PART A – ACCOUNTING POLICIES

A.1 - GENERAL PART

Section 1- Statement of compliance with international accounting standards

These consolidated financial statements have been prepared according to the international accounting standards IAS/IFRS issued by the International Accounting Standards Board (IASB) and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC) endorsed by the European Commission, as established by EU Regulation no. 1606 of 19 July 2002, in implementation of Italian Legislative Decree no. 38 of 28 February 2005.

For the interpretation and application of international accounting standards, the following documents, although not endorsed by the European Commission, have been referenced:
- Conceptual Framework;
- Implementation Guidance, Basis for Conclusions and any other documents prepared by the IASB or IFRIC to complete the accounting standards issued.

The accounting standards applied in the preparation of these financial statements are those in force on 31 December 2021 (including the SIC and IFRIC interpretation documents).
With regard to disclosure requirements, note that from 1 January 2021, the disclosure envisaged by standards IFRS 7, paragraphs 24I and 24J, relating to phase 2 of the IBOR Reform, illustrated in the paragraph below "Interest rate benchmark reform ('IBOR Reform')", illustrated in "Section 5 - Other Aspects".

For an overview of the accounting standards and the related interpretations endorsed by the European Commission, whose application is planned for 2021 or future years, refer to "Section 5 - Other Aspects", below, which also illustrates the main impacts on the Group. The attachments to the financial statements contain a list of the IAS/IFRS standards endorsed (including the SIC and IFRIC interpretation documents in force on 31 December 2021).

The communications of the Supervisory Authorities (Bank of Italy, ECB, EBA, CONSOB and ESMA) and the interpretation documents on the application of IAS/IFRS prepared by the Italian Accounting Body (OIC) and by the Italian Banking Association (ABI), with which recommendations were provided on the information to be included in the Annual Report, on certain aspects of greater importance or on the accounting treatment of particular transactions have also been considered as applicable. With reference to the interpretations provided by the afore-cited Bodies, as regards the impact on the accounts of the Covid-19 health crisis, please refer to the content of the paragraph entitled "Risks, uncertainties and impacts of the Covid-19 pandemic" contained in "Section 5 - Other aspects" below.

Section 2- General preparation principles

The consolidated financial statements consist of the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the cash flow statement and the Notes to the consolidated financial statements and are accompanied by the Directors' report on operations and on the situation of all the companies included within the scope of consolidation.

The financial statements and the contents of the notes to the financial statements have been prepared in keeping with Circular no. 262 of 22 December 2005 "Bank financial statements: layouts and rules for preparation" and the subsequent updates, most recently, the 7th update published on 29 October 2021. Specifically, this was a Circular issued by the Bank of Italy in exercising its powers established by the above-mentioned Legislative Decree 38/2005 (hereinafter also referred to as "Circular no. 262"). The Communication dated 21 December 2021 entitled "Update of the supplements to the provisions of Circular no. 262 'Bank financial statements: layouts and rules for preparation'" replacing the previous one issued on 15 December 2020, with which the disclosure on the impacts of Covid-19 and the measures to support the economy was introduced.
The financial statements provide, in addition to the accounting data as at 31 December 2021, comparative information relating to the last financial statements approved as at 31 December 2020. In this regard, it must be

noted that, in order to guarantee a like-for-like comparison between the above-mentioned financial statements, certain balances of the balance sheet and of the tables of the notes to the consolidated financial statements have been restated to transpose the new classification criteria envisaged by the 7th Update of Circular no. 262, as illustrated in detail in the following paragraph.

These financial statements have been prepared using the euro as the reference currency.

The amounts of the financial statements and the data shown in the tables of the Notes are expressed in thousands of euro, unless otherwise indicated.

The consolidated financial statements are drawn up clearly and provide a true and fair view of the balance sheet and income statement result for the year of Banco BPM and its subsidiaries, as detailed in Section 3 "Scope of consolidation and methods". The financial statements used to prepare the consolidated financial statements are those prepared by the subsidiaries with reference to 31 December 2021, adjusted, where necessary, to adapt them to IAS/IFRS used by the Group.

Wherever the information required by international accounting standards and the provisions contained in the aforementioned Circular are considered insufficient to give a faithful representation, additional information required for such purpose is provided in the Notes.
Wherever, in exceptional cases, the application of a provision of international accounting standards is incompatible with a faithful representation of the equity and financial situation and economic result, it is not applied. In such case, the reasons for such possible derogation and its influence on the representation of the balance sheet and income statement result are explained in the Notes to the financial statements.

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

- *going concern*: the financial statements are drawn up with a view to the continuity of the Group's business activities: as illustrated in a more analytical way below, on the basis of the main economic and financial indicators, the directors can reasonably expect the Group to continue to operate for the foreseeable future;
- *accrual accounting*: the financial statements have been drawn up on an accrual basis with the exception of the information on cash flows;
- *consistency of presentation*: the presentation and classification of items in the financial statements is kept constant from one financial year to the next unless a standard or interpretation requires a change in presentation or another presentation or classification is no longer appropriate, taking into account the provisions of IAS 8. In the latter case, the notes to the financial statements provide information on the changes made compared to the previous year;
- *materiality and aggregation:* the balance sheet and income statement schedules are made up of items (identified by Arabic numerals), sub-items (identified by letters) and by additional detailed disclosure (the "of which" captions of the items and sub-items). The items, sub-items and related information details constitute the financial statement accounts. The layouts comply with those defined by the Bank of Italy in Circular no. 262 of 22 December 2005 and subsequent updates. New items may be added to these layouts where the content of such is not attributable to any of the items already provided in the layouts and only if they are significant amounts. The sub-items provided in the layouts may be grouped together when either of the following conditions is met:
  a) the amount of the sub-items is irrelevant;
  b) the grouping adds to the clarity of the financial statements; in this case, the Notes to the financial statements contain the grouped sub-items shown separately.

  The balance sheet, the income statement and the statement of comprehensive income do not include accounts with no amounts for either the financial year to which the financial statements relate or the previous financial year;
- *predominance of substance over form*: the transactions and other events are recognised and stated in compliance with their substance and economic entity and not just their legal form;
- *offsetting*: assets and liabilities, income and costs are not offset, unless permitted or required by an international accounting standard or its interpretation or by the provisions of the cited Circular no. 262;
- *comparative information:* comparative information relating to the previous year is provided for each balance sheet and income statement account, unless an accounting standard or interpretation does not allow for this or provides otherwise. The figures for the previous financial year may be adjusted, where necessary, to ensure the comparability of information for the current financial year. Any non-comparability,

adaptation or impossibility of the latter is indicated and commented on in the notes to the financial statements.

The Notes to the financial statements are divided into parts: A - Accounting policies, B - Information on the consolidated balance sheet, C - Information on the consolidated income statement, D - Statement of consolidated comprehensive income, E - Information on risks and related hedging policies, F - Information on consolidated shareholders' equity, G - Business combinations regarding companies or divisions, H - Transactions with related parties, I - Share-based payment agreements, L - Segment reporting, and M - Disclosure on leases.
Each part of the Notes is divided into sections, each of which explains a single operational aspect.

Update of Circular no. 262 - Illustration of the main changes and consequent restatement of comparative balances

On 29 October 2021, the Bank of Italy published the 7th update of Circular no. 262, relevant to the preparation of 2021 financial statements, the aim of which is to achieve better alignment between financial statement information and FINREP supervisory reports, which are already sent to the ECB on a quarterly basis, as well as to transpose the information changes envisaged by IFRS 7.
The main changes, introduced by the update in question, regard the recognition in the financial statements of the following items:

- demand loans to banks and Central Banks;
- Purchased or Originated Credit Impaired - POCI);
- intangible assets;
- fee and commission income and expense;
- contributions to resolution funds and to deposit guarantee schemes.

The new disclosure requirements envisaged by IFRS 7 were also transposed, following the endorsement of Regulation no. 25 of 13 January 2021 – "Interest Rate Benchmark Reform, Phase 2", to be provided in the section "Part A– Accounting Policies".
For the above-cited items, the new rules of recognition have entailed the need to restate certain comparative figures of the previous year, to guarantee a like-for-like comparison with those relating to FY 2021.
A brief analysis of the changes introduced and of the relative impact on the comparative balances contained in the financial statement schedules, and/or in the tables of the Notes, is provided in the following paragraphs.

Changes with an impact on financial statement schedules

The update in question envisages that item "10. Cash and cash equivalents" must contain demand loans - current accounts and deposits - with all banks, including central banks; based on previous instructions, demand loans to banks, other than central ones, were instead included in item "40. Financial assets at amortised cost", while demand deposits with central banks were already included in item "10. Cash and cash equivalents". For the cash and cash equivalents relating to fulfilling the requirements of the "minimum reserve" with central banks, classification in item "40. Financial assets at amortised cost" was confirmed.
The new classification criteria therefore entailed the need to restate the balances of the balance sheet originally published as at 31 December 2020, in order to reclassify the demand loans to banks, which amounts to 552.6 million, from item "40. Financial assets at amortised cost" to item "10. Cash and cash equivalents", as summarised in the following table.

Financial Statement Item (thousands of euro)	31/12/2020 Restated (A)	31/12/2020 Restated (B)	Impact of restatement (A)-(B)
10. Cash and Cash Equivalents	9,410,687	8,858,079	552,608
40. Financial assets at Amortised Cost	141,249,323	141,801,931	(552,608)
a) Loans to banks	*11,422,214*	*11,974,822*	*(552,608)*

Consistent with the changes made to the balance sheet, item "130. Net credit impairment losses/recoveries" on the income statement was adjusted to conventionally include net impairment losses/recoveries relating to demand loans to banks and central bank", shown in balance statement item "10. Cash and cash equivalents".

Changes that impact the details of the Notes

The update of Circular no. 262 also entailed the amendment of several details of the Notes, with the consequent need to restate the comparative figures of FY 2020, as illustrated below; for further details, please refer to the specific tables of the Notes.

Demand loans to banks and Central Banks

The amendment to the classification criteria for demand loans to banks, as illustrated above, has led to a different detailed disclosure in the tables showing the breakdown by product of item "10. Cash and cash equivalents" (Table 1.1 of assets), and of item "40. Financial assets at amortised cost" (Table 4.1 of assets) and table 4.4 "Financial assets at amortised cost: gross value and total value adjustments", with the consequent restatement of the balances as at 31 December 2020.
Accordingly, the comparative balances of the following tables contained in Part E of these Notes were also restated:

- A.1.1 Distribution of financial assets by portfolio and by credit quality (book values);
- A.1.2 Distribution of financial assets by portfolio and by credit quality (gross and net values);
- A.1.1 Prudential Consolidation – Distribution of financial assets by past due bands (book values);
- A.1.2 Prudential Consolidation - Financial assets, commitments to disburse funds and financial guarantees given: changes in total value adjustments and total provisions.

Lastly, the restatement of the balances regarded table "A.4.5.4 Assets and liabilities not measured at fair value, or measured at fair value on a non-recurring basis: distribution by fair value hierarchy", contained in Part "A.4 Fair value disclosure" of these Notes.

Purchased or Originated Credit Impaired (POCI)

For portfolios of "Financial assets at amortised cost" and of "Financial assets measured at fair value through other comprehensive income", the alignment to the FINREP entailed a different recognition of Financial assets Purchased or Originated Credit Impaired (POCI) which, starting from these financial statements, will no longer be included in the breakdown by credit risk stages, but exposed separately as a new category of credit quality.
For Banco BPM Group, this category only regards the portfolio of " Financial assets at amortised cost" and in particular that of "Loans to customers". As at 31 December 2020, the book value of assets purchased or originated credit impaired amounted to 341.5 million, equal to the mismatch between a gross value of 759.2 million and total value adjustments of 417.7 million, and was stated:

- in Stage 2 for 25.0 million, equal to the mismatch between a gross value of 26.8 million and total value adjustments of 1.8 million;
- in Stage 3 for 316.5 million, equal to the mismatch between a gross value of 732.4 million and value adjustments of 415.9 million.

The tables in the Notes affected by the change in question, with the consequent restatement of the balances of the previous year are as follows:

- Part B: "4.2 Financial assets at amortised cost: breakdown by product of loans to customers";
- Part B: "4.3 Financial assets at amortised cost: breakdown by debtor/issuer of loans to customers";
- Part B: Assets: "4.4 Financial assets at amortised cost: gross value and total value adjustments";
- Part B: "4.4a Loans at amortised cost subject to Covid-19 support measures: gross value and total value adjustments";
- Part B: "10.3 Provisions for credit risk relating to commitments and financial guarantees given";
- Part C: Income Statement "8.1a Net credit impairment losses relating to loans at amortised cost subject to Covid-19 support measures: breakdown";
- Part E: A.1.2 Prudential Consolidation - Financial assets, commitments to disburse funds and financial guarantees given: changes in total value adjustments and total provisions.

Intangible Assets

In the breakdown of intangible assets, specific evidence of software that does not represent an integral part of hardware pursuant to IAS 38 (Table "10.1 Intangible assets: breakdown by type of asset" contained in Part B of the Notes).

As at 31 December 2021, the book value of the intangible assets represented by software amounted to 352.1 million (326.4 million as at 31 December 2020).
Accordingly, the breakdown of "Table 15.1 Amortisation and impairment losses on intangible assets" was amended in the income statement to include information on the amortisation and on net value adjustments made to software included in intangible assets, pursuant to IAS 38.

Fee and Commission Income And Expense

The update in question revised the breakdown of the tables in the Notes "2.1 Fee and Commission Income" and "2.2 Fee and Commission Expense" to align it, as far as possible, to FINREP details, although maintaining the previous detailed disclosures for certain types of services offered.
The new informative details have enabled a part of the fee and commission income/expense, previously stated in the residual item of other services, in the pertinent sub-items, with particular regard to the fee and commission income relating to the use of e-money and to that relating to the disbursement and management of loans.

Contributions to resolution funds and to deposit guarantee schemes
The amendment to the Circular requested separate evidence to be provided for contributions to resolution funds and to deposit guarantee schemes recognised in the financial statements under "Other administrative expenses" (Table "12.5 Other administrative expenses: breakdown" contained in Part C of the Notes).

Significant accounting policies and uncertainties regarding the use of estimates in the preparation of consolidated financial statements (pursuant to the provisions of IAS 1 and the recommendations contained in the Bank of Italy/CONSOB/ISVAP Documents no. 2 of 6 February 2009 and no. 4 of 3 March 2010)

The application of certain accounting standards necessarily involves the use of estimates and assumptions which affect the values of the assets and liabilities recorded in the financial statements and the disclosures made on contingent assets and liabilities.
The assumptions underlying the estimates made take into account all the information available as of the date of preparation of this annual report, as well as the assumptions considered reasonable in the light of past experience.
Due to their nature, it thus cannot be excluded that the assumptions adopted, however reasonable, might not be confirmed by future scenarios in which the Group will operate. The results, which will be achieved in the future could therefore differ from the estimates made for the purpose of drawing up this report and could consequently make adjustments necessary, which at present cannot be foreseen or estimated, with respect to the book value of the assets and liabilities recorded in the financial statements. In that regard, note that the financial statement estimates may need to be revised as a result of changes in the underlying circumstances, following the availability of new information or of greater experience.

The accounting policies considered most critical for giving a faithful representation of the Group's equity, economic and financial situation, both in terms of the materiality of the values recognised in the financial statements affected by such policies and the high level of judgement required for assessments entailing the use of estimates and assumptions by the management, are illustrated below with reference to the specific sections of the Notes to the financial statements for detailed information on the assessment processes conducted as at 31 December 2021. The following analysis on the most important accounting policies will also include the main aspects of uncertainty relating to the Covid-19 pandemic that are able to influence financial statement valuations, and are the subject of a more in-depth disclosure in the paragraph entitled "Risks, uncertainties and impacts of the Covid-19 pandemic" contained in "Section 5 - Other aspects", to which the reader should therefore refer.

Determining the impairment on loans disbursed recognised in balance sheet assets

Loans represent one of the valuation items that is most exposed to the choices made by the Group in terms of disbursement, risk management and monitoring.
More specifically, the Group manages the risk of default of the borrowing counterparties by continuously monitoring any changes in customer accounts in order to assess their repayment ability, based on their economic-financial situation. This monitoring activity seeks to intercept any signs of impairment of the loans, also to promptly classify them as non-performing, and an accurate estimate of the relative total value adjustments. This estimate may be made on the basis of a materiality threshold of the exposure under valuation, on an analytical basis taking account of the

recoverable cash flows or on a lump-sum basis, taking into consideration the losses recorded historically on loans with similar characteristics. In this regard, it should be noted that the granting of moratoria, in the context of Covid-19, could make it more difficult to identify signs of financial difficulty and lead, in the short term, to a delay in the classification to non-performing exposures, also due to the freezing of past due days during the moratorium period.

With regard to loans for which objective impairment losses have not been identified singularly, namely performing loans, the impairment model, based on expected losses, requires adequate monitoring systems to be implemented to identify the existence or otherwise of significant impairment with respect to the initial date of recognition of the exposure. The IFRS 9 impairment model requires that losses be determined with reference to the time horizon of one year for financial assets that have not suffered a significant deterioration in their credit risk with respect to initial recognition (Stage 1) rather than with reference to the entire life of the financial asset if a significant deterioration is found (Stage 2).
On the basis of the above, it follows that losses on receivables must be recorded with reference not only to the objective evidence of impairment already seen at the reporting date, but also on the basis of expectations of future impairment losses not yet evident, which must be reflected:

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

This means that calculating expected losses is a complex exercise that requires a substantial level of judgement and estimation, which has become even more evident given the uncertainties surrounding the development of the Covid-19 pandemic and the related containment measures. Specifically:

- the calculation of the significant deterioration in credit risk with respect to the date of initial recognition of the exposure ("SICR") is based on the identification of adequate qualitative and quantitative criteria, which also consider forward-looking information. Therefore, it cannot be ruled out that the use of different criteria may lead to the definition of a different scope of exposures to be classified as Stage 2, with a consequent impact on the expected losses to recognise in the financial statements;
- the outcome of the impairment model must reflect an objective estimate of the expected loss, obtained by evaluating a range of possible results. This implies the need to identify possible scenarios, based on assumptions of future economic conditions, to which the relative probabilities of occurrence are associated. The selection of different scenarios and probabilities of occurrence, as well as changes in the set of macroeconomic variables to be considered in the forecast time horizon, could have significant effects on the calculation of expected losses. In order to appreciate the impact on the expected losses resulting from the selection of different macroeconomic scenarios, in the section on credit risk in Part E of these Notes, a sensitivity analysis is provided of the expected losses relating to performing loans to customers;
- the calculation of expected losses requires the use of estimation models:
  - for cash flows that individual debtors (or portfolios of debtors that are similar in terms of risk) are expected to be able to generate in order to satisfy, in whole or in part, the obligations undertaken with regard to the Group. With regard to non-performing loans, if there are disposal plans, a multi-scenario approach needs to be adopted, estimating the cash flows recoverable from the sale, to be considered as an alternative scenario with respect to those retained recoverable from internal management ("work out");
  - for recovery time;
  - for the estimated realisable value of property and collateral.

Given the array of possible approaches relating to estimation models permitted by the reference international accounting standards, the use of a methodology or the selection of certain estimative parameters may have a significant influence on the valuation of the loans. These methods and parameters are necessarily updated through a continuous process also in light of any historic data available, in order to best represent the estimated realisable value of the credit exposure. For updates introduced to the measurement of expected losses, primarily addressed to incorporating the effects of the Covid-19 pandemic on credit quality, please refer to the content of the specific paragraph in the section entitled "Credit risk" contained in "Part E - Information on risks and related hedging policies" of these Notes.

Given the above, it cannot be excluded that alternative monitoring criteria or different methodologies, parameters or assumptions in determining the recoverable value of the Group's credit exposures - influenced, however, also by possible alternative strategies for their recovery approved by the competent corporate bodies as well as by the

evolution of the economic and financial context and reference regulations - may result in valuations different from those conducted for the purposes of the preparation of the consolidated financial statements as at 31 December 2021. It is precisely the current market context - characterised by unprecedented phenomena, such as the support measures set in place by national and supranational governments - that has required estimation models and criteria to undergo a continuous updating process, also by means of discretionary corrections, with the aim of managing to factor in the expected effects of the above-mentioned phenomena.

Lastly, we draw attention to the fact that, as illustrated in the Report on operations, to which the reader should refer for further details, on 26 April 2021, the ECB started an off-site inspection concerning the credit and counterparty risk of "CRE - Commercial Real Estate" exposures. More specifically, the inspection entailed a review of the quality of assets vis-à-vis real estate companies and vis-à-vis businesses that present collateral represented by commercial real estate (namely of the above-cited CRE exposures), an assessment of the commercial properties repossessed by the Group and recognised in the financial statements (so-called "Foreclosed Assets"), as well as the valuation of the related management support processes and procedures.
On the date of this Financial report, no "draft report" has been received containing the preliminary assessments of the ECB. Nevertheless, new pieces of information acquired during discussions with the inspection team have been duly taken into consideration by the Bank when drawing up the 2021 financial statements, with a view to making the best estimate of the recoverable value of the exposures included in the scope of the inspection in question.
However it cannot be ruled out that, at the time of the final outcome of the inspection conducted by the Supervisory Authority, formalised with the issue of the "Decision" or "Final follow-up letter", new pieces of information, not known at the time of preparation of this Report, may emerge and are to be considered in the valuation of CRE credit exposures.

Incorporation of climate and environmental risks in the calculation of expected losses

To estimate the expected losses of credit exposures, one of the most complex aspects to assess is the effective relevance of climate and environmental risks, given the uncertainty that inevitably surrounds forecasting events which, by nature, may arise in a long-term time horizon.
The models currently used by the Group to calculate the expected losses of performing loans (ECL) do not directly incorporate the risks resulting from the exposure of the borrower counterparty to aspects relating to climate and environment; nevertheless, these aspects are considered indirectly to the extent that the ECL calculation models consider the expected impact of the evolution of macroeconomic variables on credit risk parameters, also through the use of sector-based satellite models, namely of models that define the functional relationships between the evolution of macroeconomic variables and the Bank's risk parameters (PD and LGD).
This is also true of the "lump-sum" calculation methods adopted to calculate ECL relating to similar categories of non-performing loans. More specifically, as these are calculation methods adopted to assess bad loans and unlikely to pay with an exposure less than or equal to a materiality threshold established as 1.0 million and to total exposures classified as non-performing "past due", in line with supervisory regulations.
With regard instead to non-performing loans to be assessed analytically, the risks related to climate and the environment are taken into consideration in the estimate of the present value of envisaged future cash flows, on an essentially discretionary basis and together with other pieces of information.
Therefore, it cannot be ruled out that the possible development of models able to better factor in climate and environmental risks, may lead to different estimates with respect to those conducted for the preparation of the consolidated financial statements as at 31 December 2021.
For an illustration of how the Group is encompassing environmental aspects in its credit policies, refer to the content of "Part E – Information on risks and related hedging policies" of these Notes.

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

Pursuant to IAS 36, all intangible assets with an indefinite useful life must undergo impairment testing at least once a year to verify the recoverability of their value. In addition, the standard establishes that the results of the annual test may be considered valid for subsequent tests, provided that the probability, which the recoverable value is less than the book value of the intangible assets, is considered remote. This opinion may be based on the analysis of the events, which have occurred, and the circumstances, which have changed subsequent to the most recent annual impairment test.
Based on the provisions of this standard, Banco BPM Group has chosen to conduct impairment testing on intangible assets with an indefinite useful life as at 31 December of each year: the results of these tests can be considered valid

for subsequent interim situations, unless evidence was to emerge that would require impairment testing to be conducted in advance to ascertain the recoverability of the value of said intangible assets with an indefinite useful life. The importance of verifying the recoverability of the intangible assets in question is particularly evident in the context of the Covid-19 crisis, in line with the recommendations of ESMA and CONSOB, considering the possible negative repercussions of the crisis on the assumed cash flows underlying impairment testing.

As at 31 December 2021, the assets in question amounted to 559.1 million and were represented by:

- 504.3 million in trademarks recognised following the business combination with the former Banca Popolare Italiana Group (222.2 million) and with the former BPM Group (282.1 million), 485.7 million of which attributed to the "Retail" Cash Generation Unit (hereinafter also "CGU") and 18.6 million to the "Banca Akros" CGU;
- 54.9 million in goodwill attributed to the "Bancassurance Protection" CGU (51.1 million) and to the "Banca Akros" CGU (3.8 million). The latter value represented the intangible assets recognised as at 31 December 2021, following the allocation - which was finalised in the fourth quarter of the year - of the cost relating to the acquisition of control of Oaklins Italy S.r.l. by Banca Akros, as illustrated in "Part G – Business combinations regarding companies or divisions", to which reference should be made for further details.

As regards the intangible assets relating to the "Retail" CGU, which represent around 87% of total intangible assets with an indefinite useful life, valuation analyses were conducted using the cash flows of the new 2021-2024 Business Plan, approved on 4 November 2021, as reference, taking a multi-scenario approach, with a view to factoring in the uncertainty of future macroeconomic scenarios in which the Group may have to operate. More specifically, multi-scenario analyses were considered, already drawn up on the date of preparation of the above-mentioned plan, based on three different scenarios ("baseline", "adverse" and "favourable") and using the macroeconomic forecasts available at the time as reference. In this regard, note that the updates of the macroeconomic forecasts, which were slightly more favourable, drawn up at the beginning of December 2021 to calculate ECL, were not incorporated, also on the basis of the conservative logic of the impairment test exercise. Similar considerations were made as regards verifying the recoverability of Deferred Tax Assets (DTA). Instead, the probabilities of occurrence of the three macroeconomic scenarios were harmonised, between the different valuation exercises (impairment of intangible assets, DTA and ECL).

The results of the impairment testing conducted as at 31 December 2021 confirmed the recoverability of the book values of intangible assets with an indefinite useful life, as illustrated in Section 10 "Intangible assets – item 100" contained in "Part B – Information on the consolidated balance sheet" of these Notes, to which reference should be made for further details.
In this regard, it should be noted that verifying the recoverability of these intangible assets is a complex exercise, the results of which are affected by the valuation methods adopted, as well as by the underlying parameters and assumptions, which may need to be changed to take account of new information or developments that could not be foreseen when this Report was prepared. For this reason, a sensitivity analysis is provided in the aforementioned section on intangible assets, to be able to recognise the resistance of the recoverable value with respect to alternative assumptions and hypotheses.

Determining the fair value of financial assets and liabilities

In the presence of financial instruments not listed in active markets or of illiquid and complex instruments, adequate measurement processes must be undertaken characterised by significant elements of judgement as regards the choice of the measurement models and of the relative input parameters, which on occasion may not be observable in the market.
There are margins of subjectivity in the measurement as regards the observability or not of certain parameters and in the consequent classification in the three-level fair value hierarchy.
For qualitative and quantitative information on the method adopted to measure the fair value of financial assets and liabilities, as well as for the sensitivity analysis of the fair value relating to financial instruments measured at fair value and classified as level 3 of the fair value hierarchy, please refer to the contents of these Notes, Part A.4 – "Fair value disclosure".

