by customers: the inspection started in April 2019 and ended on 3 December 2019. On 30 July 2020, Banco BPM received a technical note in which, without starting any penalty proceeding, the Authority drew the Bank's attention to several aspects. On 16 October 2020, the Bank submitted the relative plan of corrective action to the Authority, to be implemented progressively, which is currently under way;
- b) on 18 February 2021, CONSOB initiated a penalty procedure concerning the assessment due to the Bank's failure to meet the disclosure obligation pursuant to Art. 16 of the European Market Abuse Regulation no. 596/2014 (MAR), on orders and transactions suspected of constituting market abuse or attempted market abuse, carried out by two Bank customers. On 9 November 2021, CONSOB notified the Bank of a monetary administrative fine of 70 thousand euro;
- c) on 20 July 2021, CONSOB initiated a penalty procedure regarding "Charges pursuant to Articles 193-4 and 195 of Legislative Decree 58/1998 for the infringement of Art. 9 of Regulation EU 648/2012 (EMIR) on OTC derivatives, central counterparties and trade repositories" following assessments conducted as part of inspection activities on data quality reported to the Trade Repository relating to derivative contracts; the proceeding is current ongoing, awaiting the response of the Authority on the counter-arguments made by the Bank to the proposed fine, which amounts to 70 thousand euro.