Estimating the recoverability of deferred tax assets

The Group has Deferred Tax Assets (DTA) among its significant assets, mainly generated by temporary differences between the income statement recognition date of given business costs and the date when said costs may be deducted, rather than resulting from tax losses carried forward. The recognition of these assets and subsequently maintaining them in the financial statements assumes a judgement of probability as to the recovery of the same, which must also consider the legislative provisions on taxes in force on the date of preparation of the financial statements.
More specifically, the deferred tax assets that meet the requirements of Italian Law no. 214 of 22 December 2011 can be converted into tax credits in the case of a "statutory loss", a "tax loss" for IRES tax purposes and a "net negative value of production" for IRAP tax purposes; their recovery is therefore certain, insofar as it does not depend on the ability to generate future income.
For the remaining tax assets that cannot be converted into tax credits, the judgement of their probability of recovery must be based on reasonable income forecasts taken from approved strategic plans and projections, also considering that, for IRES tax purposes alone, tax provisions envisage that tax losses may be carried forward, without any time limit. This judgement is supported by a recoverability assessment exercise (so-called probability test) characterised by a considerable level of complexity, particularly if it regards DTAs on tax losses carried forward, the existence of the which could indicate the fact that sufficient taxable income may not be available in the future for their recovery. Based on the provisions of IAS 12 and on the considerations of the ESMA in a document dated 15 July 2019, the above judgement of recoverability requires a careful recognition of all evidence supporting the probability of having sufficient taxable income in the future, also considering the circumstances that generated the tax losses, which must be linked to clearly identified causes, deemed not repeatable in the future on a recurring basis. In order to take into account the uncertainties of the macroeconomic scenario and the potential repercussions on the estimate of taxable cash flows, particularly evident in the context of the Covid-19 crisis, the probability test was carried out, in line with that carried out for the 2020 financial statements, using the "Risk-adjusted profit approach", i.e. discounting the forecasts of future taxable income on the basis of a corrective factor that is expressive of a specific risk, consistent with the risk premium used for the impairment test of intangible assets with an indefinite useful life, which pushes further back the time period of the estimate of taxable income flows.
The forecasts of taxable income were developed consistent with the Business Plan approved on 4 November 2021.
Considering that the recoverability of DTAs could be negatively influenced by a revision of the cash flows assumed as the basis of the probability test - in line with that suggested by the literature on valuation exercises characterised by uncertainty - the estimate of future taxable income was conducted on the basis of a multi-scenario approach, consistent with the projections and the scenarios used for the impairment testing of intangible assets with an indefinite useful life, illustrated above, to which reference should be made for further details.
Lastly, it should be noted that the recoverability of all DTAs could be negatively influenced by changes in the current tax legislation, which cannot be foreseen at the present time.

Section 11 - "Tax assets and liabilities" contained in Part B - "Information on the consolidated balance sheet" of these Notes provides the disclosure on the breakdown of deferred tax assets, on the checks carried out with regard to their recoverability, on the sensitivity analyses conducted to permit an appreciation of the time horizon for the recovery of the same, based on reasonable changes in the main underlying hypotheses and assumptions.

Estimating provisions for risks and charges

The companies that belong to the Group are defendants in a wide range of legal proceedings and tax disputes and are also exposed to numerous types of contingent liabilities. The complexity of the situations and company transactions that underlie the ongoing disputes, together with issues related to the interpretation of the applicable law, require significant judgement to estimate the liabilities that could arise at the time that the pending disputes are settled. The difficulties in assessment regard both the occurrence, the amount and the timing of any emergence of liabilities, and are particularly evident when the proceeding is at the initial stage and/or the relative preliminary investigation is in progress. The specific nature of the matter in dispute and the consequent absence of case law relating to comparable disputes, as well as different approaches taken by the judicial bodies - both at the different levels of the contentious proceeding, and by bodies at the same level at different times - make the measurement of contingent liabilities difficult, even when provisional rulings are available at the first level of judgement. Past experience demonstrates that in various cases, the rulings made by the judges in the courts of first instance have then been completely overturned on appeal or at the Supreme Court, and this may be in favour or not in favour of Group companies. In this context, the classification of contingent liabilities and the consequent valuation of the provisions

needed are based on subjective judgements, which require the use of often extremely complex estimation procedures. Therefore, it cannot be ruled out that, following the issue of final rulings, the provisions for risks and charges made against contingent liabilities relating to legal and tax disputes may prove to be lacking or excessive.

For information on the Group's main risk positions in relation to legal disputes (clawback actions and pending lawsuits) and tax disputes with the Tax Authorities, reference should be made to Section 10 - "Provisions for risks and charges" contained in Part B - "Information on the consolidated balance sheet" of these Notes.

In addition, the provisions for risks and charges may become necessary following commitments made by the Group at the time of the sale of interests in associates or joint ventures, divisions, portfolios of non-performing loans and related partnership agreements. More specifically, the above-mentioned commitments consist essentially of providing protection and guarantee mechanisms for the investment made by the purchasing counterparties. Said mechanisms envisage the acknowledgement, in favour of the purchaser, of an indemnity in the event that specific sales objectives are not met, or the event of inconsistent declarations as to the quality of the information and the documentation on the loans with respect to that provided at the time of the sale. The likely outlay of financial resources to cover said commitments has to be estimated, based on the reasonable evolution of the sales objectives, also considering the time horizon in which the Group may take corrective action to avoid the payment of penalties. For commitments relating to the sale of non-performing loans, the quantification of the provision must instead consider the expected evolution of the outlays relating to claims received from purchasers for alleged breaches of contractual guarantees.
For a more detailed description, reference should be made to Section 10 - "Provisions for risks and charges" contained in Part B - "Liabilities" of these Notes.

Determination of the fair value of property

The Group's accounting policies envisage that real estate assets are measured at fair value, according to the criteria established by accounting standard IAS 40 for Investment property or by standard IAS 16 - and in particular by the revalued amount criterion - for operating properties used for administrative and/or commercial purposes. The update of the values is based on a specific appraisal issued by a leading company, drawn up in compliance with "RICS Valuation" standards[1].
More specifically, with regard to properties for investment purposes, the Group's accounting policies require the fair value to be updated annually, unless there is evidence that an earlier update is necessary. Instead, for properties used in operations, the fair value may be restated more frequently than once a year; this frequency may depend on whether there are significant deviations in property market prices, based on a scenario analysis, on its relevance or on the distinctive characteristics of properties.
As at 31 December 2021, the properties for which the fair value was updated - as on the basis of any sale prices agreed, resulting from the resolutions of the Corporate Bodies and/or functions authorised for said sales - represented over 90% of the Group's total real estate assets. The properties for which a new appraisal was not requested are those used in operations, and worth less than 5 million each, which in total have a book value of around 200 million as at 31 December 2021.

For the above-cited perimeter, the updated fair value is determined by using specific appraisals drawn up by qualified, independent experts, in accordance with the criteria established by standard IFRS 13 for fair value measurement. Given the array of possible valuation approaches permitted by the above-cited standard, the selection of a specific valuation methodology, as well as the selection of the specific estimation parameters and/or assumptions, may have a significant influence on the determination of the fair value, also considering the specific nature and distinctive characteristics of the asset to be valued.
One of the important assumptions made when measuring fair value regards the assessment of what the maximum and best use of the properties is. In this regard, the fair value measurement of property used in operations uses the continuity of their use by the Group in the foreseeable future as reference, insofar as strictly dependent on commercial and administrative activities.
Margins of subjectivity are also present when identifying the perimeter of properties used in operations, for which the appraisals need to be updated, based on the ability to identify significant changes in value in property market prices, which make the request for an updated valuation necessary.

[1] Standards set out in the "RICS Valuation – Global Standard" of the Royal Institution of Chartered Surveyors of the United Kingdom (also known as the "Red Book").

In the light of the above, it cannot be ruled out that the use of different methods or estimation parameters - influenced by forecasts relating to the reference scenarios of the real estate market pertinent to the Group, also given the repercussions of the continuing pandemic - may lead to different valuations with respect to those conducted for the 2021 financial statements, with consequent negative impacts on the Group's balance sheet and income statement.
For the purposes of the 2021 financial statements, when selecting the estimation parameters and assumptions, new pieces of information were considered acquired as part of discussions with the ECB, with relation to the credit and counterparty risk of CRE exposures, although on the date of this Financial report, no "draft report" containing the preliminary observations formulated by the cited Supervisory Authority has been received. New pieces of information included, in particular, the negative effects of Covid-19 on particular categories of property, with a view to making the best possible estimate of the fair value, even though the same continues to be characterised by significant margins of subjectivity, given the specific nature of the subject to be assessed.
It cannot therefore be ruled out that, at the time of the final outcome of the inspection conducted by the Supervisory Authority, formalised with the issue of the "Decision" or "Final follow-up letter", new pieces of information, not known at the time of preparation of this Report, may emerge and are to be considered in the fair value measurement of the Group's real estate assets.
For further details on said inspection, refer to the content of the previous paragraph entitled "Determining the impairment on loans disbursed recognised in balance sheet assets".

For further details on the breakdown and changes in real estate assets, please refer to sections "Property, plant and equipment - Item 90", "Non-current assets and disposal groups held for sale and associated liabilities – Item 120 in the assets and item 70 in the liabilities" contained in "Part B – Information on the consolidated balance sheet" of these Notes; for the disclosure on the methods used to determine fair value, please refer instead to Part A.4 - "Fair value disclosure".

Estimating obligations relating to employee benefits

Determining the liabilities associated to employee benefits, with specific reference to defined benefit plans and to long-term benefits, implies a certain degree of complexity; the outcome of the valuations depends, to a significant extent, on the actuarial assumptions used, both in demographic terms (such as mortality rates and rates of employee turnover) and in financial terms (such as discounting rates and inflation rates). Therefore the opinion of management is fundamental, when selecting the most suitable technical basis to evaluate the cases, which may be influenced by the socio-economic context in which the Group operates at the time, as well as the performance of the financial markets. An illustration of the main actuarial assumptions, together with a sensitivity analysis of the liabilities with respect to the most significant actuarial assumptions, are provided in sections 9 and 10 of the liabilities, contained in Part B of these Notes, respectively for provisions for employee severance pay and for defined benefit company pension funds.

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The list of valuation processes shown above is included simply to provide readers with a better understanding of the main areas of uncertainty, and it should in no way be considered as implying that, to date, alternative assumptions can prove more appropriate.
In any event, as illustrated above, in order to allow for an appreciation of the effects on the financial statements related to the aforementioned factors of uncertainty, exacerbated by the ongoing Covid-19 pandemic, in this Financial Report information on the main items in the financial statements subject to estimates (recoverability of intangible assets with an indefinite useful life, recoverability of deferred tax assets, expected losses on performing exposures, fair value of level 3 financial instruments, obligations relating to employee benefits), is provided in the specific sections of the Notes, the disclosure of the main hypotheses and assumptions used in the estimate, as well as a sensitivity analysis with respect to alternative assumptions.

Declaration of going concern

With regard to that required by the Bank of Italy, CONSOB and ISVAP in the Joint Document no. 4 of 3 March 2010, the consolidated financial statements as at 31 December 2021 have been prepared on the going concern assumption: the Directors do not believe that risks and uncertainties have emerged, that cast doubt on its ability to continue as a going concern. The Directors have considered that the Group is reasonably expected to continue to

operate for the enforceable future; therefore the consolidated financial statements have been drawn up on the going concern assumption.

To express this opinion, the Directors assessed the impact of the ongoing health pandemic, which could reasonably have negative repercussions on the company's future results; nevertheless, said impact was not retained sufficient to cast doubt on the going concern, also considering the Group's current and prospective solidity in terms of its capital and financial structure.

For information on Group risks and relative management, refer to the content of "Part E – Information on risks and related hedging policies" of these Notes, as well as in the Group Report on operations.

Section 3 - Scope of consolidation and methods

(A) Subsidiaries

The consolidated financial statements include the balance sheet and income statement results of the Parent Company Banco BPM S.p.A. and its direct and indirect subsidiaries, including structured entities, in accordance with that envisaged by accounting standard IFRS 10. Based on the cited standard, the requirement of control is the basis for the consolidation of all types of entity, including structured entities, and is met when the following three requirements are simultaneously present as regards the investor:

- the power to decide on the relevant activities of the entity;
- exposures or rights from variable returns resulting from its involvement with the entity;
- the ability to use its power to affect the amount of said returns, due to its relationship with the entity (link between power and returns).

More specifically, IFRS 10 establishes that, in order to possess control, the investor must have the ability to direct the relevant activities of the entity, by virtue of a legal right or of a mere state of fact, and must also be exposed to the variability of the results arising from said power.

In light of the above-mentioned regulatory references, the Group must therefore consolidate all types of entity where all three control requirements are met.
Generally, when an entity is considered direct by virtue of voting rights, control results from holding over half of those rights.
In the other cases, establishing the scope of consolidation requires all factors and circumstances that give the investor the practical ability to unilaterally conduct the relevant activities of the entity (actual control). To this end, a set of factors has to be considered, such as, merely by way of example:

- the purpose and the design of the entity;
- the identification of the relevant activities and how they are managed;
- any right held by means of contractual arrangements which awards the power to direct the relevant activities, such as the power to establish the financial and operating policies of the entity, the power to exercise majority voting rights in the decision-making body or the power to appoint or remove the majority of the body with decision-making functions;
- any voting rights that may potentially be exercised and that are considered substantial;
- involvement with the entity in the role of agent or principal;
- the nature and dispersion of any rights held by other investors.

The following paragraphs provide further details on the scope of entities controlled exclusively as at 31 December 2021, broken down into companies controlled through voting rights and structured entities.

Companies controlled through voting rights

With reference to the Group's situation as at 31 December 2021, companies in which a majority of voting rights in the ordinary shareholders' meeting is held are considered to be exclusively controlled, insofar as there is no evidence that other investors have the practical ability to direct the relevant activities.

As regards companies in which half or a lower amount of voting rights are held, as at 31 December 2021, there are no arrangements, statutory clauses, or situations able to establish that the Group has the practical ability to unilaterally direct the relevant activities.
With a view to corroborate the above situation, a short summary of the analyses conducted on the interest held in Bipiemme Vita S.p.A. (hereinafter also Bipiemme Vita), corresponding to 19% of share capital, and on its subsidiary company Bipiemme Assicurazioni S.p.A. (hereinafter also Bipiemme Assicurazioni), by virtue of the voting rights relating to its holding purchase options on the remaining 81% of share capital held by Covéa.

Assessing requirements for control pursuant to IFRS 10 on Bipiemme Vita
On 25 June 2021, Banco BPM and the Covéa Group signed agreements amending the partnership in the bancassurance sector regarding the joint ventures Bipiemme Vita, 19% of which owned by Banco BPM, and the remaining 81% by Covéa, 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 at any time in the period between 8 September 2021 and 31 December 2023. The exercise price corresponds to 81% of the regulatory Unrestricted T1 capital of Bipiemme Vita as at 30 June 2021, increased by a component to remunerate the capital absorbed by holding the interest for Covéa - conventionally 140% of the Solvency Capital Requirement as at 30 June 2021 - reduced by any dividends received, and increased by any share capital increases of Bipiemme Vita made up until the date on which the interest is transferred.
If the above-mentioned option is not exercised, the partnership may continue until the end of 2028, except where the put and call options recognised respectively to Covéa and Banco BPM are exercised in given time windows.
In any event, the finalisation of the purchase by Banco BPM of the interest held by Covéa in Bipiemme Vita, following the exercise of the above-cited options, will be conditional to obtaining the necessary authorisations from the competent Authorities (IVASS).
In the light of the above, the purchase option held by Banco BPM, on 81% of Bipiemme Vita, which may be exercised between 8 September 2021 and 31 December 2023, represents a potential voting right, insofar as it attributes the right to obtain voting rights on an investor. For the purposes of the preparation of the financial statements as at 31 December 2021, it therefore had to be assessed whether holding the above potential voting rights could be considered a situation of control of Banco BPM over Bipiemme Vita, according to the principles of accounting standard IFRS 10.
Following the analyses conducted, also with the assistance of a leading professional, it was reasonably determined that, as at 31 December 2021, there are no unequivocal and decisive elements to sustain that the purchase option encompasses a relevant potential right to establish control. As at said date, in fact, it was deemed that there were substantial regulatory obstacles, in addition to a considerable degree of uncertainty as to an accurate valuation, from the Bank's perspective, of the economic convenience of exercising said option. More specifically, in the case in hand, it was felt that acquiring the authorisation of IVASS is not merely a formal step, but is a substantial matter that may represent an obstacle to the free and current exercise of voting rights, therefore representing, pursuant to IFRS 10, a lack of evidence of the practical ability to exercise control. As at the date of 31 December 2021, and at the date of preparation of this Annual Report, not only has said authorisation not been granted to Banco BPM, but the Group has not even submitted the application to the above-mentioned Supervisory Authority, insofar as it has not yet fulfilled all of the requirements to be able to take a decision as to the exercise of the option.
For the purpose of the preparation of the financial statements as at 31 December 2021, the interests held in Bipiemme Vita and, indirectly, in Bipiemme Assicurazioni therefore continue to be classified as interests in associates, carried at equity, according to the principle established by accounting standard IAS 28.

Consolidated structured entities

The control of structured entities, namely entities for which voting rights are not considered relevant to establish control, is retained to exist where the Group has contractual rights to manage the relevant activities of the entity and is exposed to the variable returns of the same.

On this basis, the structured entities for which consolidation for the purpose of the financial statements as at 31 December 2021 is necessary, are represented by the several SPEs for securitisation transactions originated by the Group. For those SPEs, the elements deemed significant for identifying control and the resulting consolidation are:

- the purpose of said SPEs;
- exposure to the outcome of the transaction;

- the ability to structure transactions and to direct the relevant activities and take critical decisions through servicing contracts;
- the ability to arrange for their liquidation.

For structured entities represented by mutual investment funds and similar, the Group is considered to act in the capacity of "principal", and therefore controls the fund, consequently consolidating it, if the Group simultaneously meets the following conditions:

- it has the power to direct the relevant activities when:
  - it acts as fund manager and there are no investors with substantial removal rights; or
  - it has a substantial right to remove the fund manager (external to the Group) without just cause or due to the performance of the funds; or
  - the governance of the fund is such that the Group substantially governs the relevant assets;
- it has significant exposure to the variable returns of the fund, as it directly holds a share retained significant, in addition to any other form of exposure related to the fund's economic results;
- it is able to influence said returns through exercising its powers, when:
  - it is the fund manager;
  - it has a substantial right to remove the fund manager (external to the Group);
  - it has a right to participate in the Committees of the fund, to the extent that the Group has the legal and/or practical ability to control the activities performed by the manager.

As at 31 December 2021, the analyses conducted on the investments held by the Group in mutual investment funds and similar, resulted in the exclusion of the existence of control over the same; therefore no fund is included in the scope of consolidation.

Line-by-line consolidation method

Controlled entities are consolidated from the date on which the Group acquires control, according to the purchase method, and cease to be consolidated from the moment a situation of control no longer exists, as described in paragraph "16 - Other information, Business combinations, goodwill and changes in interest holdings" below, in section "A.2 - Key financial statement items", which should be referenced.
Full consolidation consists of the "line-by-line" acquisition of the balance sheet and income statement aggregates of subsidiary entities. For consolidation purposes, the book value of the equity interests held by the Parent Company or by the other Group companies is eliminated against the acquisition of the assets and liabilities of the investees, as a balancing entry to the corresponding portion of shareholders' equity attributable to the Group and the portion held by non-controlling interests, also taking into account the purchase price allocation upon acquisition of control.
For subsidiary entities, the portion of shareholders' equity, profit (loss) for the year and comprehensive income attributable to non-controlling interests is indicated as a separate item in the respective schedules of the consolidated financial statements (respectively in items: "190. Non-controlling interests", "340. Profit (loss) for the year attributable to non-controlling interests", "190. Consolidated comprehensive income attributable to non-controlling interests").
In this regard, please note that there is no effect on the balance sheet, the profit (loss) or comprehensive income attributable to non-controlling interests resulting from the consolidation of the separate equities held by the SPEs for securitisations originated by the Group, not subject to derecognition in the separate financial statements of the assigning Group banks. For a description of the effects of the consolidation of these equities, please refer to the information contained in part "A.2. Key financial statement items" below, paragraph "16 - Other information, Securitisations - derecognition from financial statements of financial assets transferred".

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

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

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

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

In order to prepare the consolidated financial statements as at 31 December 2021, all of the exclusively controlled companies have prepared a balance sheet and income statement in accordance with the Group's accounting principles.
Interests in associates and joint ventures held for sale are recorded in compliance with the reference international accounting standard IFRS 5, which regulates the recording of non-current assets held for sale. In this case, the assets and liabilities held for sale are included in the balance sheet items "120. Non-current assets and disposal groups held for sale" and "70. Liabilities associated with assets classified as held for sale".
If the disposal of the interest in associates and joint ventures is classified as discontinued operations (under the terms of IFRS 5), the relative income and expenses are recognised in the income statement, net of taxes, under item "320. Profit (loss) after tax from discontinued operations". Otherwise, the contribution of the investee is shown in the income statement "line by line". For further details please refer to the content of paragraph "8 - Non-current assets and disposal groups held for sale" contained in section "A.2 - Key financial statement items" below.

If the fair value of the assets and liabilities held for sale, net of costs to sell, turns out to be lower than the book value, a value adjustment is recognised in the income statement.

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

Associates, i.e. companies not controlled in which a notable influence is exercised, are considered to be companies subject to significant influence. The company is assumed to exercise a significant influence in all cases where it holds 20% or more of voting rights in the investee, and, irrespective of the shareholding percentage, whenever it has the power to participate in business and financial decisions of the investees, by virtue of specific legal relations, such as shareholders' agreements, the purpose of which is to ensure that the members of the agreement are represented in the management bodies and to safeguard a consistent management approach, without, however, controlling the same.
Interests in companies subject to joint control and subject to significant influence are measured according to the equity method, based on the most recent financial statements available of the associated company/company subject to joint control, suitably adjusted to take into account any significant events or transactions; for a description of the classification, recognition, measurement and derecognition criteria, please refer to part "A.2 - Key financial statement items" - "5. Interests in associates and joint ventures".
In this regard, it should be noted that, with regard to the interest held in the listed company Anima Holding, carried at equity from 1 April 2020 following the acquisition of significant influence, the contribution to the consolidated income statement for 2021 does not include the profit (loss) recorded by the investee company in the fourth quarter of 2021, while it does record the pertinent profit (loss) recorded by the investee in the last quarter of 2020, of 9.8 million. This depends on the fact that Anima Holding approved its draft 2020 financial statements and will approve those of 2021 after the approval of the results by Banco BPM Group.

1. Interests in exclusively controlled companies

The table below lists the interests in exclusively controlled companies. For information on interests in companies subject to joint control and significant influence by Banco BPM Group, please refer to "Part B - Information on the Consolidated Balance Sheet" - Section "7. Interests in associates and joint ventures" in these Notes.

	Company name	Operational headquarters	Registered office	Type of relationship (1)	Investment relationship		Available
					Holder	% held	% of votes (2)
	Banco BPM S.p.A.	**Verona**	**Milan**	**Parent Company**			
1.	Agriurbe S.r.l. in liquidation Share capital € 10,000.00	Milan	Milan	1	Banco BPM	100.000%	100.000%
2.	Aletti & C. Banca di Investimento Mobiliare S.p.A. Share capital € 121,163,538.96	Milan	Milan	1	Banco BPM	100.000%	100.000%
3.	Aletti Fiduciaria S.p.A. Share capital € 1,040,000.00	Milan	Milan	1	Banca Aletti & C.	100.000%	100.000%
4.	Banca Akros S.p.A. Share capital € 39,433,803.00	Milan	Milan	1	Banco BPM	100.000%	100.000%
5.	Banca Aletti & C. (Suisse) S.A. Share capital CHF 35,000,000	CH - Lugano	CH - Lugano	1	Banca Aletti & C.	100.000%	100.000%
6.	Bipielle Bank (Suisse) S.A. in liquidation Share capital CHF 25,000,000	CH - Lugano	CH - Lugano	1	Banco BPM	100.000%	100.000%
7.	Bipielle Real Estate S.p.A. Share capital € 298,418,385.78	Lodi	Lodi	1	Banco BPM	100.000%	100.000%
8.	BPM Covered Bond S.r.l. Share capital € 10,000.00	Rome	Rome	1	Banco BPM	80.000%	80.000%
9.	BPM Covered Bond 2 S.r.l. Share capital € 10,000.00	Rome	Rome	1	Banco BPM	80.000%	80.000%
10.	BRF Property S.p.A. Share capital € 2,000,000.00	Parma	Parma	1	Banco BPM	65.428%	65.428%
11.	BP Covered Bond S.r.l. Share capital € 10,000.00	Milan	Milan	1	Banco BPM	60.000%	60.000%
12.	BP Trading Immobiliare S.r.l. in liquidation Share capital € 4,070,000.00	Lodi	Lodi	1	Bipielle Real Estate	100.000%	100.000%
13.	Consorzio AT01 Share capital € 100,000.00	Lodi	Lodi	1	Bipielle Real Estate	95.000%	95.000%
14.	Ge.Se.So. S.r.l. Share capital € 10,329.00	Milan	Milan	1	Banco BPM	100.000%	100.000%
15.	Lido dei Coralli S.r.l. Share capital € 10,000.00	Sassari	Sassari	1	Bipielle Real Estate	100.000%	100.000%
16.	Oaklins Italy S.r.l. Share capital € 109,000.00	Milan	Milan	1	Banca Akros	100.000%	100.000%
17.	Partecipazioni Italiane S.p.A. in liquidation Share capital € 350,000.00	Milan	Milan	1	Banco BPM	99.966%	100.000%
18.	P.M.G. S.r.l. in liquidation Share capital € 52,000.00	Milan	Milan	1	Banco BPM	84.000%	84.000%
19.	Release S.p.A. Share capital € 595,829,901.44	Milan	Milan	1	Banco BPM	99.907%	99.907%
20.	Sagim S.r.l. Società Agricola Share capital € 7,746,853.00	Asciano (SI)	Asciano (SI)	1	Agriurbe	100.000%	100.000%
21.	Sirio Immobiliare S.r.l. Share capital € 10,000.00	Lodi	Lodi	1	Bipielle Real Estate	100.000%	100.000%
22.	Tecmarket Servizi S.p.A. Share capital € 983,880.00	Verona	Verona	1	Banco BPM	100.000%	100.000%
23.	Terme Ioniche S.r.l.	Cosenza	Lodi	1	Bipielle Real Estate	100.000%	100.000%

Company name	Operational headquarters	Registered office	Type of relationship (1)	Investment relationship		Available
				Holder	% held	% of votes (2)
Share capital € 1,157,190.00						
24. Terme Ioniche Società Agricola S.r.l.	Cosenza	Cosenza	1	Bipielle Real Estate	100.000%	100.000%
Share capital € 100,000.00						
25. BP Mortgages S.r.l. (*)	Milan	Milan	4	-	0.000%	
Share capital € 10,000.00						
26. BPL Mortgages S.r.l. (*)	Conegliano V. (TV)	Conegliano V. (TV)	4	-	0.000%	
Share capital € 12,000.00						
27. ProFamily SPV S.r.l. (*)	Conegliano V. (TV)	Conegliano V. (TV)	4	-	0.000%	
Share capital € 10,000.00						

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

Changes in the scope of consolidation

Changes in the scope of consolidation compared to the situation as at 31 December 2020 are shown in the tables below:

Fully consolidated companies	
Incoming company due to acquisition	
Oaklins Italy S.r.l.	100.00%
Outgoing companies due to sale transactions	
Immobiliare Marinai d'Italia S.r.l. (in liquidation)	100.00%
Perca S.r.l.	100.00%
Meleti S.r.l.	100.00%
Outgoing companies due to closure of liquidation/securitisation transactions	
FIN.E.R.T. S.p.A. (in liquidation)	80.00%
Milano Leasing S.p.A. (in liquidation)	99.99%
Italfinance Securitisation Vehicle S.r.l.	9.90%
Outgoing companies due to merger transactions	
Incorporated company	**Incorporating company**
ProFamily S.p.A.	Banco BPM S.p.A.

It should be noted that in January 2021, Banco BPM acquired full control over the investee Release, by acquiring 39,923,532 ordinary shares of the subsidiary from BPER Banca S.p.A. As illustrated in the section on events subsequent to the reporting date, the company was incorporated into the Parent Company with effect as of 21 February 2022. Note that from 1 January 2022, the merger by incorporation of the subsidiary Bipielle Real Estate into the Parent Company became effective.

Furthermore, effective from October, the associated companies Arcene Immobili S.r.l. in liquidation and Arcene Infra S.r.l. in liquidation have been excluded from the category of companies consolidated with the equity method following the start of bankruptcy proceedings.
Lastly, note that during the year, the associated company CF Liberty Servicing S.p.A. changed its company name to Gardant Liberty Servicing S.p.A..

For further details on the above transactions, reference should be made to the section on significant events during the year in the Report on operations and, as regards the acquisition of Oaklins Italy S.r.l., to part G - Business combinations regarding companies or divisions in these Notes.

2. Significant assessments and assumptions used to determine the scope of consolidation

Within the scope of wholly-controlled Companies, inclusion in the scope of the Group is related to the concept of majority voting rights at the shareholders' meeting without exclusion in the case of legal control.

The only exceptions are those of Special Purpose Entities for securitisation transactions. As previously explained, even in the absence of direct equity interests, the Group has contractual rights to manage the relevant activities of the entity and is exposed to the variable returns of the same.

As at 31 December 2021, there were no non-controlling interests in subsidiaries deemed significant for the Group, either individually or as a whole, as shown in the table in "Section 14 - Non-controlling interests" in part B of the liabilities of these Notes. The same is true for the financial statements as at 31 December 2020.

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

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

No information is given for the reasons explained above.

3.2 Interests in companies with significant non-controlling interests, accounting information

No information is given for the reasons explained above.

4. Significant restrictions

As at 31 December 2021, there were no legal or substantial constraints or restrictions capable of obstructing the rapid transfer of capital resources within the Group. The only constraints are those attributable to the regulatory legislation, which may require the maintenance of a minimum amount of own funds, or to the provisions of the Italian Civil Code on distributable profits and reserves.
It should also be pointed out that there are no protective rights held by minorities able to limit the Group's ability to access or transfer assets between Group companies or to settle Group liabilities, in part due to the fact that there are no subsidiaries with significant non-controlling interests, as explained in the previous paragraph.

5. Other information

All the subsidiaries prepare financial statements as at 31 December 2021, the date of closure of the consolidated financial statements (and separate financial statements of the Parent Company).

Section 4 - Events subsequent to the reporting date

Illustrated below are the most significant events occurred from the reporting date (31 December 2021) to the date of approval of the draft financial statements by the Board of Directors (1 March 2022), fully attributable to the category of "non-adjusting events" pursuant to accounting standard IAS 10, i.e. events that do not entail any adjustments to the financial statement balances, as they express situations arising subsequent to the reporting date.

Issue of new subordinated loan

In January 2022, Banco BPM completed a new issue of subordinated Tier 2 bonds, with a 10-year maturity, which can be repaid in advance five years before maturity, for the amount of 400 million.

The bond has a fixed coupon at 3.375% for the first 5 years; if the early repayment option is not exercised, the coupon for the subsequent period until maturity will be recalculated on the basis of a 5-year swap rate, plus a spread of 340 bps.
The bond, directed to institutional investors, is part of the Group's Euro Medium Term Notes Programme and contributes to further strengthening the bank's already robust capital structure.

Completion of liquidation of subsidiaries

As illustrated in the section regarding significant events during the year contained in the Report on operations, on 16 February 2022, the subsidiary BP Trading Immobiliare S.r.l., which had resolved the early dissolution and start of voluntary liquidation from 1 November 2021, was removed from the relevant Companies' Register. The company in question, therefore, was removed from the scope of Banco BPM Banking Group.

Merger of subsidiaries

As illustrated in the section regarding significant events during the year contained in the Report on operations, the incorporation of Bipielle Real Estate S.p.A. into the Parent Company became effective from 1 January 2022.
Furthermore, on 10 February 2022, the deed of merger of Release S.p.A. into Banco BPM was signed; the operation has legal effect from 21 February 2022, following the registration of the deed of merger in the relevant Companies' Register, while it has accounting and tax effect from 1 January 2022.

The above-illustrated operations were performed without a swap ratio or a cash payment and did not entail any share capital increase of the incorporating company Banco BPM.

Capital requirements for 2022 are notified by the ECB

On 2 February 2022, the European Central Bank (ECB) notified Banco BPM of the SREP decision containing the outcomes of the annual Supervisory Review and Evaluation Process (SREP).

Therefore, also considering the countercyclical capital buffer as at 31 December 2021 for exposures to the countries in which the Group operates, equal to 0.003%, and maintaining the requirement to add to minimum capital requirements unchanged at 2.25%, the minimum requirements that Banco BPM is required to meet for 2022, both at phase-in and fully-phased level, until a new communication is issued, are as follows[1]:

- CET1 ratio: 8.519%;
- Tier 1 ratio: 10.441%;
- Total Capital ratio: 13.003%.

Therefore Banco BPM Group's capital solidity is fully confirmed and, as at 31 December 2021 far exceeds said prudential requirements, both with reference to the effective ratios calculated in accordance with the phased-in criteria in force for 2021, and considering the capital ratios calculated on the basis of the criteria in place when fully-phased.

Launch of the programme to purchase own shares

In implementation of the resolution of the Ordinary Shareholders' Meeting of Banco BPM S.p.A. of 15 April 2021 which had approved, inter alia, the request for authorisation to purchase and dispose of own shares for share-based compensation plans, in February 2022, the Parent Company launched the programme to purchase own shares to support the existing short and long-term staff incentive plans.

The duration of the programme, which obtained the authorisation of the European Central Bank, was established as the period from 15 February to 28 February 2022. The total maximum counter value was established as 16 million, to

[1] These requirements are set as follows:

- the Pillar 1 minimum requirement equal to 8% (of which 4.5% CET 1, 1.5% in terms of AT1 and 2% in terms of AT2);
- the P2R requirement communicated by the ECB equal to 2.25% to be met by CET1 (56.25%) and TIER1 (75%);
- a capital conservation buffer equal to 2.50%, to be entirely met by CET1;
- the O-SII buffer equal to 0.25% to be met entirely by CET1;
- the countercyclical capital buffer equal to 0.003% to be met entirely with CET1 capital.

support all existing plans both relating to annual incentives (for 2015-2021), and to long-term incentive plans, 2017/2019 and 2021/2023.

The purchase transactions, made on the market in accordance with the procedures envisaged by the laws in force, were concluded on 24 February 2022 and regarded 4,582,640 ordinary Banco BPM shares, for a counter value of 16 million.

The Russia - Ukraine war

As illustrated in the paragraph entitled "Outlook for business operations" contained in the Report on operations, on 24 February 2022, Russia announced a military operation in Donbass, which triggered an invasion of Ukraine.
The Russian aggression was immediately strongly condemned by both the European Union and by the United States and all NATO member countries. Said condemnation was followed by the approval of a large range of sanctions against Russia, including the block of technology exports, a ban on doing business with Russian state entities, strategic entities and those that produce gas and oil, as well as the block of the SWIFT system for Russian banks.
The sanctions generated an immediate crisis of the Russian financial systems, which led to a rapid and substantial loss of value of the rouble, the downgrading of the sovereign rating, the potential serious risk of bankruptcy of Russian banks and the collapse of the prices of stock issued by Russian companies.
The effects of the sanctions are, however, also going to impact the western countries that issued them and currently, macroeconomic prospects are very uncertain insofar as the influence of the above-described events on the same will greatly depend on the unforeseeable duration and outcome of the conflict under way.
Today, lower economic growth in Europe and in Italy is expected, due to the rise in energy and commodity prices, which will accentuate the rise in inflation that is already in progress. Assumptions relating to adopting a less accommodative monetary policy by the ECB now appear to be groundless, in light of the need to counter the negative effects of the sanctions and the increased cost of energy and commodities, and therefore expectations of an interest rate hike have consequently disappeared.
As indicated in the introduction, the outbreak of the Russia-Ukraine war represents a fact that should not lead to an adjustment of financial statement balances (so-called non-adjusting events) insofar as the fact itself and the relative consequences emerged after 31 December 2021.
In any event, it should be noted that no significant impacts are envisaged on the direct exposures held by the Group in Russia and Ukraine, given the entity of the same. More specifically, as at 31 December 2021, direct exposure to Russia was represented by loans and securities amounting to 87 million, and by unsecured loans of 44.6 million; instead it has no direct exposures in Ukraine. Also the Group's exposure to the rouble is substantially equalised.
With regard, instead, to the indirect impacts, given the current absolutely unpredictability of developments of the conflict and its consequences on macroeconomic scenarios, it cannot be ruled out that financial statement estimates may have to be revised during the course of 2022, in light of new information that will become available.
To be able to appreciate the potential negative impact of uncertain events that can be conceived on the date of preparation of this Report, please refer to the sensitivity analyses provided with regard to the main items subject to estimate (expected losses on performing loans, recoverability of intangible assets with indefinite useful life, recoverability of deferred tax assets, fair value of financial instruments, liabilities for defined benefits to employees).

Section 5 - Other aspects

Risks, uncertainties and impacts of the Covid-19 pandemic

The following paragraphs illustrate the disclosure envisaged in the Bank of Italy notification dated 21 December 2021[1], through which specific disclosure was confirmed for 2021 as well, introduced from the 2020 financial statements, on the risks, uncertainties and impacts of Covid-19 due to the continuation of the crisis and of the relative support measures still in place.

Among the main factors of uncertainty that could affect the future scenarios in which the Group will operate, the negative effects on the global and Italian economy directly or indirectly related to the Coronavirus pandemic (Covid-19) must effectively be considered.

[1] "Update of the supplements to the provisions of Circular no. 262 "Bank financial statements: layouts and rules for preparation" regarding the impacts of COVID-19 and the measures to support the economy".

The spread of the Covid-19 pandemic and its implications for public health, economic activity and trade could, at almost two years from the start of the health emergency, continue to significantly influence the markets in which the Group operates.

Although the impact of the pandemic on economic activity considerably diminished over the course of 2021, also thanks to the significant efforts made in the ongoing vaccination campaign, the development of new variants related to the virus in the last quarter did not enable those elements of uncertainty relating to the recovery of economic activity, particularly as regards those sectors particularly impacted by the health crisis, to be significantly reduced. As well as being influenced by the evolution of the pandemic, said recovery will depend on the effectiveness and the duration of the expansive measures to support - household and business income, credit to the economy and market liquidity - undertaken by the competent authorities (Governments, ECB, European Union ...) in response to the health crisis.
The vision that is consolidating as at the date of preparation of the financial statements is that the measures to contain the spread of the virus and the various state interventions set in place will allow the gradual resumption of production activities, which are expected to reach pre-crisis levels by the first half of 2022.
Following the collapse of GDP in 2020, an inversion of the trend was then seen, with a strong recovery in 2021, which is expected to continue on into 2022 as well. On the date of preparation of these financial statements, there are, however, still significant elements of uncertainty regarding the development of new variants of the virus, the effective implementation of the National Recovery and Resilience Plan by the Government. For further details on the macroeconomic forecasts used to draw up these financial statements, please refer to the paragraph "2.3 Measurement methods for expected losses" contained in the credit risk section of "Part E - Information on risks and related hedging policies" of these Notes.

The extraordinary nature of the current crisis was seen in the documents issued since March 2020 by the various regulatory and supervisory Authorities (hereinafter referred to as the "Authorities"), and by the standard setters, aimed at providing guidance and interpretations on how to apply the provisions of international accounting standards in the context of Covid-19, also with the aim of avoiding the development of pro-cyclical effects, but at the same time ensuring proper and transparent disclosure and measurement of risks. The aforementioned documents also drew attention to the need to provide updated information on the risks associated with Covid-19 that may have an impact on the Company's financial position and economic result, any actions taken or planned to mitigate those risks and an indication of the potential significant impact on future performance.

The following table provides a list of the main documents issued at the date of preparation of this Financial Report, relating to the main accounting areas affected by Covid-19:

Authority/Document Type	Date	Title
International Accounting Standards Board (IASB)		
Statement	27/03/20	IFRS 9 and Covid-19. Accounting for expected credit losses applying IFRS 9 Financial instrument in the light of current uncertainty resulting from the covid-19 pandemic
European Central Bank (ECB)		
Communication	20/03/20	ECB Banking Supervisor provides further flexibility to banks in reaction to coronavirus
ECB letter	01/04/20	IFRS 9 in the context of the coronavirus (Covid-19) pandemic
ECB letter	04/12/20	Identification and measurement of credit risk in the context of the coronavirus (Covid-19) pandemic
European Banking Authority (EBA)		
Statement	25/03/20	Statement on the application of the prudential framework regarding Default, Forbearance and IFRS 9 in the light of Covid-19 measures
Guideline	02/04/20	Guideline on legislative and non-legislative moratoria on loan repayment applied in the light of the Covid-19 crisis (EBA/GL/2020/02)
Guideline	25/06/20	Guidelines amending Guidelines EBA/GL/2020/02 on legislative and non legislative moratoria on loan repayments applied in the light of the Covid-19 crisis (EBA/GL/2020/08)
Guideline	02/12/20	Guidelines amending Guidelines EBA/GL/2020/02 on legislative and non legislative moratoria on loan repayments applied in the light of the Covid-19 crisis (EBA/GL/2020/15)
Guideline	02/06/20	Guidelines on reporting and disclosure of exposures subject to measures applied in response to the Covid-19 crisis (EBA/GL/2020/07)
European Securities and Market Authority (ESMA)		
Recommendation	11/03/20	ESMA recommends action by financial market participant for Covid-19 impact
Statement	25/03/20	Accounting implication of the Covid-19 outbreak on the calculation of expected credit losses in accordance with IFRS 9 (ESMA32-63-951)
Statement	20/05/20	Implication of the Covid-19 outbreak on the half-yearly financial reports (ESMA32-63-972)
Statement	28/10/20	European common enforcement priorities for 2020 annual financial reports (ESMA32-63-1041)
Statement	29/10/21	European common enforcement priorities for 2021 annual financial reports (ESMA32-63-1186)
Commissione Nazionale per la Società e la Borsa (CONSOB)		
Notification	09/04/20	Covid-19 - Financial Disclosure Notification
Notification	16/07/20	Covid-19 - Financial Disclosure Notification
Notification	16/02/21	Covid-19 - Financial Disclosure Notification
International Organization of Securities Commissions (IOSCO)		
Statement	03/04/20	IOSCO Statement on Application of Accounting Standards during the Covid-19 Outbreak
Bank of Italy		
Communication	21/12/21	Update of the supplements to the provisions of Circular no. 262 “Bank financial statements: layouts and rules for preparation” regarding the impacts of Covid-19 and the measures to support the economy, originally published on 15 December 2020

In this regard, in 2021, the Authorities and standard setters made no significant changes to the considerations already made in 2020 regarding the interpretation of several principles, which continue to be valid. With regard to the financial statement disclosure, note the notification from ESMA dated 29 October 2021, which specifically draws attention to the need to make a full and accurate disclosure of the impacts of Covid-19, on the ECL calculation method, as well as an illustration of any assessments made regarding potential effects relating to climate and environmental risks.

With regard to the latter aspect, please refer to that illustrated in the paragraph above “Significant accounting policies and uncertainties regarding the use of estimates in the preparation of consolidated financial statements”, as well as to specific paragraphs (“Environmental risks” and “Information on the inclusion of ESG factors in credit processes”) contained in “Part E - Information on risks and related hedging policies” of these Notes.
Instead, the main aspects of attention considered in the financial statement valuations or disclosures, resulting from the Covid-19 crisis, are illustrated below, with particular reference to the changes and improvements made by the Group in 2021.

Moratorium measures and relative classification

With the intention of providing support to the counterparties that were affected by the suspension or limitations of economic activities due to the Covid-19 crisis, the Group conceded support measures to households and businesses, both by virtue of that envisaged by government provisions, and on the basis of bilateral initiatives, which also fall within the scope of ABI agreements, including payment suspensions and/or extending the expirations of active loans (so-called moratoria).
In this regard, it should be noted that for the classification of the moratoria granted from March 2020 until November 2020, the Group had used the so-called "temporary framework" introduced by the guidelines published by the EBA on 2 April 2020, on the basis of which an exemption from the assessment of financial difficulty ("forbearance") was envisaged for measures classified in the scheme of "general payment moratorium". Instead, from November 2020, Banco BPM Group reactivated the ordinary process to assess the status of financial difficulty, with a view to ascertaining whether the requirements to classify the exposure as "forbearance" were met, not opting for the further extension granted by EBA guidelines to apply the cited "temporary framework" until 31 March 2021, on condition that the period of suspension of the moratorium does not exceed nine months overall.
The assessment of financial difficulty therefore became necessary for all moratoria extension requests received in the first half of 2021, pursuant to Italian Decree Law 73/2021 (so-called Sostegni bis [Support two] Decree). For businesses already admitted to the moratoria pursuant to Art. 56 of the Cura Italia [Heal Italy] Decree (Italian Decree Law 18/2020), following the extension to 30 June 2021 established by the Budget Law (no. 178 of 30 December 2020), the Support two Decree further extended the measures until 31 December 2021, subject to a customer application deadline of 15 June 2021. During the first half, the Group therefore undertook the necessary action to correctly address the extension requests received from customers, based on the effective need. At the same time, a specific framework was introduced to assess financial difficulties (forbearance), according to a risk-based approach, also considering the significance of the exposure to be assessed.
As at 31 December 2021, for Banco BPM, the volume of exposures benefiting from Covid-19 support measures represented by moratoria amounted to a total of 14.9 billion, with 11.3 billion expired.
Therefore active moratoria amounted to 3.6 billion, and were substantially represented by moratoria that expired on 31 December 2021, consequent to the extension granted by the above Support two Decree; as at 1 January 2022, the above-cited moratoria had therefore expired. Just considering loans paid in instalments (3.1 billion), 93% of volumes (2.9 billion) were due by the first half of 2022.
In terms of credit quality, it should be noted that 61% of moratoria in place are classified as Stage 2, 32% as Stage 1 and the remaining 7% as Stage 3 and POCI. In this regard, note that the percentage of exposures classified as Stage 2 is conditioned by the prudential approach taken by the Group following the Support two Decree, through which all moratoria with exposures of less than five hundred thousand euro were reclassified to the stage in question. Management figures show that for moratoria in place as at 31 December 2021, there is a concentration in the medium-low risk brackets (62%) and in the sectors with neutral outlooks (64%).
For moratoria already expired as at 31 December 2021 (11.6 billion), a modest default rate of around 1.5% was confirmed, also including the instalments debited in January 2022.
For further details on the action taken by the Group to correctly classify the forborne and unlikely to pay exposures, with regard to Covid-19, please refer to the content of the paragraph entitled "Impacts resulting from the Covid-19 pandemic" contained in the section on general aspects of credit risk in "Part E - Information on risks and related hedging policies" of these Notes.
For the accounting treatment of moratoria, please refer to the content of the paragraph entitled "Contractual changes resulting from Covid-19".
Lastly, for quantitative information on the support measures granted by the Group as at 31 December 2021, in terms of gross exposure, value adjustments (total and for the year) and transfers between stages, please refer to the following tables:

- "4.4a Loans at amortised cost subject to Covid-19 support measures: gross value and total value adjustments" in "Section 4 - Financial assets at amortised cost" contained in "Part B - Information on the Balance Sheet" of these Notes;
- "8.1a Net credit impairment losses relating to loans at amortised cost subject to Covid-19 support measures: breakdown" in "Section 8 - Net credit impairment losses/recoveries" contained in "Part C – Information on the Income Statement" of these Notes;
- "A.1.3a Loans subject to Covid-19 support measures: transfers between the different credit risk stages (gross values)" and "A.1.5a Loans subject to Covid-19 support measures: gross and net values", contained in the quantitative information of the section on credit risk in "Part E – Information on risks and related hedging policies" of these Notes.

In this regard, note that in the above-mentioned tables, the figures for moratoria refer to those in place as at 31 December 2021 and are broken down into the following detailed information:

- "Loans subject to forbearance measures compliant with Guidelines": meaning the moratoria granted until 31 March 2021 in compliance with the EBA guidelines on moratoria (EBA/GL/2020/02);
- "Loans subject to moratorium measures no longer compliant with Guidelines and not assessed as forborne": meaning the moratoria which were originally granted in compliance with the above EBA guidelines, but for which an event subsequently took place which made the ordinary forbearance framework applicable, following which the existence of financial difficulties by the customer was ruled out;
- "Loans subject to other forbearance measures": this item encompasses the moratoria granted as regards Covid-19 and which meet the definition of forborne exposure.

For further details on the moratoria that as at 31 December 2021, comply with EBA guidelines, please refer to the disclosure envisaged by the "Guidelines on reporting and disclosure of exposures subject to measures applied in response to the Covid-19 crisis", published by the EBA (EBA/GL/2020/07), contained in the document "Disclosure to the Public by Entities (Pillar III)" of Banco BPM, available on the website www.gruppo.bancobpm.it.

Measurement of expected losses on credit exposures

For the purposes of measuring expected losses on credit exposures, the various competent authorities (ECB, EBA) and the IASB highlighted the need to incorporate the deterioration in the economic situation caused by the Covid-19 scenario but, at the same time, given the situation of uncertainty, pointed out the need to take advantage of the flexibility margins provided for by IFRS 9. Said margins would allow - where there is no supporting evidence for macroeconomic forecasts - expected losses to be estimated by giving a greater weight to past information on long-term macroeconomic forecasts. In addition, where reasonable estimates were available, the Authorities highlighted the need for expected losses to be able to reflect the positive effects of the support measures granted by the public sector.
In more detail, the IASB in its document of 27 March 2020 did not introduce any amendment to IFRS 9 but stated that, using the elements of judgement allowed by that standard, an entity should adjust the approach used to determine expected losses in accordance with new and different circumstances, without applying the existing methodology mechanically. While being aware of the difficulty of this estimation exercise, the IASB noted that the quantification of expected losses must take into account historical, current and prospective information and accepted the possibility of resorting to post-model overlays or adjustments, if the models are not able to fully reflect the effects of the Covid-19 crisis and related government support measures.

Lastly, ESMA specified that the Sovereign state guarantees, provided in conjunction with moratoria or other support measures, must be included in the measurement of expected losses. In this regard, it referred to the "Transitional Resource Group for Impairment" document of December 2015, according to which, to measure expected losses, the guarantee of the exposures does not need to be explicitly established in the contractual clauses.

Having said this, in 2021, the process of revising and fine-tuning the current models, which started in 2020, continued, with a view to more accurately reflecting the expected losses of performing exposures, also as a consequence of the economic disruption caused by the Covid-19 crisis. This process moreover envisaged a series of adjustments to the models, as well as post model managerial adjustments, in order to factor in certain measurement elements not adequately intercepted by current models, which partly confirm that already adopted in the assessment of loans as at 31 December 2020.

For a detailed explanation of the changes to ECL calculation models introduced due to Covid-19 and of the relative developments in 2021, as well as an illustration of the new macroeconomic scenarios considered for the 2021 financial statements, please refer to paragraph "2.3 Measurement methods for expected losses" contained in the section on credit risk in "Part E - Information on risks and relative hedging policies" in these Notes.

Overall, the interventions described above, along with changes in the portfolio, led to an increase in the Group's credit exposures classified as "Stage 2" with respect to those recorded at the beginning of the year. As highlighted in the Group Report on operations (see, for a comparison, particularly, the section on results), for the portfolio represented by loans to customers, gross exposures classified as "Stage 2" as at 31 December 2021 amounted to

11.7 billion (10.97% of total performing exposures), up by 4.5 billion compared to the start of the year (when they totalled 6.82% of all performing exposures).
The total coverage of performing loans was 0.43%, substantially aligned with that recorded as at 31 December 2020 (0.44%). In detail, the average coverage of "Stage 2" exposures was 2.82%, compared to 4.32% as at 31 December 2020.
In this regard, note that a breakdown of the above overall impacts resulting from the separate changes made to the models and the estimation methods cannot be provided, given the complexity and pervasiveness of the changes introduced.

In this regard, it is necessary to specify that the above-mentioned coverage could however be significantly influenced by any different developments of the pandemic, also with regard to the effectiveness of the government support measures, as well as a different evolution of the macroeconomic scenario, also given the recent world political crisis.

For an illustration of the uncertainties related to estimates of the recoverability of loans, based on the models, the inputs and the underlying assumptions, also influenced by Covid-19, please refer to the paragraph above "Significant accounting policies and uncertainties regarding the use of estimates in the preparation of consolidated financial statements".

Valuation of the Group's real estate assets

As at 31 December 2021, the book value of real estate assets amounted to 2,538.8 million, 1,327.0 million represented by properties used for the administrative/commercial activities of the Group and the remainder held for investment purposes or for sale. 635.7 million of these investments are represented by properties deriving from the collection of non-performing loans (so-called "foreclosed assets").
The impact recorded in 2021 - following the update of the appraisal values or of sales negotiations underway, which regarded over 90% of the Group's real estate assets - was a negative 130.6 million. More specifically, this result was obtained from the imbalance of a negative impact recorded in the income statement of 141.6 million, 75% of which was represented by foreclosed properties, and a positive impact recognised as a balancing entry in shareholders' equity of 11.0 million.
The above-cited valuations, conducted with the assistance of specific appraisals drawn up by leading valuation companies, took the effects that Covid-19 is having on the real estate sector into due consideration, with particular reference to properties used in the hospitality sector and those for office use. These categories of property were obviously significantly impacted by the continuous restrictive measures imposed by the pandemic, and by a different concept of the office, induced by structural processes entailing smart working. In addition, the impact was particularly evident for units located in more peripheral areas and for those of a substantial size.

Financial information

Consob drew attention to the need to illustrate the risks associated with Covid-19 in the financial statements, which may have an impact on the Company's financial position and economic result, any actions taken or planned to mitigate those risks and the potential significant impact on envisaged future performance. Directors' attention is also drawn to carefully assessing the impact, including future impact, of Covid-19 on strategic planning and plan targets, economic performance, financial position and cash flows, as well as on the going concern assumption.
To this end, reference should be made to the paragraphs "Initiatives of Banco BPM Group within the context of the international Covid-19 emergency" and "Outlook for business operations" contained in the Group Report on operations.
It should also be noted that CONSOB and ESMA point out that the risks related to the pandemic could jeopardise the achievement of the objectives of the plan on which the recoverability analyses of certain assets are based, such as goodwill and other intangible assets with an indefinite life and deferred tax assets. The need to carry out the recoverability checks of the aforementioned assets and to provide adequate information in the financial statements, with particular reference to sensitivity analyses, is therefore reported.
Instead, the effects of Covid-19 are included in the comment on results, where retained relevant or able to explain a significant change.

Impairment of non-financial assets

ESMA and CONSOB are focusing in particular on the effects of the Covid-19 pandemic on the impairment testing of non-financial assets (goodwill and other intangible assets with an indefinite useful life), since their recoverability could be negatively affected by a revision of the cash flows assumed as the basis for impairment test. Given the current uncertainty, the Authorities suggest that cash flows should be estimated on the basis of multiple scenarios, in relation to which, detailed information must be provided on the basic assumptions used for cash flow projections and the relative sensitivity analyses.
In this regard, to assess the recoverability of intangible assets with an indefinite useful life, the Group used a multi-scenario approach, based on hypotheses and assumptions that are as consistent as possible with the macroeconomic forecasts used for other valuation exercises (deferred tax assets and performing loans), as better illustrated in the paragraph above "Significant accounting policies and uncertainties regarding the use of estimates in the preparation of consolidated financial statements" to which the reader should refer for a full illustration of the uncertainties related to assessing the recoverability of the assets in question.
For a review of the assessments made and the sensitivity analysis of the Group's intangible assets with an indefinite useful life, reference should be made to content of "Section 10. Intangible assets – item 100" contained in "Part B – Information on the consolidated balance sheet" of these Notes.

Probability test of deferred tax assets

In the context of Covid-19, another important accounting area for the Group is represented by the assessment of the recoverability of deferred tax assets, as the update of cash flows to incorporate the new macroeconomic forecasts, according to a multi-scenario approach, to which a discounting factor is applied to reflect the uncertainties of the estimation exercise, could have a negative influence on the recoverability, as illustrated in the paragraph above "Significant accounting policies and uncertainties regarding the use of estimates in the preparation of consolidated financial statements" to which the reader should refer for a full illustration of the uncertainties related to assessing the recoverability of the assets in question.
For a review of the assessments made and the sensitivity analysis relating to the recoverability of DTAs, please refer to the content of Section 11 "Tax assets and liabilities" contained in Part B - Assets, of these Notes.

Contractual changes resulting from Covid-19

1) <u>Contractual changes and derecognition (IFRS 9)</u>

As previously illustrated, in response to the health emergency, particularly in 2020, the Group implemented a series of measures to support its customers, by granting moratoria on active loans (suspension of instalments and/or lengthening expirations).
With regard to the related accounting treatment, the above mentioned measures have been classified in the case envisaged by IFRS 9 relating to "renegotiations of financial assets", which occurs when the original contractual conditions are changed at the will of the parties. In this case, it must be verified whether the financial asset should continue to be recorded in the financial statements, or if this is not the case, the original financial asset should be derecognised and a new financial instrument recognised.
To this end, it must be assessed whether the changes to the contractual terms of the renegotiation are substantial or not. Specifically:

- if there is a material change, the entity must derecognise the financial instrument being amended and recognise a new financial asset on the basis of the new contractual provisions (derecognition accounting);
- for non-substantial renegotiations, the entity shall restate the gross value by calculating the present value of the cash flows resulting from the renegotiation, based on the original rate of exposure existing before the renegotiation. The difference between the aforementioned gross value and the gross carrying amount prior to the change is recognised in the income statement under item 140 "Gains (losses) from contractual modification without derecognition" (modification accounting).

The contractual amendments in question, involving a mere deferment of payments, are to be considered as non-substantial and therefore to be treated on the basis of "modification accounting".

In this regard, it should be noted that the moratoria granted by the Group provide for the application of interest charged on the residual debt for the entire period of suspension of payments. Interest shall be paid on expiry of the

original instalment, in the event of suspension of the principal only, or from the end of the moratorium period, in the event of suspension of the entire instalment. This means that the present value of the post-renegotiation exposure is substantially in line with the present value of the pre-negotiation exposure.

These conclusions are also consistent with the expectations of ESMA, which considers that the changes under consideration are unlikely to be substantial enough to lead to derecognition, given the temporary nature of the support measures and the fact that the economic value of the loan will not change significantly. In addition, for legislative moratoria, the same explanatory report of the "Heal Italy" Decree states that "*the provisions provide that there is no economic loss for the bank as a result of the moratorium. The mechanism, therefore, is actuarially neutral, i.e. it is limited to redistributing payments without resulting in loss for the bank or benefits for the company*".
For a quantitative analysis of the moratoria granted by the Group as at 31 December 2021, refer to table "A.1.5a Loans subject to Covid-19 support measures: gross and net values", contained in the quantitative information of the section on credit risk in "Part E – Information on risks and related hedging policies" of these Notes.

2) Amendment to accounting standard IFRS 16

Regulation (EU) no. 1421 of 30 August 2021 renewed the subsidies envisaged by the previous Regulation (EU) no. 1434 of 9 October 2020 relating to the accounting treatment of Covid-19 related rent concessions, for a further 12 months. In response to the ongoing pandemic crisis, the amendments provide a practical expedient on the basis of which the temporary reductions and/or suspensions of rent payments for the period from the beginning of the pandemic until 30 June 2022, as a direct consequence of Covid-19, may be recognised on the basis of the accounting rules for "lease modification". The new regulation is effective from financial statements from 1 April 2021 for financial years that start on 1 January 2021 or later, unless applied earlier.
In accordance with IFRS 16, in the event of a change in the original contractual terms of a lease agreement, it would be necessary to amend the lease amortisation plan ("lease modification") with consequent restatement of the liability. With the amendments in question, on the other hand, as a practical expedient, it is permitted to treat unpaid fees as a variable payment, to be recognised as a lower cost in the income statement, without necessarily having to recalculate the financial liability.
The three conditions that must be met to be able to apply the simplification in question are the following:

- the amount of the revised lease agreement fees must not substantially differ from the fees previously envisaged;
- the concessions must only regard fees relating to the period from the start of the pandemic to 30 June 2022;
- all other contractual terms must remain substantially unchanged.

As already seen in the 2020 financial statements, for Banco BPM Group, the simplification in question is not relevant with regard to the preparation of the financial statements as at 31 December 2021. This depends on the fact that the renegotiations set in place by the Group could not be directly linked to the Covid-19 health crisis, insofar as, generally, it was aimed at obtaining a permanent rent reduction, regardless of the contingent situation caused by the above-cited crisis.

Terms for approval and publication of the financial statements

Art. 154-ter of Italian Legislative Decree 58/98 (Consolidated Finance Law or CFL) states that, within one hundred and twenty days from the end of the financial year, the separate financial statements must be approved and the annual financial report must be published. The latter must contain the draft separate financial statements, the consolidated financial statements, the report on operations and the declaration of the Manager responsible for preparing the Company's financial reports pursuant to art. 154-bis, paragraph 5.
The draft financial statements of Banco BPM S.p.A. were approved by the Board of Directors at its meeting on 1 March 2022 and will be submitted for approval by the Shareholders' Meeting convened for 7 April 2022.

The Regulation of the European Commission 815/2019 (European Single Electronic Format – ESEF Regulation)

The European Commission Regulation 815/2019 (European Single Electronic Format Regulation - ESEF), issued to implement the Transparency directive (Directive 2004/109/EC), introduced the obligation for issuers with securities listed on EU regulated markets to draw up annual financial reports in the new ESEF format, which represents a combination between xHTML language (for the presentation of the financial reports in a legible format for human

users) and the XBRL markup (eXtensible Business Reporting Language), with a view to facilitating the accessibility, analysis and comparability of consolidated financial statements drawn up according to International Financial Reporting Standards (IFRS). The use of this new format entails the mapping of the information contained in the consolidated financial statements according to the "Inline XBRL" specifications, which envisage the application of the basic taxonomy issued by the ESMA (European Securities and Markets Authority).[1]
The provisions contained in the cited Regulation apply to annual financial reports from 1 January 2021.

This Annual Report was prepared in compliance with that envisaged by the ESEF Regulation approved by Banco BPM's Board of Directors on 1 March 2022, and will be made public within the terms of the law.

Independent audit

The separate financial statements and the consolidated financial statements as at 31 December 2021 are subject to independent auditing by the auditing firm PricewaterhouseCoopers S.p.A., in application of the appointment conferred on this firm with resolutions of the shareholders' meetings of Banco Popolare Soc. Coop. and Banca Popolare di Milano S.c. a r.l. of 15 October 2016. The above-cited appointment was awarded for financial years from 31 December 2017 to 31 December 2025, in compliance with the duration envisaged by law (9 years). The full auditors' report, together with the annual financial report, is made available to the public, pursuant to Art. 154-ter of Italian Legislative Decree 58/98.

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

An illustration of the new accounting standards or the amendments to existing standards approved by the IASB is provided below, as well as new interpretations or amendments to existing ones, published by the IFRIC, with separate disclosure of those applicable in 2021 from those applicable in subsequent years.

IAS/IFRS accounting standards and related SIC/IFRIC interpretations endorsed that must be applied when preparing the 2021 financial statements

Regulation (EU) no. 2097 of 15 December 2020 – "Extension of the Temporary Exemption from Applying IFRS 9" - Amendments to IFRS 4
Given the decision of the IASB to postpone the date of first application of IFRS 17 relating to insurance contracts to 1 January 2023, the Regulation in question therefore amended IFRS 4, with a view to extending the application of IFRS 9 to 1 January 2023 (Deferral Approach), with a view to avoiding potential temporary accounting problems resulting from the difference between the effective date of IFRS 9 Financial Instruments and the effective date of IFRS 17.
The current configuration of the Group does not entail performing direct insurance activities.
Nevertheless, the changes in the regulations in question do affect the insurance companies which are associated to Banco BPM. For the latter, the temporary exemptions envisaged by IFRS 4 (see paragraph 20O) must therefore be considered as deferred to 2023, with the consequence that the above-cited companies will continue to apply accounting standard IAS 39 to measure financial instruments until 1 January 2023, instead of standard IFRS 9 adopted by the Group. The exemption to the general principle of the net equity criterion, by virtue of which the investor and the entity subject to significant influence must apply harmonised accounting standards, for the years that start before 1 January 2023, is explicitly envisaged within the above-cited temporary exemptions.

[1] The obligation to mark-up the information contained in the consolidated financial statements foresees two different times:
- from the financial year beginning on 1 January 2021, issuers must mark-up all numerical values contained in the schedules relating to the consolidated financial statements (balance sheet, income statement, statement of comprehensive income, statement of changes in shareholders' equity and cash flow statement);
- from the financial year beginning on 1 January 2022, issuers must mark-up all information - both text and/or numbers, contained in the Notes. In October 2021, XBRL Italia published a supplement to the basic taxonomy, which envisages numerous extensions made necessary also to ensure compliance with the structure of bank financial statements prescribed by Circular no. 262 of the Bank of Italy.

Regulation (EU) no. 25 of 13 January 2021 – "Interest Rate Benchmark Reform - Phase 2" - Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

For further details on the Regulation that introduces Phase 2 of the IBOR Reform and on the disclosure provided by the Group, please refer to the paragraph below "Interest rate benchmark reform ('IBOR Reform')".

Regulation (EU) no. 1421 of 30 August 2021 – "Amendments to IFRS 16"

The Regulation makes a further amendment with respect to the amendment to IFRS 16 introduced last year to take into account Covid-19-related rent concessions. The amendment in question extends the period of time beyond which the practical expedient is applied, on the basis of which lessees do not have to recognise the temporary reductions or payment suspensions of lease contracts for the period between the start of the pandemic and 30 June 2022 as "lease modifications", by one year from 30 June 2021 to 30 June 2022. The "lease modification" treatment would require the lease amortisation plan to be amended, with the consequent recalculation of the liability; with the amendments in question, on the other hand, as a practical expedient, it is permitted to treat unpaid rent as a variable payment, to be recognised as a lower cost in the income statement, without having to recalculate the financial liability.
This amendment is applicable to financial periods beginning on or after 1 April 2021 or may be applied early with retroactive effect.
Banco BPM Group did not opt for said simplification as illustrated in more detail in the previous paragraph "Risks, uncertainties and impacts of the Covid-19 pandemic".

Endorsed IAS/IFRS accounting standards and SIC/IFRIC interpretations, the application of which takes effect after 31 December 2021

The standards or the amendments whose application starts after 31 December 2021, and for which the Group, where envisaged, had not opted for early application, are illustrated below.

Regulation (EU) no. 1080 of 28 June 2021 - "Annual improvements to IFRS standards 2018-2020 cycle" - Amendments to IAS 16, IAS 37, IAS 41, IFRS 1, IFRS 3 and IFRS 9

With the Regulation in question, several limited amendments to IAS 16, IAS 37 and IFRS 3 were endorsed, approved by the IASB on 14 May 2020. In detail:

- the amendments to IAS 16 prohibit an entity from deducting from the cost of a tangible asset all income deriving from the sale of the goods produced in the period during which the asset must be brought to the location and in the condition required in order to operate in the manner intended by the management;
- the amendment to IAS 37 specifies which costs must be considered to assess whether a contract is onerous. More specifically, it specifies that the "cost of fulfilling" a contract, to assess whether it is onerous, comprises the costs that relate directly to the contract; they may be incremental, or also the costs that the entity cannot avoid after entering into the contract;
- the amendment to IFRS 3 envisages an update of the standard so that the recognition of identifiable assets acquired and of identifiable liabilities assumed is made on the basis of the most recent version of the Conceptual Framework.

In addition, the Regulation transposed the annual improvements cycle of certain standards (IFRS 1, IFRS 9, IAS 41 and the illustrative examples to IFRS 16) aimed at correcting oversights or conflicts between standards.
The amendments are applicable from 1 January 2022; given the scope of the amendments in question, in light of assessments under way, no impacts for the Group are envisaged.

Regulation (EU) no. 2036 of 19 November 2021 – IFRS 17 "Insurance Contracts"

On 18 May 2017, the IASB issued the new accounting standard IFRS 17, which regulates the accounting treatment of insurance companies. On 25 June 2020, the IASB published several amendments to IFRS 17, which did not affect the basic principles, but instead provided assistance in its implementation, as well as several simplifications in the disclosure of financial performance. The amendment in question also provided, for entities that are engaged in insurance activities, the postponement of the first time adoption of IFRS 17 to 1 January 2023; the postponement also regards the application of IFRS 9, with a view to making the first time adoption of both of the above-mentioned standards coincide.
With respect to the previous standard IFRS 4, which allowed insurance companies a certain discretion in identifying and measuring insurance assets and liabilities, to the detriment of comparability of financial statement information disclosed, the new standards IFRS 17 introduces an integrated approach to the recognition of insurance contracts,

with the aim of guaranteeing a relevant disclosure, able to faithfully reflect the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.
More specifically, based on the new standard, when the contract is signed, the entity must recognise a liability, the amount of which is given by the algebraic sum of the present value of expected contractual cash flows - adjusted by means of an appropriate "risk adjustment" for financial risks - and of an expected economic margin - the so-called "Contractual Service Margin" or CSM - representing the present value of future profits. The above-cited elements - clash flows and contractual service margin - must be measured at each reporting date, to assess the consistency of the estimates with respect to current market conditions.
With reference to the measurement of insurance revenues, IFRS 17 envisages an exposure in the income statement "by the margins" recorded during the life of the policies, namely when the company effectively obtains the estimated profits, with respect to the exposure of the insurance premiums collected by the insurance company.
With regard to the disclosure of performance, standard IFRS 17 introduces a separate recognition of two components that contribute to the income of insurance companies: namely the profit resulting from the "coverage" provided - the so-called technical margin - and that resulting from "financial" components.
In light of the above, IFRS 17 introduces new logic to calculate the income of insurance companies, also with a view to achieving better comparability of the financial disclosure, which will have an impact on insurance products and on the way the performance of insurance companies is measured, based on the profit margins of the product with respect to the current aggregate of premiums collected.
The first time adoption of the cited standard will therefore have an impact on the assessment of the Group's interests in insurance companies (Bipiemme Vita, Vera Vita and Vera Assicurazioni); an impact that is currently unforeseeable insofar as it will depend on methodological choices that are currently being defined by the above-mentioned companies.

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

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

Amendments to IAS 1 "Classification of Liabilities as Current or Non-current – Deferral of Effective Date"
On 23 January 2020, the IASB issued the amendment to IAS 1 "Classification of Liabilities as Current or Non-current", with a view to clarifying that the classification of liabilities as current or non-current, depends on the rights existing at the end of the reporting period. The relative application, initially envisaged for 2022, was postponed to 1 January 2023 with the amendments approved by the IASB on 3 June 2020.
Note that on 19 November 2021, with regard to the cited amendments to IAS 1, the IASB issued the Exposure Draft "Non-current Liabilities with Covenants", which regards the issue of the classification of liabilities as current or non-current, in the event in which the decision of an entity to defer extinguishing the same by at least twelve months is subject to the fulfilment of conditions. Through said ED, the IASB proposes to amend the requirements introduced with the above-cited amendments of 2020, and postpone the date of entry into force to not before 1 January 2024, with the exception of early adoption.

Amendments to IAS 1 and IFRS Practice Statement 2 "Disclosure of Accounting Policies"
On 12 February 2021, the IASB published the amendments in question with a view to developing guidelines and examples in the application of relevance and materiality judgements to disclosures on the accounting standards. The information on accounting standards is relevant if, considered along with other information included in an entity's financial statements, it can be reasonably expected that it will influence the decisions taken by users of the financial statements.
It is necessary for relevant information to be clearly set forth in the financial statements, while irrelevant information can be provided unless its presentation means that significant information is not highlighted.
The above-mentioned amendment also regarded the IFRIC Practice Statement 2 "Making Materiality Judgements (Materiality Practice Statement)", which provides guidance on how to formulate relevance judgements in the preparation of IFRS financial statements. This guidance, which does not represent a compulsory document, shows the general characteristics of materiality through a four-step process which helps entities to develop materiality judgements in the preparation of financial statements.
The amendments are applicable from 1 January 2023, and may be applied early.

Amendments to IAS 8 "Definition of Accounting Estimates"
On 12 February 2021, the IASB published the amendment in question with a view to distinguishing the concepts of "accounting policies" and "accounting estimates", introducing a definition of accounting estimate that was previously not included. Indeed, IAS 8 establishes the definition of "accounting policies" and "change in accounting estimates", but instead no definition is provided of "accounting estimate". The amendments in question define "accounting estimates" as "monetary amounts in financial statements that are subject to measurement uncertainty". It is also specified that:

- a change in the accounting estimate resulting from new information or new developments does not represent a correction of an error;
- the effects of a change in an input or in a valuation technique used to develop an accounting estimate represent a change in accounting estimates, if they do not derive from the correction of errors from previous years.

The amendments are applicable from 1 January 2023, and may be applied early.

Amendments to IAS 12 "Deferred Taxes related to Assets and Liabilities arising from a single transaction"
IAS 12 establishes in paragraphs 15 and 24 that a deferred tax asset and a deferred tax liability must be recognised for all taxable and deductible differences, with the exception of several specific cases for which an exemption is provided on initial recognition. Applying the amendments in question restricts the scope of application of the exemption, which will no longer be applicable to transactions which, on initial recognition, give rise to taxable and deductible temporary differences.
The amendments are applicable from 1 January 2023, and may be applied early.

Amendments to IFRS 17 "Insurance Contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information"
On 9 December 2021, an amendment was issued to the rules of transition to standard IFRS 17, for entities that simultaneously apply the transition to standards IFRS 9, given the different requirements envisaged for the above-said standards for the redetermination of the comparative balances; IFRS 17 envisages, effectively, that the comparative information has to be redetermined, which instead is allowed but not requested by IFRS 9.
The amendment in question therefore regards financial assets for which comparative information must be disclosed on the date of transition of IFRS 17 and IFRS 9, which nevertheless is not redetermined pursuant to IFRS 9, with the aim of avoiding temporary accounting mismatches between the measurement of the financial assets and of insurance contracts, therefore contributing to improving the relevance of the comparative information for financial statement users. Based on the amendment in question, the entity is permitted to present comparative information on the financial assets as if the classification and measurement requirements of IFRS 9 had been applied; the above option is applicable to individual financial instruments and does not require the impairment criteria established by IFRS 9 to be adopted.

Interest Rate Benchmark Reform ("IBOR Reform")

IBOR Reform – regulatory aspects

The Interbank Offered Rates (IBORs or benchmark interest rates) are variable parameters that play a fundamental role in financial stability, as they influence the characteristics and the value of financial instruments (e.g. derivative contracts, government bonds, corporate bonds) and of credit (bank loans to consumers and to businesses). These rates, some of the most commonly used are the Euribor (Euro Interbank Offered Rate) and the LIBOR (London Interbank Offered Rate), are calculated and communicated by the contributing banks. If there are no effective underlying transactions that are consistent with the requirements of the regulation, the latter had to base their communications on their own professional opinions, exposing the IBOR to potential manipulation and making its performance in anomalous market conditions difficult to predict.
The issues that arose following episodes of manipulation, above all of the LIBOR rate, led the Financial Stability Board (hereinafter also FSB) to publish several recommendations in 2014 to reform IBOR rates by 2021, with the aim of strengthening the current methods, bringing them closer to effective transactions and promoting the development of more robust benchmark rates. In this context, with European Regulation no. 1011/2016 (Benchmark Reform, BMR) a new regulatory benchmark framework was introduced with the objective of bringing the market rates and the relative calculation methods in line with international standards, ensuring the accuracy and the integrity of the same, which had been exposed to risk by several episodes of manipulation and by the significant reduction in trading in the interbank market. Essentially, the cited Regulation contains provisions regarding the supply, the

contribution and the use by supervised entities, including banks, of the benchmark rates and the rules that all parties involved must comply with as a function of their role. For the most widely used rates, more prescriptive measures are envisaged, which take their systemic importance into account. More specifically, the users of the benchmark rates, including Banco BPM Group, are asked for an Internal Plan (known as a "Robust written plan"), which specifies the actions to be taken in the event of the cessation and/or substantial change of a benchmark rate, and which envisages one or more alternative benchmark rates (so-called fallback clause), to which reference could be made to replace the rates whose supply has been suspended, indicating the reasons.
The interest rate reform, launched in this way, has therefore entailed a gradual process of revision and/or replacement of the main financial benchmarks with alternative Risk-Free Rates (RFR), based on effective transactions concluded in the market, with consequent availability only the next day ("T+1" rates).
Following the BMR Regulation and the recommendations of the FSB, the Reform has led to the establishment of numerous working groups to identify potential alternative rates in the event of the cessation of the previous ones; in Europe, we draw attention to the working group comprised by financial institutions, the ECB and the European Commission, which adopted the risk-free €STR rate from 2 October 2019, recalibrated considering the EONIA plus a spread of 8.5 bps until 3 January 2022.
During 2021, given the cessation of important rates, further regulatory documents were published, including:

- Regulation (EU) no. 168 of 10 February 2021, of the European Parliament and of the Council which defines, inter alia, the criteria for the replacement of specific benchmarks in cessation, giving the European Commission the power to designate one or more legal replacements, if the contract does not envisage a fallback clause or the same is inadequate;
- the statement on 5 March 2021 of the FCA (Financial Conduct Authority), which sets the cessation dates for the LIBOR (31 December 2021 for all GBP, EUR, CHF and JPY LIBOR tenors and 1-week and 2-month USD LIBOR tenors; 30 June 2023 for overnight and 1, 3, 6 and 12-month USD LIBOR tenors). On the subject of discontinuing the LIBOR, the joint statement of 24 June 2021 is also worth noting, with which the European Commission, the ECB, EBA and ESMA urged market operators to reduce their exposure towards the LIBOR in all currencies - including the USD - and in all tenors - terminating their application in new contracts and limiting the use of "synthetic" LIBOR rates (calculated with an alternative methodology) only for contracts already in place that are difficult to update - and to draw up robust written plans that indicate alternative interest rates for all contracts that use the LIBOR as their benchmark;
- the Implementing Regulations (EU) of the European Commission no. 1847 and no. 1848, of 14 and 21 October 2021 respectively, through which the legal replacements for specific CHF LIBOR tenors and of the EONIA rate were designated.

As regards the Euro currency, April 2021 marked the start of the publication of the Risk-Free Rate called "€STR Compounded Average Rate". On 11 May 2021, the "Working Group on Euro risk-free rates" published its final recommendations resulting from two public consultations carried out in November 2020, indicating the applicable alternative rates for contracts in Euro, separated by financial instrument category and by customer segment. More specifically, the above Working Group recommended using a term structure based on the €STR with the addition of a "credit spread adjustment" to offset, based on historical data (previous five years) the average spread with the Euribor.

To meet the requirements of the BMR Regulation, from 2019, Banco BPM Group launched a special project called "IBOR Transition" which brought organisational and IT processes, contracts and internal regulations in line with the provisions of the BMR Regulation.
As illustrated below, the project focused on two areas of impact of regulation represented by index-linked loans, in Euro and in currency, and by derivative contracts.
As regards new loans in Euro with repayment by instalments, which envisaged the EUR LIBOR as the replacement rate, a new standard fallback clause was defined using a term structure based on the €STR, and the procedural implementations to manage the rates were made (updating the product catalogue) and amending loan agreements by updating the fallback clause.
With regard to active loans, whilst awaiting regulatory provisions for the renegotiation of the agreement, the Bank has completed the sampling to recover the information on fallback rates and has arranged for the concrete application of the replacement rates "ex lege" (defined by the European Commission) for EONIA and CHF LIBOR.
For loans without repayment by instalments (and relative associated current accounts) the new benchmark rates for the main currencies (indicated by the corresponding Authorities of the reference countries) were applied and included in the Catalogue, while index-linking to a fixed interest rate was opted for minor currencies; lastly the campaign for renegotiating agreements was launched.

With regard to derivative contracts with market counterparties, the Bank applied the solution identified by the ISDA (International Swaps and Derivatives Association) for fallback rates, subscribing to the Addendum to the standards applicable to new contracts and the protocol which extends their applicability to other existing instruments. In this regard, note that the majority of the derivative contracts of Banco BPM and of the subsidiary Banca Akros are subject to clearing with a Central Counterparty (Clearing House). For the LCH and EUREX Clearing Houses, the transition from the EONIA rate to the €STR rate was completed in October 2021, with the closure of active contracts and their simultaneous replacement with new contracts with the same characteristics, but indexed to the new €STR rate. In addition, the residual positions indexed to the LIBOR were closed (around 20 contracts relating to Banca Akros).
With regard to derivative contracts to hedge loans with customers (index linked to the Euribor), given the amendment of the fallback clauses of the loans, the Working Group finalised an agreement between Banco BPM and Banca Akros, which envisages the non-application of the ISDA protocol to internal derivative contracts, so as to wholly transfer the hedging risk to Banca Akros, which handles overall risk management on the market.
With regard to securities lending transactions, the migration from the EONIA to the €STR of the rate applied to margin accounts was completed, partly through direct negotiations with the main counterparties, and the remainder through the application of the above-cited ex lege replacement rate.
Lastly, customers were provided with adequate information in their periodic statements (loan statement as at 31 December 2021); in addition the dedicated section on the Banco BPM website was updated, at www.gruppo.bancobpm.it/IBOR and on Banca Aletti and Banca Akros' websites, with a link to the Parent Company website.

Impacts of the IBOR Reform on the accounts

To address accounting issues relating to the IBOR Reform, the IASB undertook a project called "Interest Rate Benchmark Reform" developed in two different stages:

- Stage 1: the aim of the changes made was to search for adequate solutions to reduce the effects on financial statements relating to the potential impact in the previous period of the replacement of benchmark interest rates with new rates (known as "pre-placement issues"). In particular, this stage introduced several exemptions to the recognition of hedging relationships, with a view to avoiding the effects of discounting relating merely to the situation of uncertainty as regards the interest rate benchmark reform. To assess the economic relationship, the changes introduced effectively envisage that the entity must assume that the benchmark rate, to determine the interest rates of the hedged instrument and of the hedging instrument are not changed following the interest rate reform. These amendments were endorsed with Regulation (EU) no. 34 of 15 January 2020, and were applied in advance by the Group, starting from the financial statements as at 31 December 2019;
- Stage 2: the aim of the amendments introduced with this stage, endorsed by Regulation (EU) no. 25 of 13 January 2021, applicable from 1 January 2021, was to find adequate solutions to manage the accounting impacts resulting from the effective replacement of the rates (so-called replacement issues). More specifically, this stage provides practical expedients to minimize the effects of the replacement of the benchmark rates, with specific reference to the accounting treatments of the changes of contractual flows and to the management of hedges, with a view to permitting their continuation. With reference to the first aspect, a practical expedient is proposed, namely that the changes to contractual flows for the new interest rates - if made as a direct consequence of the interest rate reform and on an economically equivalent basis with respect to the previous rates - must be considered a prospective adjustment of the effective interest rate, just like a revision in the variable interest rate. Instead, with regard to hedge accounting, several exceptions were introduced to IAS 39 and IFRS 9 intended to prevent the termination of the hedging relationship due to the update in the documentation concerning such relationships (for the modification of hedged risk, the hedged item, the hedging derivative, or the method for evaluating hedge effectiveness) on condition that said modifications are a direct consequence of the reform and are carried out on an economically equivalent basis with respect to the previous rates.
  This stage also introduced a specific qualitative and quantitative disclosure on the nature and risks to which the entity is exposed deriving from financial instruments connected to the reform, on the way such risks are managed, as well as on the progress of the entity in the transition to the new alternative benchmark rates.
  For detailed disclosures on the state of progress of the IBOR transition project in Banco BPM Group, see the point above. The paragraph below illustrates the quantitative information and the risks associated with the instruments subject to reform and relative management methods.

Information on the instruments that have yet to shift to an alternative rate, disaggregated by benchmark rate, pursuant to paragraphs 24I and 24J of IFRS 7

The following table shows the contracts indexed to IBOR rates, which are to be terminated, outstanding as at 31 December 2021, in terms of number and counter value. Note that the scope refers to active contracts as at 31 December, whose expiry is subsequent to the cessation of the rate (3 January 2022 for the EONIA, 31 December 2021 for the LIBOR on GBP, EUR, CHF, JPY, USD and AUD tenors[1], and the 1-week and 2-month USD LIBOR tenors; 30 June 2023 for overnight and 1,3,6,12 month USD LIBOR tenors).

Exposure to "IBOR Transition" discontinued rates
Figures as at 31 December 2021

Amounts in millions of euro	Product categories									
	Non-derivative financial assets				Non-derivative financial liabilities		Derivatives			
	Loans and advances		Debt securities		Current accounts and deposits		OTC		With Clearing Houses	
	number of contracts	amount	number of contracts	amount	number of contracts	amount	number of contracts	notional	number of contracts	notional
Contracts indexed to IBOR rates:	**469**	**574**	**1**	**15**	**3,327**	**(337)**	**50**	**1,756**	**6**	**49**
indexed to EONIA	**6**	**62**	**1**	**15**	**9**	**(35)**	**-**	**-**	**-**	**-**
indexed to LIBOR	**463**	**512**	**-**	**-**	**3,318**	**(302)**	**50**	**1,756**	**6**	**49**
of which: USD	***331***	***506***	-	-	***2,572***	***(256)***	***50***	***1,756***	***3***	***27***
of which: GBP	***38***	***1***	-	-	***280***	***(22)***	-	-	-	-
of which: CHF	***75***	***4***	-	-	***298***	***(11)***	-	-	***1***	***13***
of which: JPY	***13***	-	-	-	***96***	***(10)***	-	-	***2***	***9***
of which: AUD	***6***	-	-	-	***72***	***(3)***	-	-	-	-

There are only residual exposures indexed to EONIA, in terms of number and counter value, as the migration to €STR of derivative contracts has now been completed and even that of marginal accounts has almost been completed. For these exposures, from 3 January 2022, the €STR rate is applied ex lege, plus a credit spread adjustment of 8.5 bps.

With regard to LIBOR rates, the main positions, both on-balance sheet and derivatives, are indexed to the USD LIBOR rate, which will continue to be listed until 30 June 2023. More specifically:

- for LIBOR-indexed derivatives, in addition to positions in USD LIBOR, there is a very marginal number of exposures remaining: one contract indexed to the Swiss Franc (maturity January 2022) and two to the Yen (maturity May 2022);
- with regard to assets represented by loans, there are 463 contracts, with a total counter value of 512 million. More specifically, these regard 71 structured finance positions, for a total of 483 million (of which 70 indexed to the USD LIBOR and 1 to the GBP LIBOR, under renegotiation); 40 mortgage agreements indexed to the CHF LIBOR rate, amounting to 4 million, to which the alternative rate envisaged ex-lege will be applied; 352 multi-currency current accounts for a total of 24 million;
- for liabilities, there are 3,318 multi-currency current accounts in place with a total balance of 302 million.

Note that the Network is renegotiating the shift of multi-currency accounts to risk-free rates with customers.

Lastly, note that, following the recommendations of the main Authorities on the subject, Banco BPM has given instructions that the USD LIBOR should no longer be used in future transactions.

[1] In the case of the AUD LIBOR, the rate to be discontinued on 31 December 2021 is a synthetic LIBOR (AUD-BBSW), a proxy of the original rate which ceased in March 2013.

Risks relating to financial instruments subject to the IBOR reform and relative management

As 2021 draws to an end, the most critical part of transition of IBOR rates can be considered to be completed for the Group, with the almost full migration of the risks related to the cessation of the EONIA and LIBOR rates. The exposures that remain, substantially limited to those indexed to the USD LIBOR (listed until 30 June 2023), will further decrease over time due to natural expiry or renegotiation and will in any event be subject to intervention by the date of cessation of the rate.
With regard to active derivatives, the positions indexed to EONIA and LIBOR rate have been closed, with the exception of the USD LIBOR. The risks relating to the envisaged cessation of the USD LIBOR rather than the possible cessation of the EURIBOR were substantially mitigated by the subscription to the ISDA Protocol, which Banco BPM and Banca Akros and many of its counterparties adhered to.
As regards loans, there is still an area of potential risk relating to the use of the EUR LIBOR as an alternative rate to the main rate (EURIBOR or BCE rate), which was mitigated in 2021 with the revision of all contractual forms used for new loans, adopting the €STR as the alternative rate.
Any residual risk regards the stock of mortgage loans signed before the revision of the contracts (around 280,000). In the event of the cessation of the Euribor, many of these contracts could be left without a valid rate, entailing their resolution and the consequent repayment of the debt, namely the continuation of the contract at the legal rate, currently 0.01% as at 31 December 2021. In this regard, on the date of these financial statements, there is no assumption to discontinue the Euribor, which could nevertheless be ceased if the "hybrid" method is retained too dependent on the subjective valuations of intermediaries. In this regard, note that, in 2019, albeit in a context of formal continuity, the Euribor underwent significant changes to its calculation method (known as the hybrid method), with a view to maintaining its use also beyond 1 January 2022. With regard to the Euribor, the cited method envisages that the rate is calculated on the basis of a three-level hierarchy, represented by the use of market transaction data from the previous day (level 1), the interpolation of data in the event of the temporary unavailability of market data (level 2), and expert opinion as occurred prior to the reform (level 3).
In Italy, discussions are still in progress with the competent Authorities for the publication of a regulatory provision, which permits the unilateral amendment of contracts (with particular reference to the clause relating to the alternative rate, eliminating any reference to the EUR LIBOR). Note that a further mitigation factor is in any event represented by the power, entrusted to the European Commission, to define an *ex-lege* rate in the event of the cessation of the Euribor.

Other significant aspects relating to Group accounting policies

Below is an illustration of several transactions or events occurring during 2021, deemed significant for defining the related accounting treatment and/or impacts on the balance sheet or income statement.

TLTRO III – Targeted Longer-Term Refinancing Operations

Description of main characteristics

TLTRO III "Targeted Longer-Term Refinancing Operations" are financing operations conducted by the ECB on a quarterly basis - more specifically, between September 2019 and December 2021, with a total of ten drawdowns - for the purpose of maintaining favourable borrowing conditions for banks. Each operation lasts for three years, with the exception of any early repayment option, which may be exercised according to the timeline established for each operation. More specifically, for the first seven operations (September 2019 - March 2021) the early repayment may be exercised quarterly, once twelve months have passed from the settlement of each operation, starting from September 2021; for the last three operations (June 2021 - December 2021), the repayment may be made quarterly from June 2022.
Following the emergency linked to the Covid-19 pandemic, some of the criteria initially envisaged by the ECB in 2019 were improved, between March and December 2020, with specific reference to the maximum amount that can be financed and the relative remuneration.
With regard to the remuneration of the loans, following these revisions, the interest rate is set at a level equal to the average rate of the Eurosystem's main refinancing operations (MRO - "Main Refinancing Operations"), currently 0%, except for the period from 24 June 2020 to 23 June 2022 (known as the special interest rate period), in which a rate 50 basis points below will apply.

There is also an incentive mechanism that allows for access to more favourable rate conditions, depending on the achievement of certain benchmarks, which depends on net loans disbursed. In more detail, it is possible to benefit from the average rate on deposits (Deposit Facility) for the entire duration of the operation, currently -0.5%, instead of the MRO rate, with a further reduction of 50 basis points for the "special interest rate period".
Said interest is settled on maturity of each operation or at the time of early repayment.

Accounting treatment

The accounting treatment of the operations in question, and in particular, the recognition of interest depending on the different remuneration mechanisms, does not appear to refer directly to any IAS/IFRS accounting standard. This is confirmed by the request that the ESMA made to the IFRS Interpretations Committee (IFRIC), namely the committee tasked with providing official interpretations of the international accounting standards, on 9 February 2021, to receive clarification as to the accounting treatment to apply to the loans on question.
In light of the above, given that on the reporting date of this annual financial report, no official interpretations of the accounting treatment of TLTRO III operations has been received, Banco BPM Group established the reference accounting policy, on the basis of the provisions of IAS 8, as illustrated below.
Based on the accounting policies of Banco BPM Group, the provisions of accounting standard IFRS 9 "Financial instruments" are deemed to be applicable to TLTRO III loans, insofar as the remuneration conditions defined by the ECB are considered on a par with market conditions, as the ECB defines and implements monetary policy in the Eurozone. More specifically, the approach envisaged by IFRS 9 for financial instruments with variable interest rates is deemed to apply (paragraph B5.4.5), in line with the treatment adopted in the past for the loans obtained through the previous TLTRO programmes. In particular, with reference to the application procedures, it is retained that the interest should be recognised on the basis of the rates in place on each occasion, and applicable for each reference period, based on the probability of managing to reach specific benchmark objectives. This means that the special interest for the period between 24 June 2020 and 23 June 2022 will be recognised in the above-cited period, to the extent that achieving the same is retained likely. The selection of the above-cited accounting treatment took into consideration that: (i) the special interest regards, in equal measure, all drawdowns, regardless of the residual duration of the loans (ii) the early repayment of the tranches, after the benchmark objective assessment period, is made at a value equal to the nominal value, plus the interest accrued at said date, without applying any penalty (iii) the entity of the special interest in the period between June 2020 and June 2022 is expected to vary in order to guarantee a minimum level of favourable conditions (for example, in the case in which the Deposit Facility rate was -0.45%, the additional remuneration in the period in question would be -0.55%).

Uncertainties of accounting treatments

As illustrated above, given the importance of the topics at European level and of the different accounting practices adopted, on 9 February 2021, the ESMA asked the IFRS Interpretations Committee (IFRS IC) to provide clarification on the accounting treatment for TLTRO III operations.
In the meetings held on 8-9 June 2021, the above-mentioned Committee published the Tentative Agenda Decision, without however providing binding instructions on the matter, referring the issue to the "Post Implementation Review" (PIR) project relating to the Classification and Measurement of IFRS 9. The above-cited agenda is currently being examined by the IASB.
In light of the above, on the date of preparation of these financial statements, no official interpretation on the matter has been issued; nevertheless, it cannot be ruled out that, on completion of the analyses under way by the IASB, different guidelines may emerge with regard to the accounting treatment to be adopted for the recognition of the case in question with respect to that carried out by the Group up until 31 December 2021.

Active loans and relative interest pertaining to FY 2021

As at 31 December 2021, the TLTRO III operations subscribed by the Group amounted to 39.2 billion and pertained entirely to the Parent Company.
The interest pertaining to FY 2021 amounted to 352.2 million and were assessed to the maximum measure possible, namely at a negative rate of -1%, corresponding to the interest rate of Deposit Facilities (-0.5%), plus a further reduction in the special interest rate period (-0.5%). On date of preparation of this report, to be able to benefit from the most favourable remuneration, all of the benchmark objectives were achieved; the latest benchmark recorded actually related to the evolution of net loans disbursed ("net lending") for the period from 1 October 2020 to 31 December 2021.

Tax credit relating to the "Relaunch" Decree, purchased following the sale by direct beneficiaries or previous purchasers

In order to combat the negative economic effects of the Covid-19 pandemic, Law no. 77 of 17 July 2020, converted with amendments into Decree Law no. 34 of 19 May 2020 ("Relaunch" Decree) - containing urgent measures on health, support for labour and the economy, as well as social policies linked to the Covid-19 pandemic emergency - a series of tax incentives were introduced which make it possible to benefit from deductions linked to expenses incurred for specific work, for example to increase the level of energy efficiency of existing buildings ("ecobonus") or to reduce their seismic risk ("sismabonus"), for up to 110% of the expenses incurred.
These incentives, applied to households and businesses, are proportional to a percentage of the expense incurred and are disbursed in the form of tax credits or tax deductions and, in certain cases (for example for the ecobonus and the sismabonus) they make it possible to take advantage of an advance contribution via a discount on the consideration due to the supplier, to which a tax credit will be recognised.
The law therefore introduces the possibility for the taxpayer to opt - in the place of the direct use of the deduction - for an advance contribution in the form of a discount from suppliers of goods or services ("invoice discount") or, alternatively, for the sale of the credit corresponding to the deduction due to other parties, including credit institutions and other financial intermediaries (tax credit).
In this context, if the taxpayer opts for the sale of the deduction to the Bank, the tax credit acquired may be used to offset other tax payables of the same Bank; any unused share cannot be requested as a refund from the tax authorities, but may in turn be sold to third-party purchasers, in accordance with the procedures and provisions envisaged by the law in force at the time.

The specific nature of the above-illustrated tax credits is such that it does not relate to a specific international accounting standard; in this case, IAS 8 provides that company management should decide which accounting treatment is considered most appropriate to guarantee financial statement users relevant and reliable information.
To this end - taking into account the instructions provided on 5 January 2021 by the Bank of Italy, Consob and IVASS in document no. 9 of the Coordination Round Table on the application of IAS/IFRS "Accounting treatment of tax credits linked to the "Heal Italy" and "Relaunch" Decree Laws, purchased following the sale by direct beneficiaries or previous purchasers" - Banco BPM Group defined its own accounting policy by making reference to certain accounting provisions contained in IFRS 9. More specifically, the tax credits in question are retained to substantially correspond to a financial asset, and therefore the provisions envisaged by the afore-cited standard can, by analogy, be applied, if compatible with the characteristics of the operation.
In particular, the credits acquired fall under the "Hold to Collect" business model, as the objective is to hold them and use them for future offsetting with the Group's tax payables.
As a result, applying, by analogy, the provisions set forth in IFRS 9, the credits acquired are initially recognised at fair value, equal to the consideration paid to the customer to purchase the tax credit, and subsequently measured at amortised cost, taking into account their value and offsetting timing. Instead, the provisions relating to the calculation of expected losses (ECL), pursuant to IFRS 9, are not applicable: the recoverability of tax credits effectively depends on the tax capability of the purchaser, namely the ability to offset the tax credits purchased with the tax debts of the purchaser, as they cannot be refunded by the Tax Authority. Said credits are recognised in the residual item "130. Other Assets", insofar as, as regards international accounting standards, they do not represent tax assets, public grants, intangible assets or financial assets, in line with that illustrated in the joint document cited above.
The interest accrued, based on the amortised cost criterion, is recognised in the income statement in item "10. Interest and similar income".

As at 31 December 2021, the nominal value of the tax credits purchased in total as at 31 December 2021 amounted to 912.1 million, almost entirely related to purchases made in FY 2021 (908.9 million). Considering the credits offset, amounting to 25.6 million euro, the residual nominal value as at 31 December 2021 amounted to 886.5 million. The corresponding book value, shown in balance sheet item "130. Other assets", based on amortised cost, which takes into account the purchase price and the net interest accrued as at 31 December 2021, amounted to 817.4 million.
As at 31 December 2021, contractual commitments were also made with third parties for future purchases of tax credit for a total amount of around 2 billion.
The amount of the credits purchased and of the purchase commitments made is compatible with the estimates of payables for payment obligations with the State Tax Authorities, which may be offset with the credits purchased, as offsetting is the only way to collect said credits.

Issue of Additional Tier 1 (AT1) financial instruments

As indicated in the "Significant events during the year" section of the Report on operations, on 12 January 2021, Banco BPM issued Additional Tier 1 instruments for an amount of 400 million to institutional investors. These were, specifically, subordinated instruments classified in Additional Tier 1 capital, under the terms of Regulation no. 575 of 2013 (CRR).
The securities are perpetual and may be called by the issuer, in accordance with the regulations in force from 19 January 2026; if not called, the call may be exercised every six months thereafter, at the ex-dividend date.
The six-monthly coupon, non-cumulative, was set at an annual rate of 6.5%. If the option of early redemption envisaged, for 19 January 2026, is not exercised, a new fixed-rate coupon will be determined adding the original spread to the mid-swap rate in euro at five years to be recorded at the moment of the recalculation date. This new coupon will remain fixed for the next five years and until the next recalculation date.
This issue is in addition to those made on 11 April 2019 and 14 January 2020, for 300 million and 400 million, respectively. For both issues, the securities are perpetual and may be called by the issuer from 18 June 2024 and 21 January 2025; if they are not called, the call may be exercised every five years in the first case and every six months for the second issue. The six-monthly coupon, non-cumulative, was set at an annual rate of 8.75% and 6.125%, respectively. If the option of early redemption, envisaged for 18 June 2024 and 21 January 2025, is not exercised, a new fixed-rate coupon will be determined adding the original spread to the mid-swap rate in euro at five years to be recorded at the moment of the recalculation date. This new coupon will remain fixed for the next five years and until the next recalculation date.
For the above issues, in line with the provisions of the CRR for AT1 instruments, the issuer has full discretion in deciding not to pay the coupons, for any reason and for an unlimited period of time. Cancellation is instead obligatory if certain conditions occur, including the occurrence of a trigger event, namely when the Common Equity Tier 1 (CET1) of Banco BPM (or consolidated CET1) is lower than 5.125%. In addition, interest is not cumulative, as any amount that the issuer decides not to pay or would be obliged not to pay will not be accumulated or payable at a later date. It is also envisaged that on the occurrence of a trigger event, the capital would be irrevocably and obligatorily written down by the amount needed to bring the CET1 (of Banco BPM or of the Group) to 5.125%. The capital written down could be reinstated (written up), on fulfilment of certain conditions, and in any event at the issuer's complete discretion, even in the event that Banco BPM decided to repay the issue early. Based on the above, the above-cited issues are considered the equivalent of "equity instruments" in terms of accounting standard IAS 32, as illustrated in the accounting policies shown in paragraph "16- Other information" of section "A.2 - Key financial statement items" below.
In the financial statements as at 31 December 2021, the price received from the above-cited issues, after deducting the directly attributable transaction costs, net of the related tax charge (7.2 million), is shown under shareholders' equity item "140. Equity instruments", for an amount of 1,092.8 million.
Consistent with the nature of the instruments, the coupons are recognised as a reduction of shareholders' equity, in item "150. Reserves", if and for the amount at which they were paid. During 2021, the shareholders' equity was reduced by 46.2 million, as a result of the payment of the coupons relating to the AT1 issues (63.8 million), net of the related tax charge (IRES tax) of 17.6 million. This specifically regarded two six-monthly coupons relating to issues made in 2019 and 2020, of 26.3 million and 24.5 million respectively, and the six-monthly coupon for the 2021 issue, which amounted to 13.0 million.

"Hold to Collect" Business Model - sales

During 2021, sales of debt securities were approved, classified in the portfolio of "Financial assets at amortised cost" for a nominal amount of around 2 billion, almost entirely attributable to forward sale transactions of several Italian Government securities by the Parent Company. As at 31 December 2021, the economic effects of the above-cited transactions were not significant, insofar as the forward sales will only be recognised on the forward settlement date, namely in FY 2022.
As these are exposures classified in the portfolio of "Financial assets at amortised cost", namely in the portfolio held for the purpose of collecting contractual cash flows (the "Hold to Collect" - HTC Business Model), accounting standard IFRS 9 envisages that their sale is permitted in observance of specific materiality or frequency thresholds, close to maturity, in the event of a significant increase in credit risk or in exceptional circumstances.
In that regard, note that the sales approved by the Group in 2021 occurred in compliance with the materiality and frequency thresholds, outlined in the Group's accounting policies. More specifically, the sales of debt, cash and forward securities, approved by Banco BPM in 2021 correspond to around 9.3% of the nominal value of securities in issue as at 1 January 2021 and therefore within the materiality threshold of 10% of the nominal value of the securities

portfolio at the beginning of the year, defined in the above-mentioned accounting policies. The annual frequency threshold, defined in terms of twelve annual transactions, was also respected. For the application of said thresholds, along with the other indicators/limits of eligibility of the sales, refer to Part "A.2 - Key financial statement items", paragraph "3 - Financial assets at amortised cost".
In addition, in 2021 the forward sales of Italian government bonds ensuing from the execution of forward contracts entered into in the second half of 2020 were finalised, for a total of 1,575 million in terms of nominal value, in observance of the annual eligibility threshold for sales of 10% envisaged for FY 2020. The result of such sales, accounted for in item "100. Gains (losses) on disposal or repurchase of: a) financial assets at amortised cost" recorded a gain of 102 million.
Lastly, it should be noted that the management of debt securities classified in the "HTC" and "Hold To Collect and Sell" portfolios continues to be in line with the choices made in previous years; in fact during the year, there were no changes to the business model that led to the need to reclassify the securities portfolio, as there were also no changes to accounting policies relating to eligibility criteria for HTC sales.

Project Rockets - sale transactions of a portfolio of exposures classified as bad loans

As illustrated in the section entitled "Significant events during the year" of the Group Report on operations, on 3 June 2021, the sale of a portfolio of exposures classified as bad loans was finalised through a securitisation transaction ("Project Rockets") with a view to obtaining the state guarantee for senior securities (the Guarantee for Securitisation of Bad Loans - GACS), pursuant to the Decree of the Ministry of the Economy and Finance of 15 July 2021[1].
The transaction which was carried out by Banco BPM with Credito Fondiario as Master and Corporate Servicer and CF Liberty Servicing S.p.A. (now Gardant Liberty Servicing S.p.A.) as Special Servicer of the portfolio, has as its underlying assets bad loans originated by the Group for a gross amount of roughly 1.5 billion, of which around half not secured (amount referring to the valuation date established in the contract at 31 December 2020).
On 3 June 2021, the contract of sale between Banco BPM and the SPE "Aurelia SPV S.r.l." was signed.
In order to finance the acquisition of the loans, on 22 June 2021 the special purchase vehicle issued the following three tranches of ABSs:

- Senior (Class A) for 342 million (22.7% of the gross amount). Those securities hold an investment grade rating (DBRS Morningstar: BBB; Scope Ratings Gmb: BBB);
- Mezzanine (Class B) for 40 million;
- Junior (Class J) for 12 million.

With regard to the senior securities, on 19 January 2022, a notice was received regarding the award of the GACS, pursuant to Italian Decree Law 18/2016, made with the decree of the Ministry of the Economy and Finance signed on 23 December 2021.

In compliance with the retention rule established by supervisory provisions, Banco BPM Group maintained ownership of 5% of the Mezzanine and Junior tranches, while on 25 June 2021, it sold 95% of the Mezzanine securities and 95% of the Junior securities to Orado Investments S.A.R.L - a subsidiary of the Elliott funds. Instead, Banco BPM retained ownership of 100% of the Senior securities.

Following subscription of the above-cited tranches by third parties, the conditions were fulfilled for derecognition of the bad loan portfolio sold, as the risks and benefits of the aforementioned portfolio were substantially transferred. The consolidated economic effect, directly and indirectly correlated with the portfolio to be disposed, totalled a negative 134.6 million, and was recognised in the following income statement items:

- "100. a) Gains (losses) on disposal of financial assets at amortised cost", for a negative 214.4 million, corresponding to the lower consideration of the disposal with respect to the book value of the loans;
- "10. Interest income" for 6.9 million, ensuing from the positive effect due to the passage of time, recognised until the date of the disposal for the positions sold;
- "130. a) Net credit impairment losses/recoveries relating to financial assets at amortised cost" for a positive 72.9 million, corresponding to the indirect effect ensuing from the release of funds recognised as at 31 December 2020 due to the sale scenario, in order to adjust the new sale objectives with respect to those remaining after the sale of the portfolio in question.

[1] Decree published in the Official Gazette of 3 August 2021, which extended the guarantee scheme for transactions of this nature, already envisaged by the MEF Decree of 3 August 2016, as amended, to 14 June 2022.

In light of the above, as at 31 December 2021 the Group held:

- all Senior securities classified in the portfolio of "Financial assets at amortised cost: b) Loans to customers", for a book value of 341.7 million;
- 5% of the Mezzanine securities and 5% of the Junior securities classified in the portfolio of "Other financial assets mandatorily measured at fair value" for a book value of 0.6 million, entirely related to the Mezzanine tranche. The measurement at fair value used the price of the sale transaction, illustrated above, as a benchmark, which was considered as level 3 in the fair value hierarchy.

For the sake of full disclosure, "Financial assets at amortised cost" included a limited recourse loan granted to the SPE amounting to 15.7 million, remunerated at a fixed annual interest rate of 1.75%, also in order to establish a cash reserve equal to 4.5% of the existing senior securities. In this regard, it should be noted that this loan does not represent any form of credit support to the securitisation; in the waterfall payments, the repayment of the loan in question, in fact, is different from the payment of the principal of the senior securities and the payment of the principal and interest of the mezzanine securities.

Realignment of mismatches between the tax value and the higher book value (D.L. 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.
The above-mentioned regulation establishes that the realignment option could be exercised through the payment of the first instalment of the substitute tax by 30 June 2021. The amount to be realigned should be determined with reference to the book values resulting from the company financial statements for 2019, but within the limits of the amount still recorded in the 2020 financial statements.

In June 2021, Banco BPM and several Group companies (Bipielle Real Estate, Release and Banca Akros) decided to take advantage of the option to realign the tax value of some properties with the higher book values recognised in the financial statements as at 31 December 2020. The realigned amount totalled 1,003.5 million, 702.9 million of which regarded property used in operations (IAS 16), and 300.6 million regarded property held for investment purposes (IAS 40). The benefit of the realignment amounted to a total of 277.5 million, equal to the difference between the cost for the substitute tax (30.1 million) - corresponding to 3% of the realigned value - and the taxation determined on the basis of the ordinary taxation rates of the companies affected by the realignment (307.6 million). 202.9 million of said benefit related to property used in operations and 74.6 million to property held for investment purposes.
For the effective achievement of the above benefit, a (recapture) mechanism is envisaged on the basis of which, if the unit whose tax value has been realigned to the book value is sold to third parties before 1 January 2024, the calculation of tax gains and losses - respectively to be taxed and deducted - would be carried out by assuming the tax value prior to the realignment as reference, reducing the taxes due by the substitute tax already paid.

In accounting terms, this benefit is achieved by means of the reversal of deferred tax liabilities (DTL) recognised in the balance sheet against the tax misalignment and the recognition of the tax payable for the substitute tax to be paid.
The above-mentioned effects were/will be recognised for accounting purposes by crediting the income statement or the equity reserves, based on the nature and methods with which the deferred taxation to be released on the misalignments in question had been recognised, as illustrated in more detail below.
For property held for investment purposes, given that said properties could be sold even before the end of the recapture period, it was retained that the reversal of deferred tax liabilities could be recognised only when it is certain that the temporary differences that led to the recognition of the above-mentioned liabilities no longer exist, namely at the end of the recapture period (1 January 2024). For this reason, no economic benefit was recorded in the financial statements as at 31 December 2021 against the realignment of the values of the above-mentioned properties.

On the contrary, for property used in operations, as their sale before the end of the recapture period is not envisaged, the non-existence of the temporary differences can be retained as certain, and consequently the relative deferred tax liabilities were reversed. The total capital benefit recognised as at 31 December 2021 was 202.9 million, of which 81.7 million against the income statement and 121.2 million against valuation reserves.

Lastly, it should be noted that, following the aforesaid realignment, for Banco BPM and the individual companies that carried out the realignment, a taxability restriction in the event of distribution (known as a tax-suspended reserve) had to be recognised for an amount corresponding to the higher realigned values net of the substitute tax. In this regard, note that, following the mergers of Bipielle Real Estate and Release into the Parent Company, the obligation to establish a tax restriction for the realignments resolved by the above-mentioned subsidiaries is fulfilled by the Shareholders' Meeting of Banco BPM. This means that for Banco BPM, the tax restriction to append on the reserves, resulting from the exercise of the right of realignment of the tax value of the properties to their book value - carried out by the same Parent Company and by the merged companies Bipielle Real Estate S.p.A. and Release S.p.A. - totalled 605.6 million. In the determination of said restriction, the clarifications provided by the Tax Authority in circular 6/E dated 1 March 2022 are applied, based on which the tax restriction on the reserves of the merging company must be established if and within the limit in which a merger surplus is recognised.

Please recall that the realignment in question is additional to that already approved by the Parent Company's Board of Directors on 26 January 2021 with respect to the realignment of intangible assets. The realigned value as at 31 December 2020 of the cited assets totalled 426.9 million (263.4 million represented by trademarks and 163.5 million by client relationships).
Based on the afore-mentioned realignment, the economic benefits of which were already recognised in the financial statements of Banco BPM as at 31 December 2020, on 15 April 2021, the Shareholders' Meeting decided that a tax suspension on reserves should be recognised for the amount of 414.1 million.
With regard to the alignment of the value of trademarks (263.4 million), note that by virtue of the legislative changes introduced with Italian Law 234/2021 (2022 Budget Law), published in the Official Gazette on 31 December 2021, the tax amortisation period[1] of the amounts was extended from 18 to 50 years. The realignment option exercised was still economically convenient. In this regard, note that the legislative changes in question did not have any economic impact on FY 2021.

Investments in the Voluntary Scheme of the Interbank Deposit Guarantee Fund

Under the agreements signed on 14 February 2022 by the Interbank Deposit Guarantee Fund (IDGF) with BPER Banca, it is envisaged that the Voluntary Scheme transfers the interest held in Banca Carige (80%) to BPER Banca at a symbolic price of 1 euro, and the subordinated loan for a consideration corresponding to its nominal value; the above-mentioned transactions will be finalised, after obtaining the legal authorisations, following the capitalisation of Banca Carige, by the IDGF, for the amount of 530 million.
As at 31 December 2021, Banco BPM and the Group banks – Banca Akros and Banca Aletti – indirectly hold an interest in Banca Carige and in other financial instruments through the Voluntary Scheme of the IDGF. As at 31 December 2021, the value of the afore-mentioned interests recognised in the consolidated financial statements of Banco BPM were fully written down.

Contributions to guarantee deposit systems and resolution mechanisms

Following transposition into the national legislation of Directives 2014/49/EU (Deposit Guarantee Schemes Directive –"DGSD") of 16 April 2014 and 2014/59/EU (Bank Recovery and Resolution Directive – "BRRD") of 15 May 2014, starting from financial year 2015, credit institutions are obliged to provide the financial resources necessary for the financing of the Interbank Deposit Guarantee Fund (IDGF) and the National Resolution Fund (merged into the Single Resolution Fund (SRF) starting from 2016), through payment of ex ante ordinary contributions to be paid annually, until a certain target level is reached. If the available financial resources of the IDGF and/or of the SRF were not sufficient, to respectively guarantee the protected repayment to depositors or to finance the resolution, it is envisaged that the credit entities should cover these by paying extraordinary contributions.
The contributions are recognised in the income statement item "190. b) Other administrative expenses" in application of IFRIC 21 interpretation "Levies", on the basis of which the liability relating to the payment of a levy arises at the time the "obligating event" occurs, namely at the time of the obligation to pay the annual fee. In the case in hand, from an

[1] In accounting terms, the above-mentioned trademarks are considered intangible assets with an indefinite useful life, and therefore are not subject to amortisation.

accounting perspective, the contributions are considered the equivalent of a levy and the time of the occurrence of the "obligating event" has been identified as in the first quarter for the SRF (1 January of each year) and in the third quarter for the IDGF (30 September of each year).
In addition, note that in June 2021, the Bank of Italy called in additional contributions to the National Resolution Fund, to cover the financial requirements connected with the resolution measures carried out prior to the launch of the Single Resolution Fund. More specifically, these were measures launched in November 2015 by the Bank of Italy, as the national resolution authority - pursuant to Italian legislative decree no. 180 of 16 November 2016 - relating to the following four banks: Cassa di risparmio di Ferrara S.p.A., Banca delle Marche S.p.A., Banca popolare dell'Etruria e del Lazio. Pursuant to the cited IFRS 21 interpretation, said additional contribution was recognised in the second quarter of 2021 in the income statement item "190. b) Other administrative expenses", considering that before the payment request, there was no commitment, as also specified in the Bank of Italy communication[1].

For further details on the contributions charged during 2021, please refer to that illustrated in "Section 12 - Administrative expenses" in Part C – Information on the Income Statement" of these Notes.

A.2 - KEY FINANCIAL STATEMENT ITEMS

The accounting standards adopted to prepare the consolidated financial statements as at 31 December 2021 are described below by financial statement item, with reference to the phases of classification, recognition, measurement and derecognition of the various asset and liability items, as well as the methods for recognising revenue and costs. Said standards are consistent with those adopted for the preparation of the consolidated comparative financial statements as at 31 December 2020.

1 - Financial assets at fair value through profit and loss

Classification criteria

This category comprised financial assets other than those classified under "Financial assets measured at fair value through other comprehensive income" and "Financial assets at amortised cost". These include:

- the debt securities or loans to which an "Other" Business Model is associated, i.e. a method of managing financial assets not aimed at collecting the contractual cash flows (Hold to Collect Business Model) or at collecting the contractual cash flows and selling the financial assets (Hold to Collect and Sell Business Model);
- debt securities, loans and UCIT units whose contractual terms do not solely provide for repayment of principal and payments of interest on the amount of principal to be repaid (i.e., that do not pass the "SPPI test");
- equity instruments that cannot be classified as investments in subsidiaries, associates or entities under joint control or held for trading, or for which, on initial recognition, the option to classify them among "Financial assets measured at fair value through other comprehensive income" was not used;
- derivative contracts that are not used for hedging purposes and with a positive fair value (active derivatives). For these instruments, the offsetting with derivatives with a negative fair value (passive derivatives) is permitted for transactions stipulated with the same counterparty, if there is a present legal right to the offsetting and it will be settled on a net basis.

More detailed information is provided below on the three sub-items that comprise the category in question, represented by: "a) Financial assets held for trading", "b) Financial assets designated at fair value"; and "c) Other financial assets mandatorily measured at fair value".

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[1]The total amount annually due by the intermediaries is communicated on each occasion by the Bank of Italy and divided among them proportionally to the amount of the annual contributions due by the same parties to the European Single Resolution Fund. The additional contribution in the year in question is only due by intermediaries which have a contribution obligation towards the Single Resolution Fund for the same year. To this end, the classification as bank on the reference date identified each year by the Single resolution committee in the time frame established by the Bank of Italy is important".

a) Financial assets held for trading

A financial asset (debt securities, equity instruments, loans, UCIT units) is classified as held for trading if it is managed with a view to collecting cash flows through sale, i.e. if it is associated with the "Other" Business Model, as:

- it is acquired for the purpose of being sold in the near future;
- it is part of a portfolio of financial instruments that are jointly managed and for which there is a proven strategy for short-term profit.

This also includes derivative contracts with a positive fair value, not designated as part of a hedging relationship. Derivative contracts include those embedded in structured financial instruments, in which the host contract is a financial liability, that have been recognised separately because:

- their economic characteristics and risks are not closely related to those of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of derivative;
- the hybrid instruments to which they belong are not designated at fair value with the related changes recorded in the income statement.

A derivative is considered to be a financial instrument or other contract that has the following characteristics:

- its value changes in response to changes in an interest rate, in the price of a financial instrument, in a commodity price, in the exchange rate in foreign currency, in a price or interest rate index, in a credit rating or in a credit index or in another pre-established variable (the underlying) provided that, in the case of a non-financial variable, the underlying is not specific to a party to the contract;
- it does not require an initial net investment or requires a lower initial net investment than would be required for other types of contracts that would be expected to respond similarly to changes in market factors;
- it is settled at a future date.

b) Financial assets designated at fair value

A financial asset (debt securities and loans) may be designated at fair value on initial recognition, with the measurement results recognised in the income statement, only when such designation makes it possible to provide better disclosure, as it eliminates or considerably reduces the inconsistency in valuation, that would otherwise be caused by measuring assets or liabilities or recognising the associated gains and losses on different bases (accounting mismatch).

c) Other financial assets mandatorily measured at fair value

Other financial assets mandatorily measured at fair value represent a residual category and are made up of financial instruments that do not meet the business model or cash flow requirements to be classified as financial assets at amortised cost or financial assets measured at fair value through other comprehensive income. More specifically, these include:

- debt securities or loans whose contractual terms do not solely provide for repayment of principal and payments of interest on the amount of principal to be repaid (i.e., that do not pass the "SPPI test");
- UCIT units;
- equity instruments not held for trading, for which the option of classifying them among the financial assets measured at fair value through other comprehensive income was not used.

Recognition criteria

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

Income item measurement and recognition criteria

Subsequent to initial recognition, financial assets at fair value through profit and loss are designated at fair value, with recognition of changes as a balancing entry to the income statement. For derivative instruments, if the fair value of a financial asset becomes negative, that item is accounted for as a financial liability held for trading.

To determine the fair value of financial instruments listed on an active market, market listings at the reporting date are used. In the absence of an active market, estimate methods and valuation models are used that take into account all the risk factors associated with the instruments and that are based on market inputs, such as: methods based on the valuation of other listed instruments that are substantially the same, discounted cash flow analysis, option pricing models, and values recognised in recent comparable transactions. In the event that no reliable estimate of the fair value is possible for equity instruments and related derivatives, the cost criterion is used as an estimate of the fair value only on a residual basis and limited to a few cases (non-applicability of the above methods or in the presence of a range of possible fair value valuations, of which cost represents the most significant estimate).
Please refer to "Part A.4 – Fair value disclosure" for details on how fair value is determined.

Trading profits or losses and gains or losses as a result of the valuation of the trading book, including derivatives connected with financial assets/liabilities designated at fair value, are recognised in income statement item "80. Net trading income". The same economic effects related to financial assets designated at fair value and to those mandatorily measured at fair value are recognised in item "110. Net gains (losses) from other financial assets and liabilities measured at fair value through profit and loss", in sub-items "a) financial assets and liabilities designated at fair value and b) other financial assets mandatorily measured at fair value through profit and loss" respectively.

Derecognition criteria

Financial assets are derecognised when the contractual rights to receive the cash flows generated by the assets have expired, or when the financial assets are disposed of, and all risks and rewards of ownership of the assets have been substantially transferred. In the presence of renegotiations, the above requirements exist if the changes to the contractual conditions are considered substantial, as illustrated in paragraph "16 – Other information – Renegotiations" below, to which reference is therefore made.

In the event that the substantial transfer of risks and rewards cannot be verified, the financial assets are derecognised from the financial statements if control of the loans has been relinquished.
Lastly, assets sold are derecognised if the contractual right to receive the cash flows of the assets is maintained, but at the same time a contractual obligation is assumed to pay these flows to a third party without delay and only up to the amount of those received.

Reclassification criteria

Financial assets at fair value through profit and loss, other than equity instruments, can be reclassified into the accounting categories of "Financial assets measured at fair value through other comprehensive income" and "Financial assets at amortised cost". This reclassification can occur in the very rare circumstance that an entity decides to modify its business model for managing financial assets. The transfer value is represented by the fair value on the date of its reclassification and prospectively from that date. In this instance, the effective interest rate of the reclassified financial asset is determined on the basis of its fair value on the date of reclassification, which is the date of initial recognition for the allocation of the various stages of credit risk (stage assignment) for the purpose of impairment.

2 - Financial assets measured at fair value through other comprehensive income

Classification criteria

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

- the purpose of holding them is represented by both the collection of contractual cash flows and their sale ("Hold to Collect and Sell" Business Model);

- the related contractual flows consist solely of payments of principal and interest on the capital to be repaid (i.e. they are expected to pass the SPPI test - Solely Payment of Principal and Interest test).

This category also includes equity instruments not held for trading and not qualifying as investments in subsidiaries, associates or entities under joint control, for which the option of classifying them among financial assets measured at fair value through other comprehensive income is applied. This option may be exercised on initial recognition of the individual financial instrument and is irrevocable.

Recognition criteria

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

Income item measurement and recognition criteria

Subsequent to initial recognition, financial assets measured at fair value through other comprehensive income, consisting of debt securities and loans, continue to be measured at fair value, with recognition of the portion of interest in the income statement on the basis of the effective interest rate criterion, exchange rate revaluation effects and expected losses (impairment).
Gains and losses deriving from the change of the fair value are instead recorded in a specific shareholders' equity reserve ("120. Valuation reserves"), which will be recycled to the income statement when the financial asset is derecognised (item "100. Gains (losses) on disposal or repurchase of: b) financial assets measured at fair value through other comprehensive income").
At each annual or interim reporting date, the aforementioned assets are subject to impairment in order to estimate the expected losses in value relating to credit risk (Expected Credit Losses), based on the impairment model also established for "Financial assets at amortised cost". Said adjustments are recognised in the income statement in item "130. Net credit impairment losses/recoveries relating to: a) financial assets measured at fair value through other comprehensive income", as a balancing entry of the specific equity valuation reserve ("120. Valuation reserves"); the same applies to recoveries of part or all of the write-downs from previous financial years. For more information on the impairment model, please see the information set forth in the following paragraph "16 - Other information, Methods for determining impairment losses on financial assets".

Equity instruments for which the classification in this category has been opted for, are measured at fair value; profits and losses resulting from the change in fair value, net of the relative tax, are recognised with a balancing entry in a specific equity reserve ("120. Valuation reserves"). The amounts in said reserve will never be recycled to the income statement, even if the asset is sold; in this instance, it will be necessary to reclassify them under another shareholders' equity item ("150. Reserves"). Additionally, no write-down is recognised in the income statement for these assets, as they are not subject to any impairment process. The only component recognised in the income statement is dividends collected ("70. Dividends and similar income").

For equity instruments recognised in this category, not listed on an active market, the cost criteria is used as an estimate of the fair value only to a residual extent and limited to a few circumstances, namely if all of the valuation methods illustrated in the item above "Financial assets at fair value through profit and loss" cannot be applied, or in the presence of a large range of possible measurements of the fair value, with regard to which, cost represents the most relevant estimate.

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

Derecognition criteria

Financial assets are derecognised when the contractual rights to receive the cash flows generated by the assets have expired, or when the financial assets are disposed of, and all risks and rewards of ownership of the assets have been substantially transferred. In the presence of renegotiations, the above requirements exist if the changes to the

contractual conditions are considered substantial, as illustrated in paragraph "16 – Other information – Renegotiations" below, to which reference is therefore made.
In the event that the substantial transfer of risks and rewards cannot be verified, the financial assets are derecognised from the financial statements if control of the loans has been relinquished.
Lastly, assets sold are derecognised if the contractual right to receive the cash flows of the assets is maintained, but at the same time a contractual obligation is assumed to pay these flows to a third party without delay and only up to the amount of those received.

Reclassification criteria

Financial assets measured at fair value through other comprehensive income, other than equity instruments, can be reclassified into the accounting categories of "Financial assets at fair value through profit and loss" and "Financial assets at amortised cost". This reclassification can occur in the very rare circumstance that an entity decides to modify its business model for managing financial assets. The transfer value is represented by the fair value on the date of its reclassification and prospectively from that date.
In the event of a reclassification to "Financial assets at amortised cost", the cumulative gain or loss in the valuation reserve is eliminated as a balancing entry to an adjustment to the fair value of the financial asset at the reclassification date.
In the event of reclassification under "Financial assets at fair value through profit and loss", the cumulative gain or loss in the valuation reserve is reclassified from shareholders' equity to the income statement.

3 - Financial assets at amortised cost

Classification criteria

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

- the purpose of holding them is represented by the collection of contractual cash flows ("Hold to Collect" Business Model);
- the related contractual flows consist solely of payments of principal and interest on the capital to be repaid (i.e. they are expected to pass the SPPI test).

Specifically, this includes loans granted to customers and, with the exception of those "on demand", to banks - in any form - and debt securities that meet the requirements described above.
Loans originated through finance leases are also included in this item and, in line with IFRS 16, they are recognised as receivable as they transfer the risks and rewards to the lessee, including assets waiting to be granted under finance lease, including real estate under construction.
Also included are "repurchase agreements" with the obligation to sell securities at a future date and "securities lending" transactions with a cash guarantee deposit which is fully available to the lender, for the spot amount paid, if the characteristics of these transactions do not entail recognition in the proprietary portfolio of the security being carried over or lent, since no risk or reward has been acquired from them.
Lastly, the category in question includes operating receivables connected with the provision of financial services as defined in the Consolidated Banking Law and in the Consolidated Finance Law.

Recognition criteria

Financial assets are initially recognised on the settlement date in case of debt securities and on the disbursement date for loans. Upon their initial recognition, financial assets classified in this category are designated at fair value, which generally corresponds to the price paid, including any transaction costs or revenues that are directly attributable to the instrument.

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

If the date on which the credit contract is signed and the date on which the funds agreed are disbursed are not the same, a commitment to disburse funds is recognised, which will be closed out when the loan is effectively disbursed.

Income item measurement and recognition criteria

Following initial recognition, the financial assets in question are measured at amortised cost, equal to the initial recognition value decreased by repayments of principal, decreased/increased by the amortisation - calculated according to the effective interest rate method - of the difference between the amount disbursed and the amount repayable at maturity, typically comparable to the costs/income directly associated with the individual loan.
The effective interest rate is determined by calculating the rate that is equivalent to the asset's present value of future principal and interest cash flows, to the amount disbursed including costs/income associated with the asset. The estimate of cash flows must take into account all the contractual provisions which could influence the amounts and maturities, without considering the expected loss on the asset. This accounting method, based on financial logic, spreads the economic effect of all transaction costs, commissions, bonuses or discounts considered an integral part of the effective interest rate method throughout the residual life of the asset. The amortised cost method is not used for short-term assets, whose limited life span makes the application of discounting immaterial. Said assets are measured at historical cost and their costs/income, if any, are recognised in the income statement on a straight-line basis throughout the loan contract life. The same measurement criterion is used for assets without a defined maturity or demand loans.

The book value of financial assets at amortised cost is adjusted to account for any provisions on expected losses. At each annual or interim reporting date, the aforementioned assets are subject to impairment for the purpose of estimating the expected losses in value relating to credit risk (ECL - Expected Credit Losses). Said losses are recognised in the income statement in item "130. Net credit impairment losses/recoveries". If it is found that no reasonable expectations of recovery exist, the gross exposure is written off: in this case, the gross exposure is reduced by the amount considered not recoverable, as a balancing entry to the reversal of provisions covering the expected losses and the impairment in the income statement, for the part not covered by the provisions. For more information on the accounting treatment of write-offs please refer to the content of the paragraph on "derecognition criteria" below.

More specifically, the impairment model provides for the classification of assets into three distinct "Stages" (Stages 1, 2, and 3), based on changes to the debtor's credit risk, corresponding to different criteria for measuring expected losses:

- Stage 1: includes performing financial assets for which no significant impairment of credit risk has been observed with respect to the date of initial recognition or for which the credit risk is considered low. Impairment is based on an estimate of the expected loss over one year (expected loss resulting from possible default on the financial asset within one year from the reference date);
- Stage 2: includes performing financial assets that have undergone significant impairment of credit risk with respect to initial recognition (known as SICR - "Significant Increase in Credit Risk"). Impairment is proportional to the estimate of expected loss over the entire residual life of the financial asset;
- Stage 3: includes non-performing financial assets, characterised by a 100% probability of default, to be measured by estimating the expected loss over the entire life of the instrument.

For performing assets, expected losses are determined using a collective process based on certain risk parameters, namely the Probability of Default (PD), the Loss Given Default (LGD) and the Exposure at Default (EAD), deriving from internal models for calculating regulatory credit risk that are suitably adjusted to account for the specific requirements set out in accounting regulations.

Non-performing assets, i.e. assets for which, in addition to a significant increase in credit risk, there is objective evidence of impairment, are measured with an analytical or lump-sum measurement process based on uniform risk categories, designed to establish the present value of expected future recoverable cash flows, discounted on the basis of the original effective interest rate or a reasonable approximation if the original rate is not directly available.

Non-performing assets include exposures to which the status of bad loan, unlikely to pay or past-due for more than ninety days has been attributed in accordance with the definitions established by the supervisory provisions in force (Bank of Italy Circular no. 272 "Matrix of accounts") and referred to by Bank of Italy Circular no. 262, as they are considered to be consistent with the accounting regulations set out in IFRS 9 for objective evidence of impairment.

In the presence of sales scenarios, the determination of the cash flows is based on the forecast of flows recoverable through the internal management activity as well as on the basis of the flows obtainable from any sale on the market, according to the multi-scenario approach described in paragraph "16 - Other information, Methods for determining impairment losses on financial assets" below.

Expected cash flows also consider expected recovery times and the estimated net realisable value of any guarantees.

For fixed rate positions, the original effective rate used to discount the expected recovery flows, determined as illustrated above, remains unchanged over time, even if there is a change in the contractual rate due to financial difficulties of the debtor.
For positions with floating interest rates, the rate used for the discounting of cash flows is updated in relation to the indexation parameters (i.e. Euribor), while keeping the originally established spread constant.

The original value of financial assets is reinstated in subsequent years, due to an improvement in the credit quality of the exposure compared to that which had led to the previous write-down. Recoveries are recognised in the income statement under the same item and, in any case cannot exceed the asset's amortised cost had no adjustments been carried out in the past.

For more information on the impairment model, please see the information set forth in the following paragraph "16 - Other information, Methods for determining impairment losses on financial assets".

For non-performing loans classified in Stage 3, accrued interest is calculated on the basis of amortised cost, that is on the basis of the exposure - determined using the effective interest rate - adjusted for expected losses.
For non-performing loans that do not accrue contractual interest, such as bad loans, this interest corresponds to the reversals of the impairment losses related to discounting the recovery forecasts due to the simple passing of time.

Derecognition criteria

Financial assets are derecognised when the contractual rights to receive the cash flows generated by the assets have expired, or when the financial assets are disposed of, and all risks and rewards of ownership of the assets have been substantially transferred. In the presence of renegotiations, the above requirements exist if the changes to the contractual conditions are considered substantial, as illustrated in paragraph "16 – Other information – Renegotiations" below, to which reference is therefore made.
In the event that the substantial transfer of risks and rewards cannot be verified, the financial assets are derecognised from the financial statements if control of the loans has been relinquished.
Lastly, assets sold are derecognised if the contractual right to receive the cash flows of the assets is maintained, but at the same time a contractual obligation is assumed to pay these flows to a third party without delay and only up to the amount of those received.

The derecognition of non-performing financial assets may occur upon recognising that the exposure is irrecoverable and consequently concluding the recovery process (final derecognition) and involves a reduction in the nominal and gross book values of the loan. This is the case where settlement agreements with the debtor result in a reduced loan amount (in full and final settlement) or in specific situations, for example:
- the final judgement declaring that part or all of the loan has been extinguished;
- the conclusion of insolvency or enforcement proceedings against the main debtor and the guarantors;
- the conclusion of all possible in- and out-of-court actions for recovering the debt;
- the completion of a mortgage foreclosure on an asset as collateral, with the consequent derecognition of the credit guaranteed by the foreclosed mortgage, in the absence of additional specific guarantees or other actions that may be taken to recover the exposure.

These specific situations may lead to the total or partial derecognition of the exposure, yet do not necessarily entail waiving the legal right to recover the debt.

In addition, non-performing financial assets may be derecognised by writing them off after acknowledging that no reasonable expectations of their recovery exist, even while continuing with actions aimed at their recovery. That write-off is made during the financial year in which the debt or part of it is deemed irrecoverable - even while legal proceedings are underway - and may occur before the legal debt recovery proceedings against the debtor and the

guarantors have come to a close. This does not imply a waiver of the legal right to recover the loan and is carried out when the credit documentation contains reasonable financial information indicating that the debtor is unable to repay the debt. In that case, the nominal gross value of the loan remains unchanged, but the gross book value is reduced by an amount equal to the amount written off, which may be related to the entire exposure or to a portion thereof. The amount written off cannot be subject to subsequent recoveries in impairment losses, following an improvement in the recovery forecasts, but only after the amount is actually collected.

Derecognition may occur following sale of the financial assets; in this case, the difference between the book value of the asset sold and the amount received, including any assets received net of any liabilities assumed, is booked to the income statement item "100. a) Gains (Losses) on disposal of financial assets at amortised cost".
In line with the "Hold to Collect" Business Model that characterises financial assets at amortised cost, based on the accounting standard IFRS 9, the sale is permitted where specific circumstances occur. An illustration of the circumstances on whose occurrence the Group deems it permissible to carry out the sale of the assets in question is provided below.

Increase in credit risk
The Group deems that an increase in credit risk occurs where events that result in the following occur:

- the classification of financial assets that were previously classified in Stage 1 in Stage 2;
- the classification of financial assets which were previously classified in Stage 1 or 2 among non-performing assets (i.e. in Stage 3).

Where these cases arise, sales are permitted, irrespective of any threshold of frequency or materiality. This occurs, for example, for the sale of non-performing loans.

Instrument nearing maturity
The Group deems that, irrespective of any frequency or materiality thresholds, sales are compatible with the "HTC" Business Model where:

- the time remaining to maturity is less than 3 months; and
- the difference between the amount received from sale and the residual contractual cash flows does not exceed the threshold of 5% in absolute value.

Frequency and materiality below specific thresholds
Sales with the following characteristics are permitted:

- a frequency threshold of less than 12 sale transactions per year. An individual sale transaction must be understood as the set of sale transactions relating to one or more securities, which are finalised in a time frame of 10 working days starting from the day on which the first sale transaction was carried out;

or

- a materiality threshold of less than 10%, determined based on the ratio of the nominal value of sales during the year to the nominal value of the instruments in the portfolio of financial assets at amortised cost at the beginning of the year.

The two thresholds must be considered separately. As a result, sales made for an amount exceeding 10% of the opening balances are not permitted, even if infrequent.
Said thresholds are applied at the level of individual legal entity belonging to the Group, and separately for the portfolio of debt securities with respect to the portfolio of loans, as those portfolios are held with different management objectives and/or managed by autonomous business functions.

Exceptional circumstances
Examples of exceptional circumstances in which sales are considered permissible may be:

- significant business combinations/restructurings whose pursuit requires a reorganisation of Group assets and liabilities;
- sales made to handle liquidity crises, where the event could not have been reasonably foreseen (stress scenarios).

Reclassification criteria

Financial assets at amortised cost can be reclassified into the accounting categories of "Financial assets measured at fair value through other comprehensive income" and "Financial assets at fair value through profit and loss". This reclassification can occur in the very rare circumstance that an entity decides to modify its business model for managing financial assets. The transfer value is represented by the fair value on the date of its reclassification and prospectively from that date. Gains or losses resulting from the difference between the amortised cost of the financial asset and its fair value are recognised:

- in the income statement, in the event of reclassification under "Financial assets at fair value through profit and loss";
- in shareholders' equity to a specific valuation reserve, in the event of reclassification to "Financial assets measured at fair value through other comprehensive income".

4- Hedging transactions

It should be noted that Banco BPM Group avails of the IFRS 9 option to continue to fully apply the hedge accounting rules set forth by IAS 39, in the version endorsed by the European Commission (the carved out version).

Classification criteria

Asset and liability items include financial hedging derivatives, which at the reporting date of the financial statements or interim report showed a positive and negative fair value, respectively.

Hedges seek to neutralise potential losses recognisable on a given financial instrument or a group of financial instruments, attributable to a specific risk, by offsetting them with the gains recognisable on a different financial instrument or group of financial instruments in the event that said risk should actually materialise.
The following types of hedges are provided for:

- fair value hedges, which seek to hedge exposure to changes in the fair value of a financial statement asset or liability, attributable to a specific risk. It is also possible to activate macro fair value hedging, with the goal of reducing fair value fluctuations attributable to the interest rate risk, of monetary amounts deriving from a portfolio of financial assets and liabilities (including "core deposits"). Net amounts deriving from the mismatch of assets and liabilities cannot be subject to macro hedging;
- cash flow hedges, which seek to hedge the exposure to changes in future cash flows attributable to specific particular risks associated with financial statement items or a highly likely expected transaction;
- hedges of foreign currency transactions, which seek to hedge the risks of investment in a foreign company expressed in foreign currency other than the Group's reference currency (euro).

At the level of the consolidated financial statements, only derivatives entered into with an external counterparty to the Group may be designated as hedging instruments. The results associated with internal transactions carried out between various Group entities are eliminated.

Derivatives can be designated as hedges, provided that the hedging relationship between the hedged instrument and the hedging instruments is formally documented, and includes risk management objectives, the hedging strategy and the methods to assess prospective and retrospective effectiveness; said relationship must be effective at the time the hedge is originated and prospectively throughout its entire life. The hedge effectiveness depends on the extent to which the changes in the fair value or in the expected cash flows of the hedged instrument are actually offset by those of the hedging instrument. Therefore, effectiveness is measured by comparing said changes, while considering the aim pursued by the entity when the hedge was established.
A hedge is effective (within the limits established as a range of 80% to 125%) when changes in the fair value (or in the cash flows) of the hedging instrument neutralise almost completely the changes in the hedged instrument attributable to the hedged risk. Hedging effectiveness is assessed at each annual or interim reporting date, using:

- prospective tests, that justify the application of hedging accounting in that they demonstrate its expected effectiveness;
- retrospective tests, demonstrating the hedge's actual effectiveness achieved over the period being examined. In other words, these tests measure how far the actual results deviate from perfect hedging.

Recognition criteria

Financial hedging derivatives are recognised at fair value, at the date on which the relative contracts are entered into, and are classified as assets in item "50. Hedging derivatives" or as liabilities in item "40. Hedging derivatives" depending on whether the value is positive or negative.

Income item measurement and recognition criteria

Subsequent to initial recognition, hedging derivatives continue to be measured at fair value. In particular:

- for fair value hedges, the changes in fair value of the hedged element are offset by the changes in fair value of the hedging instrument. Said offset is recognised by charging the changes in value to the income statement, in item "90. Fair value gains/losses on hedging derivatives", referring both to the hedged element (referring to the changes generated by the underlying risk factor), as well as to the hedging instrument. Any resulting difference, which represents the partial ineffectiveness of the hedge, represents the net effect on the income statement. If the hedging relationship ends, the hedged instrument reacquires the measurement approach of the class to which it originally belonged; for instruments measured at amortised cost, the cumulative revaluations/write-downs recognised as a result of changes in fair value of the hedged risk are recognised in the income statement under interest income and expense throughout the residual life of the hedged item, on the basis of the effective interest rate. If the hedged item is sold or repaid, the share of fair value not yet amortised is recognised immediately in income statement item "90. Fair value gains/losses on hedging derivatives";
- for cash flow hedges, the portion of changes in the fair value of the derivative that is determined to be an effective hedge is recognised in shareholders' equity (item "120. Valuation reserves"), while it is recognised in the income statement only when changes in cash flows to be offset arise in the hedged item. The portion of gains or losses of the hedging instrument that is considered ineffective is charged to the income statement (item "90. Fair value gains/losses on hedging derivatives"). Said portion is equal to any difference between the cumulative fair value of the hedging instrument and the cumulative fair value of the hedged instrument. In any event, the fluctuations in fair value of the hedged item and the related hedge must lie within the 80%-125% range. If the cash flow hedge is no longer considered effective or the hedging relationship is terminated, the total amount of profits or losses on the hedging instrument, previously recognised in "Valuation reserves", is recognised in the income statement only when the hedged transaction will take place or when it is no longer deemed possible that the transaction will take place. In this last circumstance, the profits or losses are transferred from the shareholders' equity item to the income statement item "90. Fair value gains/losses on hedging derivatives";
- hedges of investments in foreign currency are accounted for using the same method as for cash flow hedges.

For debt securities classified in the "Financial assets measured at fair value through other comprehensive income" portfolio, designated as specific fair value hedges, the changes in value attributable to the hedged risk - which in absence of the same would be recognised as a balancing entry of a specific valuation reserve - are recorded in income statement item "90. Fair value gains/losses on hedging derivatives", offsetting against the result of the hedge instrument.
For equity instruments classified in the "Financial assets measured at fair value through other comprehensive income", given the decision made by the Group to apply the rules of IAS 39 to hedge instruments, they cannot be designated as fair value hedges (price or exchange rate risk), insofar as the valuation effects of the hedging derivative must be recognised in the income statement, while the valuation and realisation effects of the hedged equity instruments are recognised in shareholders' equity, without any exception for recycling to the income statement, unless they are dividends.

Derecognition criteria

Should the above tests fail to confirm the effectiveness of the hedging, both retrospectively and prospectively, hedge accounting, as described above, is discontinued. In that situation, the hedging derivative contract is reclassified under "Financial assets at fair value through profit and loss" and, specifically, under Financial assets held for trading.
In addition, the hedging relationship stops when:

- the derivative expires, is discharged or exercised;
- the hedged item is sold, expires or is repaid;
- it is no longer highly likely that the future hedged transaction will be carried out.

5 - Interests in associates and joint ventures

Classification criteria

This item includes interests in associates or companies subject to joint control, which are carried at equity.
Associates are companies which are not subsidiaries, over which the Group has a significant influence. The company is assumed to exercise a significant influence in all cases where it holds 20% or more of voting rights (including "potential" voting rights), and, irrespective of the shareholding percentage, whenever it has the power to participate in business and financial decisions of the investees, by virtue of specific legal relations, such as shareholders' agreements, the purpose of which is to ensure that the members of the agreement are represented in the management bodies and to safeguard a consistent management approach, without, however, controlling the same.
Companies subject to joint control are enterprises where the joint control is based on a contract or other agreement whereby it is necessary to obtain the unanimous consensus of all the parties sharing the control to make strategic financial and operating decisions. This takes place when the voting rights and control over the economic activity of the investee are shared jointly by Banco BPM and another party. Furthermore, an equity investment is qualified as under joint control when, even though voting rights are not shared jointly, the unanimous consent of all parties sharing control is required to take decisions regarding significant activities.

Recognition criteria

Financial assets are initially recognised on the settlement date. Upon their initial recognition, financial assets classified in this category are carried at cost, including any goodwill paid for at the time of acquisition, which, therefore, is not independently, separately recorded.

Income item measurement and recognition criteria

Interests in associates and joint ventures are measured with the equity method. This method envisages that the initial book value is subsequently increased or decreased to reflect the share of profit or loss of the investees attributable to the Group generated after the acquisition date, as a balancing entry to the consolidated income statement item "250. Gains (losses) of associates and joint ventures". Dividends received from investees are deducted from the book value of the investment.
Should it be necessary to carry out adjustments due to changes in shareholders' equity of the investee that have not been recognised in the investee's income statement (e.g. as a result of the designation at fair value of "Financial assets measured at fair value through other comprehensive income", as a result of the valuation of actuarial gains/losses on defined benefit plans), the share of the above changes attributable to the Group is recognised directly in the shareholders' equity item "120. Valuation reserves".
When applying the equity method, the most recent available financial statements of the associated company or company subject to joint control are used, suitably adjusted to take into account any significant events or transactions that have taken place between the last available financial statements of the investee company and the reporting date of the consolidated financial statements. If the investee company adopts accounting standards that are different to those of the Group, changes are made to the financial statements of the investee.
After applying the equity method, investments in associates or jointly controlled entities are tested for impairment when there is objective evidence of impairment that could have an impact on the investee's cash flows and consequently on the recoverability of the book value of the investment.
The process of recognising any impairment, therefore, involves checking for possible indicators that are considered to show objective evidence of impairment, such as:

- significant financial difficulties of the investee company (for example, significant negative changes in the book value of shareholders' equity, reduction or interruption of the distribution of dividends, achievement of operating results below a physiological threshold, compared to the objectives of the budget or the long-term plan or down compared to previous years or compared to the situation that existed on the acquisition date of the investment);
- breach of contract, for example a default or failure to make payment by the investee;
- the extension of allowances for economic or legal reasons relating to the financial difficulties of the investee, which otherwise would not have been taken into consideration;
- the announcement or notice of a financial restructuring plan or the existence of a high probability that the investee may announce restructuring operations or may be declared bankrupt;

- the disappearance of an active market relating to the investment held due to the financial difficulties of the investee;
- significant changes that adversely affect the investment in the technological, market, economic or legal environment in which the investee operates;
- a significant or prolonged decrease in fair value below its cost. The Group considers a decrease in fair value of more than 30% below the purchase cost to be a significant decrease. The Group considers a continuous decrease in fair value for an uninterrupted period of more than 24 months to be a prolonged decrease.

If there is evidence that the value of an investment may be impaired, the recoverable value of the investment is estimated, which is the higher of the fair value, net of costs to sell, and the value in use. The value in use is calculated by discounting the future cash flows that the investment could generate, including the final disposal value of the investment. An impairment loss is recognised in the income statement (in item "250. Gains (losses) of associates and joint ventures") if the book value, including goodwill, is lower than the recoverable value. If the reasons for an impairment loss are no longer valid due to an event occurring after the impairment was recognised, write-backs are recognised in the income statement, up to the amount of the impairment previously recognised, in the same item.

Derecognition criteria

Interests in associates and joint ventures are derecognised when there is a disposal in which all of the associated risks and rewards have been substantially transferred.
If there is a situation resulting in the loss of significant influence or joint control, any remaining interest in associates and joint ventures is reclassified to the portfolios of financial assets set out in IFRS 9, normally that of "Financial assets measured at fair value through other comprehensive income", on the basis of the relative fair value. Derecognition from the item "Interests in associates and joint ventures" may also take place if there are circumstances causing control to be obtained ("step acquisitions"). For more information please refer to paragraph 16 below entitled "Other information, Business combinations, goodwill and changes in interest holdings".

6- Property, plant and equipment

Classification criteria

Property, plant and equipment items include land, operating property, investment property, works of art, technical plants, furniture, fittings and equipment of any type that is planned to be used for a timeframe of more than one year. Specifically:

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

Also recognised in this item are rights of use (ROU) of property, plant and equipment acquired with lease contracts, as lessee, irrespective of the legal classification of the same (Right of Use).

The item includes finally the improvement and incremental costs on third party assets; these are costs to renovate rented property, incurred to render them suitable for their intended use. More specifically, improvement costs that represent identifiable and separable property, plant and equipment items, are classified in the specific category to which they refer (e.g. technical plant, equipment). Otherwise, improvement costs that are not identifiable and separable from the property, such as walls, are booked as an increase in rights of use, recognised on the basis of the provisions of IFRS 16.

Recognition criteria

Property, plant and equipment items are initially carried at cost, which includes the purchase price and all accessory charges directly attributable to the acquisition of the asset and bringing it to working conditions.
Extraordinary maintenance costs which entail an increase in future economic benefits are included in the asset's book value, while other ordinary maintenance costs are charged to the income statement.

For property posted under property, plant and equipment held for investment purposes, following the closure of the original credit position (known as "datio in solutum" - transfer in lieu of payment) the initial recognition value is equal to the fair value, taken from a specific appraisal.
The difference between the initial recognition value of the property and the book value of the previous credit exposure, subject to derecognition, is recognised under "Net credit impairment losses/recoveries" up to the amount of the gross receivable existing at the date of recognition. Taking account of the criterion of fair value measurement of investment property, as described below, in the situation where the fair value on initial recognition exceeds the value of the gross receivable, the excess value is recognised to the income statement under "Fair value gains (losses) on property, plant and equipment and intangible assets".
Where, at the time of finalising the transaction, the competent corporate bodies have made the decision to sell the property within a short time, the book value of the property shall be equal to its "immediate sale value", also deriving from a specific appraisal, unless negotiations are under way that give rise to the assumption of a higher recoverable amount.
In any event, if, on the date of recognition of the property, concrete negotiations for sale are under way, demonstrated by commitments undertaken by the interested parties and resolved by the competent corporate bodies, the initial recognition value must take account of the exit price resolved, net of any costs to sell, where it is lower than the "fair value" deriving from the appraisal.

For property, plant and equipment represented by rights of use, the initial recognition value is equal to the sum of the lease liability (present value of the future instalments to be paid for the contractual term), the lease payments made before or at the date from which the lease runs, the initial direct costs and any costs estimated for dismantling or reinstatement of the asset underlying the lease.

Income item measurement and recognition criteria

Subsequent to initial recognition, property, plant and equipment in ownership or acquired through rights of use are carried at cost, less any depreciation and impairment, excluding:

- properties used in operations and valuable works of art, for which the Group has adopted the option permitted by IAS 16, to measure them using the revaluation model;
- investment properties, for which the Group has adopted the option permitted by IAS 40, to measure them based on their fair value;
- property, plant and equipment that fall within the regulation of IAS 2, which are measured at the lower of the cost and net realisable value, which is the estimated sale price less estimated completion costs and other costs necessary to make the sale.

Property, plant and equipment used in operations: subsequent measurement

Depreciation

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

- land, whether purchased separately or as part of the value of the buildings standing on it, as considered to have an unlimited life;
- works of art, considering that the useful life of a masterpiece cannot be estimated and its value normally is destined to increase with time.

The depreciation charge must be able to reflect the wear and tear on the assets over time as a result of their use, considering extraordinary maintenance costs which could result in an increase in the value of the assets.

The depreciable value is represented by the cost of the asset - for assets measured at cost - or the revalued amount - for assets measured based on the revaluation method - net of the residual value at the end of the depreciation process, where deemed significant.

With regard to improvements to third party assets, represented by identifiable and separable property, plant and equipment, depreciation is determined according to the useful life of said assets, as illustrated above. Otherwise, for improvements that are not identifiable and separable from the leased property, the depreciation is calculated according to the shortest period between that in which the improvements and the additional expenses can be used and the residual duration of the lease contract, including the renewal period, if there is evidence in this regard.

Write-downs due to impairment

For assets measured at cost, at each annual or interim reporting date, if there is any indication that an asset may be impaired, the asset's book value is compared with its recoverable amount, that is, equal to the higher of the asset's fair value, net of costs to sell, and its value in use, understood as the present value of future cash flows originated by the asset. Any adjustments are recognised in the income statement under "Depreciation and impairment losses on property, plant and equipment". Whenever the reasons for the impairment loss are no longer valid, recoveries are recognised in the same item, which must not exceed the asset's value had no impairment taken place in the past, net of accrued depreciation.

Owned property used in operations and valuable works of art: revaluation method

For owned real estate assets used in operations and valuable works of art, the Group has adopted the revaluation method as the criterion for measurement.
Based on said method the assets shall be recognised at a revalued amount, equal to their fair value at the revaluation date, net of depreciation and any cumulative impairment losses. Based on that method:

- if the book value of the asset increases following revaluation (i.e. there is a positive difference between the revalued amount and the book value of the asset prior to revaluation), the increase must be recognised in a specific "valuation reserve" (subject to recognition in the statement of other components of comprehensive income without reclassification to the income statement), unless this is a recovery of a write-down previously recorded to the income statement. In this latter case, the increase must be recognised as income to the income statement up to the amount of the previous write-downs, and only any remaining amount is included in a valuation reserve;
- if the book value of an asset has decreased following the revaluation (i.e. there is a negative difference between the revalued amount and the book value of the asset prior to revaluation), the decrease in value must be recorded as a balancing entry:
  - to the income statement as a cost, lacking pre-existing valuation reserves on the asset ("Fair value gains (losses) on property, plant and equipment and intangible assets");
  - to shareholders' equity up to the amount of the credit balance of the revaluation reserve for those assets, and the excess to the income statement, as the revaluation of negative valuation reserves is not permitted.

Investment property: fair value method

For investment property, falling within the scope of application of IAS 40, the Group adopts fair value measurement. Based on this method, following initial recognition, all investment property is measured at fair value. Consequently, the above-mentioned property is not depreciated nor impairment tested.

Based on the fair value method:

- increases in fair value must be recognised in the income statement, as income ("Fair value gains (losses) on property, plant and equipment and intangible assets");
- decreases in fair value must be recognised in the income statement, as charges ("Fair value gains (losses) on property, plant and equipment and intangible assets").

In the event of sale, the difference between the consideration for the sale and the book value must be recognised in the income statement, as "Gains (losses) on disposal of investments".

For the methods of determining the fair value and the frequency of revaluation of real estate assets and valuable works of art, please refer to the criteria illustrated in the subsequent "Part A.4 – Fair value disclosure".

Derecognition criteria

Property, plant and equipment are derecognised from the balance sheet at the time of disposal or when the asset is permanently withdrawn from use and no future economic benefits are expected from its disposal.

Capital gains and losses deriving from the liquidation or disposal of property, plant and equipment are calculated as the difference between the net sale consideration and the book value of the asset and are recognised as a balancing entry to:

- the income statement: for assets used in operations measured at cost and investment property (item "Gains (losses) on disposal of investments");
- shareholders' equity: for assets used in operations measured based on the revaluation method. The revaluations of real estate credited to the valuation reserves of shareholders' equity may be transferred to other shareholders' equity reserves (Other profit reserves), where the property is derecognised. Therefore, in the event of sale of the property, the valuation reserves are transferred to another item of shareholders' equity (from "valuation reserves" to "other reserves"), without, however, the possibility of transiting through the income statement.

The rights of use acquired through leases are eliminated from the balance sheet at the end of the term of the lease contract.

7- Intangible assets

Classification criteria

Intangible assets are non-monetary, identifiable and non-physical assets originating from legal or contractual rights, owned to be used on a long-term basis, which are likely to generate future economic benefits, and whose cost can be reliably measured.
Intangible assets also include software, intangible assets linked to the valuation of client relationships or the valuation of trademarks recognised at the time of business combinations, and goodwill, corresponding to the difference between the price paid for a business combination and the fair value of the net identifiable assets purchased, as illustrated in greater detail in paragraph "16 – Other information, Business combinations, goodwill and changes in interest holdings."

Recognition criteria

Intangible assets are carried at cost, adjusted to account for accessory charges, only if it is likely that the future economic benefits attributable to the asset will be realised, and if the cost of the asset can be reliably determined. Otherwise, the cost of the intangible asset is recognised in the income statement during the year it was incurred.

Income item measurement and recognition criteria

After initial recognition, intangible assets with finite useful life are recognised at cost, net of total amortisation and any impairment identified.
The cost of intangible assets with a finite useful life is amortised on a straight-line basis over their relative useful life, with the exception of assets represented by Client Relationships. For the latter, which represent the ability of relationships, on the date of the business combination, to generate income flows for their expected residual life, amortisation is calculated on the basis of the unwinding curve of the cited relationships, which is usually decreasing. The amortisation process starts when the asset is available for use, and ceases from the moment the asset is derecognised.

Intangible assets with an indefinite useful life, such as goodwill and trademarks, are recognised at cost, net of any impairment identified.
No amortisation is carried out for these assets, only periodic assessments of the adequacy of the book value.

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

Goodwill is not amortised, but must be regularly tested for impairment to verify the adequacy of its book value. Specifically, goodwill must be tested any time there is evidence of impairment, and in any case at least once a year. To this end, the cash-generating unit to which the goodwill is allocated is identified. This unit represents the lowest level at which goodwill is monitored for internal management purposes and should not be larger than the operating segment determined in compliance with IFRS 8.

The amount of any impairment is determined based on the difference between the book value of the goodwill and its recoverable amount, if lower. Said recoverable amount is equal to the higher of the fair value of the cash-generating unit, net of costs to sell, and its value in use. The value in use is the present value of future cash flows expected from cash-generating units to which goodwill was allocated. The resulting adjustments are charged to the income statement.
No subsequent recoveries can be recognised.

Derecognition criteria

Intangible assets are derecognised from the balance sheet at the time of disposal or when no future economic benefits are expected from it.

8 - Non-current assets and disposal groups held for sale

Classification criteria

Non-current assets/liabilities and disposal groups are classified under the asset item "Non-current assets and disposal groups held for sale" - and under the liability item "Liabilities associated with assets classified as held for sale" - whose book value will presumably be recovered through sale rather than continuous use.
In order to be classified under the above items, the assets or liabilities (or disposal group) must be immediately available for sale, and there must be active and concrete programmes which show that their disposal within one year with respect to the date of classification as assets held for sale is highly probable.

Income item measurement and recognition criteria

After they are classified in the above-mentioned category, these assets are measured at the lower of the book value and their fair value, net of costs to sell, with the exception of certain types of assets - such as all financial instruments falling within the scope of IFRS 9 - for which the standard IFRS 5 states that valuation criteria of the reference accounting standard must continue to be applied.
If the non-current assets held for sale can be amortised/depreciated, the amortisation/depreciation process ceases from the year the assets are classified under non-current assets held for sale.
Expenses and income attributable to assets and liabilities and disposal groups held for sale, if they are attributable to discontinued operations under the terms of IFRS 5, are recognised in the income statement, net of taxes, under item "320. Profit (loss) after tax from discontinued operations" while those relating to individual non-current assets held for sale are recorded under the most appropriate income statement item.
Discontinued operations shall mean a significant, autonomous unit or geographical area of business, including one that is part of a single coordinated disposal programme, rather than a subsidiary acquired exclusively with a view to its re-sale.

Derecognition criteria

Non-current assets and disposal groups held for sale are derecognised from the balance sheet upon disposal.

9- Current and deferred taxation

These items include current and deferred tax assets, and current and deferred tax liabilities relating to income taxes.
Income taxes, calculated in compliance with current tax regulations, are accounted for based on the accrual principle, consistent with the recognition of the costs and revenues that generated the taxes in the financial statements. Therefore, this represents the tax charge, equal to the balance of current taxes and deferred tax assets and liabilities, relating to the income for the year. Income taxes are charged to the income statement (item "300. Taxation charge related to profit or loss from continuing operations") with the exception of those relating to items charged or credited directly to shareholders' equity, for example the valuations of financial instruments measured at fair value through other comprehensive income or of derivative contracts for cash flow hedges, for which the recognition of the relative taxes is made, for the sake of consistency, to shareholders' equity (namely in item "120. Valuation reserves").

In particular, current tax liabilities (assets) for the current and previous years reflect the amount of income taxes that are expected to be paid (recovered) to/from the tax authorities, based on a prudent estimate, applying the tax rates and tax regulations in force at the reporting date (interim reporting). Current tax assets and liabilities are shown as a net balance in the balance sheet, in case the settlement is executed based on the net balance, owing to the existence of a legal right to offsetting.

Deferred tax assets and liabilities are calculated based on temporary differences arising between the tax values of the individual assets and liabilities and their book values, without any time limits.
Deferred tax assets are recognised in the financial statements or the interim reports when it is probable that they can be recovered, which is assessed based on the ability of the company concerned and of the Group, as a result of the "tax consolidation" scheme, to continue to generate positive taxable income in future financial years, also taking account of the tax provisions in force at all times, such as Law no. 214/2011, which permits the conversion of certain deferred tax assets that meet specific conditions, into credits. Deferred tax liabilities are recognised in the financial statements or interim reports, with the sole exceptions of assets recognised in the financial statements at an amount higher than the value recognised for tax purposes and of reserves subject to tax on distribution, where it is reasonable to believe that no operations will be performed deliberately that would trigger taxation.
Recognised deferred tax assets and liabilities are systematically measured to account for any changes in regulations or tax rates, as well as for any changes in the subjective positions of the Group companies.

10- Provisions for risks and charges

Classification criteria

Provisions for risks and charges: commitments and guarantees given
The sub-item in question includes provisions for credit risk for commitments to disburse the funds and guarantees given, which are subject to impairment rules pursuant to IFRS 9, as is the case for "Financial assets at amortised cost" and "Financial assets measured at fair value through other comprehensive income". For more information on the impairment model, please see the information set forth in the following paragraph "16 - Other information, Methods for determining impairment losses on financial assets".
In addition, this sub-item also includes provisions for risks and charges established for other types of commitments and guarantees given that, because of their specific characteristics, do not fall within the scope of impairment pursuant to IFRS 9.

Provisions for risks and charges: post-employment benefits and similar obligations
As explained in the paragraph below "16 - Other information, Provisions for employee severance pay and other employee benefits", the sub-item "Post-employment benefits and similar obligations" includes defined-benefit plans, namely pension funds backed by a capital repayment and/or return guarantee in favour of beneficiaries. Benefits to be paid in the future are measured by an external actuary, using the "projected unit credit method", as required by IAS 19.
Actuarial gains and losses, defined as the difference between the book value of the liability and the present value of the commitments at the end of the period, are accounted for in full directly to shareholders' equity under the item "Valuation reserves".

Provisions for risks and charges: other provisions
The sub-item "Other provisions" includes allocations recognised for estimated outlays for legal or implicit obligations deriving from past events. These outlays may be contractual in nature, such as allocations to the personnel incentive system and for early retirement incentives, indemnity required under contractual clauses when specific events take place, or for compensation and/or restitution, such as those against possible losses on lawsuits, including clawback actions, estimated outlays for customer complaints regarding securities brokerage and tax disputes.

Income item recognition and measurement criteria

Provisions for risks and charges consist of liabilities whose amount or expiry are uncertain, and are recognised in the financial statements only if:

- there is a current obligation (legal or implicit) as a result of a past event;
- it is likely that an outflow of resources will be required to produce economic benefits to settle the obligation;
- the amount of the probable future outflow can be reliably estimated.

The amount of the provision recognised represents the best estimate of the financial outlay required to meet the obligation existing at the reporting date and reflects the risks and uncertainties inherent in the facts and circumstances under examination. Whenever the time factor is significant, provisions are discounted using current market rates. The provision and the effect of discounting are recognised in the income statement in item "200. Net provisions for risks and charges", as is the increase in provisions as a result of the passing of time.
The provisions allocated are re-examined at each reporting date of the financial statements and adjusted to reflect the best current estimate. When the outflow of resources to produce economic benefits to settle the obligation is unlikely, the allocation is reversed.
In addition, each provision must be used to pay for outlays for which the provision itself had been originally set aside.
If the outlay of the financial resources to meet the obligation is not considered likely, no provision needs to be recognised; in this case, adequate information must be provided in the notes on the possible risk of losing, unless the likelihood of using the resources is considered remote or the phenomenon is not relevant.

11 – Financial liabilities at amortised cost

Classification criteria

"Financial liabilities at amortised cost" include the sub-items "Due to banks", "Due to customers" and "Debt securities in issue" and consist of various forms of interbank and customer loans and funding carried out through certificates of deposit and bonds outstanding.
These also include loans recorded by lessees as part of leases, as well as funding repurchase agreements and securities lent against collateral in cash, to which the lender has full access. Also included are operating payables connected with the provision of financial services as defined in the Consolidated Banking Law and in the Consolidated Finance Law.

Recognition criteria

These liabilities are initially recognised when the amounts collected are received or the debt securities are issued and are carried out on the basis of their fair value, which is generally equal to the amount received or the issue price, increased by any additional costs/income directly attributable to the individual funding or issue transaction and not paid back by the lending counterparty. Internal administrative costs are excluded.
Repurchase agreements with the obligation to repurchase are recognised as funding transactions for the spot amount paid.
Lease payables are recognised on the basis of the present value of future instalments to be paid for the duration of the contract discounted on the basis of the implicit interest rate of the transaction or, if this cannot be determined, the marginal financing interest rate.

Income item measurement and recognition criteria

Subsequent to initial recognition, the financial liabilities that emerged, net of any redemptions and/or repurchase, are measured at amortised cost, using the effective interest rate method. Short-term liabilities are an exception, if the time factor is immaterial. These are stated at their received value, and any incurred costs are charged to the income statement on a straight-line basis over the contractual life of the liability. Moreover, funding instruments under an effective hedge are measured based on the standards established for hedging transactions.
For structured instruments that incorporate an embedded derivative - in accordance with IFRS 9 and illustrated in the previous item "Financial assets held for trading" - the embedded derivative is separated out from the host contract. In that instance:

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

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

Derecognition criteria

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

12- Financial liabilities held for trading

Classification criteria

The item in question includes:

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

These also include liabilities arising from technical overdrafts generated by trading in securities and certain own certificate issues, managed within an overall portfolio of trading financial instruments.
For more information on certificates classified under this item, please refer to paragraph 16 below entitled "Other information, Financial liabilities designated at fair value".

Recognition criteria

Financial liabilities held for trading are initially recognised on the settlement date in case of cash liabilities and on the subscription date for derivative contracts.
Initial recognition is based on the fair value of liabilities, that generally corresponds to the collected amount, excluding transaction costs or income directly associated with the instruments, which are directly charged to the income statement.
Please refer to "Part A.4 – Fair value disclosure" for details on how fair value is determined.

Income item measurement and recognition criteria

Financial liabilities held for trading are measured at current fair value, with recognition of the result in the income statement.

Gains and losses from changes in fair value and/or from the sale of trading instruments are recognised in the income statement. For derivative instruments, if the fair value of a financial liability becomes positive, that item is accounted for in item "Financial assets at fair value through profit and loss: a) financial assets held for trading".
Trading profits or losses and gains or losses as a result of the valuation of the trading book are recognised in the income statement in the item "80. Net trading income".

Derecognition criteria

Financial liabilities held for trading are derecognised when the contractual rights to the relative cash flows expire or when the financial liabilities are sold, with the substantial transfer of all risks and rewards arising from their ownership.

13 - Financial liabilities designated at fair value

Classification criteria

On initial recognition, financial liabilities are designated at fair value through profit and loss only if the following circumstances exist:

- this valuation eliminates or considerably reduces the inconsistency in valuation, that would otherwise be caused by measuring assets or liabilities or recognising the associated gains and losses on different bases (accounting mismatch);
- a group of financial assets, financial liabilities, or both is managed and its performance measured at fair value according to a documented risk management or investment strategy, documented internally by executives with strategic responsibilities;
- these are hybrid contracts containing one or more embedded derivatives, and the embedded derivative significantly changes the cash flows that would otherwise be expected from the contract.

The option to designate a liability at fair value is irrevocable, is made for the individual financial instrument and does not require the same application to all instruments with similar characteristics. However, it is not possible to designate at fair value only one part of a financial instrument attributable to a single risk component to which the instrument is subject.
The item in question includes certain bonds issued by the Group and certain issues of certificates not managed for trading purposes.
For more details on the scope of Group liabilities under the fair value option and the method used to determine fair value and quantify its credit risk, please refer to paragraph "16 - Other information, Financial liabilities designated at fair value", and the subsequent "Part A.4 - Fair value disclosure".

Recognition criteria

The financial liabilities in question are measured at fair value from initial recognition. Initial income and expenses are immediately charged to the income statement.

Income item measurement and recognition criteria

Subsequent to initial recognition, financial liabilities are measured at their current fair value. The change in fair value is recognised in income statement item "110. Net gains (losses) from other financial assets and liabilities measured at fair value through profit and loss", with the exception of effects consequent to the change in own credit risk, which are recognised in a specific valuation reserve (item "120. Valuation reserves"), unless this treatment creates or amplifies a mismatch in the profit (loss). An accounting mismatch is created or amplified when the recognition of the effects of own credit risk in an equity reserve is such so as to entail a more significant disharmony in the income statement than that which would arise from recognising the entire change in fair value of the liability in the income statement. In this last case, the entire change in fair value of the liability, including the effect of the change in own credit risk, must be recognised in the income statement.
The effects correlated with the change in own credit risk are presented in the statement of comprehensive income, net of the related taxes, under other comprehensive income without reclassification to the income statement.

The amount recognised in the specific shareholders' equity reserve (item "120. Valuation reserves") will never be reversed in the income statement, even if the liability should have expired or been extinguished. In this instance, it will be necessary to reclassify the cumulative gain (loss) in the specific valuation reserve to another item of shareholders' equity ("150. Reserves").

Derecognition criteria

Financial liabilities are derecognised from the financial statements or interim reports when expired or cancelled. For financial liabilities represented by securities issued, derecognition is carried out also in case of repurchase: the difference between the book value of the liability and the purchase price is recorded in income statement item "110. Net gains (losses) from other financial assets and liabilities measured at fair value through profit and loss", with the exception of profits/losses related to the change in own credit risk, which are recognised in a specific equity reserve, as previously illustrated. The subsequent placement of own securities following their repurchase is considered, for accounting purposes, as a new issue, recognised at the new placement price, with no effects on the income statement.

14 - Foreign currency transactions

Classification criteria

Assets and liabilities in foreign currency include those denominated explicitly in a currency other than the euro as well as those which envisage financial indexing clauses linked to the exchange rate between the euro and a specific currency or a specific basket of currencies.

To determine the conversion procedures to be used, assets and liabilities in foreign currency are broken down between monetary and non-monetary items.

Monetary elements consist of sums in cash and assets and liabilities expressing the right to receive or the obligation to pay fixed or determinable amounts in cash (receivables, debt securities, financial liabilities). Non-monetary elements (such as equity instruments) are assets or liabilities that do not contemplate the right to receive or the obligation to pay fixed or determinable amounts in cash.

Recognition criteria

Upon initial recognition, foreign currency transactions are recorded in the functional currency, and the exchange rate applied to the amount expressed in foreign currency is the one in effect at the date of the transaction.

Income item measurement and recognition criteria

At each annual or interim reporting date, items expressed in foreign currencies are measured as follows:

- cash items are translated at the exchange rate in effect at the closing date;
- non-cash items carried at their historical cost are translated at the exchange rate in effect at the transaction date;
- non-cash items measured at fair value are translated at the exchange rate in effect at the closing date.

Exchange rate differences originated by the settlement of cash items, or by the translation of cash items at rates other than the initial ones, or by the conversion of the previous financial statements, are charged to the income statement at the time they arise.

When a gain or loss from a non-cash item is carried at equity, the relevant exchange rate difference is also carried at equity. Conversely, when a gain or loss on a non-monetary element is recognised in the income statement, the associated exchange rate difference is also recognised in the income statement.

For information about the conversion of the financial statements of foreign subsidiaries that use a currency other than the reference currency of the Parent Company (euro), please refer to section "Scope of consolidation and methods", contained in "A.1 - General part".

15 - Insurance assets and liabilities

No insurance companies are included in the scope of consolidation.

16- Other information

a) Contents of other financial statement items

Cash and cash equivalents

This item includes legal tender, including foreign banknotes and coins, current accounts and demand deposits with Central Banks, with the exception of the minimum reserve, as well as demand loans to banks. The latter term includes cash and cash equivalents that may be withdrawn at any time without notice or with notice of 24 hours or a working day.
The item is recognised at face value. The face value of foreign currencies is translated into Euro at the closing exchange rate at the period-end date.

Fair value change of financial assets and financial liabilities in macro fair value hedge portfolios

These items include, respectively, fair value changes in financial assets or liabilities subject to macro hedging of interest rate risk, based on the respective balance, whether positive (item "60. Fair value change of financial assets in macro fair value hedge portfolios") or negative (item "50. Fair value change of financial liabilities in macro fair value hedge portfolios"), whose balancing entry in the income statement is item "90. Fair value gains/losses on hedging derivatives", as for specific fair value hedges.

Other assets

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

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

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

Other liabilities

This item records liabilities not attributable to the other balance sheet liability items.
For example, this item contains:

- payment agreements that under IFRS 2 must be classified as payables;
- payables associated with the payment of non-financial goods or services received;
- accrued liabilities other than those to be capitalised on the related financial liabilities, including those deriving from contracts with customers pursuant to the IFRS 15 standard;
- sundry receivable tax items other than those recognised in "60. Tax liabilities" connected, for example, to withholding agent activities.

Provisions for employee severance pay and other employee benefits

Pursuant to IAS 19, employee benefits include all types of remuneration envisaged in exchange for the work performed by employees or by virtue of the termination of the employment relationship. Specifically, these are divided into:

- short-term benefits (other than those for termination of the employment relationship) which are expected to be settled within 12 months from the end of the financial year in which the employees rendered their services;

- post-employment benefits such as, for example, employee severance pay and pension funds;
- benefits for the termination of employment due to employees following the company's decision to end the employment prior to the date of retirement;
- long-term benefits (other than those for termination of the employment relationship) which are expected to be settled over a time frame of more than 12 months from the end of the financial year in which the employees rendered their services.

Types of post-employment benefits
The benefits in question include Provisions for employee severance pay and Pension funds, and are classified into two categories, "defined benefit plans" and "defined contribution plans" on the basis of the characteristics of the plans.
More specifically, in defined contribution plans, the cost is represented by contributions accrued during the year, since the company only has the obligation to pay the contributions defined by contract to a fund, and has therefore no legal or implicit obligation to pay other amounts in addition to said contributions in the event that the fund does not have sufficient assets to pay all the benefits to employees.
In defined benefit plans, the actuarial and investment risk, namely the risk that contributions are insufficient or that the assets in which contributions are invested do not generate a sufficient return, is borne by the company.
With regard to Provisions for employee severance pay, following the supplementary pension reform, under Italian Legislative Decree no. 252 of 5 December 2005, new regulations were introduced for provisions for employee severance pay accrued beginning from 1 January 2007, recognised for accounting purposes. In particular, for companies which had at least 50 employees in 2006, from an accounting perspective, the portion of provisions for employee severance pay accrued from 1 January 2007 is considered a "defined contribution plan"; the charge is, in fact, limited to the benefits established under the Italian Civil Code, without applying any actuarial methodology. Otherwise, the provisions for employee severance pay accrued up to 31 December 2006 will continue to be accounted for as a "defined benefit plan".

Valuation of post-employment benefits represented by defined benefit plans
For defined benefit plans, the liability is calculated by an external actuary using the "Projected Unit Credit Method". On the basis of the cited method, all future disbursements have to be estimated on the basis of demographic and financial assumptions, and are then discounted to take into account the time that will pass before the actual payment, and to be re-proportioned on the basis of the ratio of the years of service accrued and the theoretical seniority estimated at the time the benefit is disbursed. The actuarial value of the liability calculated in this way must then be adjusted by the fair value of any assets underlying the plan (net liabilities/assets).
The actuarial gains and losses that originate from changes in the previous actuarial assumptions, as a result of the actual experience or as a result of changes to the actuarial assumptions themselves, lead to the re-measurement of the net liability and are recognised as a balancing entry to a shareholders' equity reserve. Said gains and losses are recorded in the "Statement of comprehensive income".
The change in the liability resulting from an amendment or a reduction in the plan is recognised in the income statement as a gain or loss. In detail, an amendment is made when a new plan is introduced, rather than if an existing plan is withdrawn or amended. On the other hand, there is a reduction when there is a significant decrease in the number of employees included in the plan, such as in the case of plans for reduction of redundant personnel (access to the Solidarity Fund).

Valuation of long-term benefits
The "Projected Unit Credit Method" described above, is also used to measure long-term benefits, such as "seniority bonuses" awarded to employees. Unlike that described for "defined benefit plans", actuarial gains and losses relating to the measurement of long-term benefits are recognised immediately in the income statement.

Valuation reserves

This item includes valuation reserves associated with equity instruments designated at fair value through other comprehensive income, financial assets (other than equity instruments) measured at fair value through other comprehensive income, foreign investment hedges, cash flow hedges and exchange rate differences, property, plant and equipment, the share of valuation reserves related to interests in associates and joint ventures carried at equity, actuarial gains (losses) on defined benefit plans and profit/loss connected to the change in own credit risk relating to fair value option liabilities. It also includes the revaluation reserves recognised in compliance with special revaluation regulations, also if subject to "tax exemption".

Equity instruments

Equity instruments are instruments representing a residual interest in the assets of the Group, net of its liabilities. The classification of an instrument that can be classified as an equity instrument requires that there be no contractual obligations to make payments in the form of reimbursement of principal, interest or other types of returns.
Those instruments, different from ordinary shares or savings shares, are classified under item "140. Equity instruments" for an amount equal to the price collected for their issue, less the transaction costs that are directly attributable to the transaction, after taxes.
Any coupons paid, after taxes, are posted as a reduction of item "150. Reserves", if and for the amount at which they were paid.
If such instruments are extinguished or repurchased, the difference between the price paid and the book value of such equity instruments is recognised in shareholders' equity under item "150. Reserves".

Share capital and own shares

Share capital includes shares issued by the bank net of any capital already subscribed but not yet paid up at the annual or interim reporting date. This item includes any own shares held by Group companies. The latter are recognised in the financial statements in their own item as a negative component of shareholders' equity.
The original cost of repurchased own shares and the gains or losses originated by their subsequent sale are recognised as changes to shareholders' equity.
Transaction costs relating to operations on share capital, such as share capital increases, are recorded as a decrease in shareholders' equity, net of any related tax benefits.
Dividends on ordinary shares are recognised as a reduction in shareholders' equity in the year in which the Shareholders' meeting approves their distribution. Any advances on dividends disbursed to shareholders are recognised in the balance sheet liability item "Advances on dividends" with a negative sign.

Non-controlling interests

This item shows the portion of consolidated shareholders' equity attributable to non-controlling interests, calculated based on "equity ratios". The amount is calculated net of any own shares repurchased by consolidated companies.

b) Illustration of other significant accounting treatments

Dividends and revenue and cost recognition

Revenue from contracts with customers (IFRS 15)

Revenue is the gross inflow of economic benefits that flow to the entity as payment for its obligation to transfer to the customer a wide range of goods and services that are part of ordinary activities.
Pursuant to IFRS 15, the entity must recognise revenues on the basis of the fee that it expects to receive for the assets or the services provided in the ordinary course of business. In detail, the recognition of revenues must take place on the basis of the following five steps:

- identify the contract, defined as an agreement with commercial substance between two or more parties able to generate rights and obligations;
- identify the performance obligations in the contract;
- determine the transaction price, namely the amount to which an entity expects to be entitled in exchange for the transfer of goods and services;
- allocate the transaction price to each performance obligation on the basis of the stand-alone selling price;
- recognise the revenues allocated to the single performance obligation when the same is satisfied, namely when the customer obtains control of the goods or the services. This recognition takes into account the fact that some services may be rendered at a specific point in time or over a period of time.

Revenues from contractual obligations with customers are recognised in profit or loss when it is probable that the entity will receive the payment to which it is entitled in exchange for the goods or services transferred to the customer. This payment must be allocated to the single obligations covered by the contract and must be recognised

as revenue in the income statement based on the timing of fulfilment of the obligation. Specifically, revenue may be recognised in the income statement:

- at a particular point in time, when the entity settles its performance obligation by transferring the promised good or service to the customer, or
- over time, as the entity settles its performance obligation by transferring the promised good or service to the customer.

The performance obligation is considered fulfilled when the customer acquires control of the transferred good or service.
The consideration promised in the contract with the customer may include fixed amounts, variable amounts or both. Specifically, the consideration for the contract may vary as a result of redemptions, discounts, refunds, incentives, performance bonuses or similar items. The variability of the consideration may also depend on whether or not a future event occurs. In the presence of variable consideration, the revenue is recorded in the income statement when it is possible to estimate the revenue reliably and only if it is highly probable that this amount will not subsequently have to be reversed in the income statement, in whole or in a significant part.
If the entity receives a payment from the customer that it expects to refund to the customer, in whole or in part, against the revenue recognised in the income statement, a liability should be recognised, estimated on the basis of expected future refunds (known as a "refund liability"). The estimate of this liability is updated at each annual or interim reporting date and is carried out based on the portion of the amount that the entity expects not to be entitled to.

Costs

Costs associated with obtaining and fulfilling contracts with customers are recognised in the income statement in the periods in which the corresponding revenues are accounted for. Costs that are not directly associated with revenues are immediately charged to the income statement.

Revenues and costs related to financial instruments

With reference to income and charges relating to financial assets/liabilities, it should be noted that:

- interest is recognised *pro-rata temporis* on the basis of the contractual interest rate or the effective interest rate if the amortised cost method is used. In the latter case, any marginal costs and incomes, considered an integral part of the return of the financial instrument, are calculated in the effective interest rate and recognised as interest. The item interest income (or interest expense) also includes the positive (or negative) spreads or margins accrued until the reporting date, relating to financial derivative contracts:
  - hedging financial assets and liabilities that generate interest;
  - classified in the balance sheet in the trading book, but operationally connected with financial assets and/or liabilities designated at fair value (Fair Value Option) that generate interest;
  - operationally connected with assets and liabilities classified in the trading book and which envisage the settlement of spreads or margins at multiple maturities;
- default interest, if provided for by contract, is recorded in the income statement only when actually collected;
- dividends are recognised in the income statement when the legal right to collect them ensues, and, therefore, when their distribution is resolved and the right to receive the relative payment matures;
- fee and commission income from services is recognised on the basis of contractual agreements in place, in the period in which said services are rendered. The fees and commission considered in the amortised cost to determine the effective interest rate are recognised under interest;
- profits and losses from initial recognition of the fair value of financial instruments are recognised in the income statement at the time of recognition of the transaction, based on the difference between the price paid or collected and the fair value of the instrument, only when the fair value can be determined by referring to current observable market transactions or using valuation techniques the inputs of which are observable market parameters. Otherwise, these profits and losses are distributed over time, taking the nature and the term of the instrument into account;
- gains and losses deriving from the sale of financial instruments are recognised in the income statement when the sale is completed, with the relative transfer of the risks and rewards, based on the difference between the amount received and the book value of the instruments.

Share-Based Payments

Share-based payments are payments made to employees, as a consideration for work performed, settled with equity-linked instruments, which may, for example, consist of the assignment of:

- stock options;
- rights to receive shares when specific targets are reached.

For accounting purposes, in accordance with IFRS 2, payments based on own shares are configured as equity-settled plans, to be recorded on the basis of the fair value of the services received.
Considering how difficult it is to directly estimate the fair value of work received in exchange for the assignment of shares, it is possible to indirectly measure the value of services received, by referring to the fair value of the equity-linked instruments at their assignment date.
Employee incentive plans based on own shares are therefore recorded in the income statement (item "190. a) Personnel expenses") as a balancing entry to a corresponding increase in shareholders' equity (item "150. Reserves"), on the basis of the fair value of the financial instruments assigned at the assignment date and on the basis of the accrual basis of the service provided.
In detail, when assigned shares cannot be immediately "used" by the employee but can be used when the employee has completed a given term of service, the company shall pay the cost as a consideration for the service provided throughout the vesting period.
For subsidiaries, incentive plans based on the Parent Company's shares, and not on own shares, are cash settled plans. In accordance with IFRS 2, in the respective company financial statements, the cost pertaining to the period is therefore recorded among personnel expenses, as a balancing entry to an increase in the liability item "Provisions for risks and charges". In the context of the consolidated financial statements, these plans, as they are settled through shares of the Parent Company, are instead represented as equity-settled plans on the basis of the treatment described above.

Repurchase agreements, securities lending and forward agreements

Repurchase or forward agreements whereby the Group sells securities to third parties with the obligation to repurchase them upon maturity of the transactions at a predetermined price are recognised in payables due to banks or to customers, depending on the counterparty. Likewise, repurchase or forward agreements whereby the Group acquires securities from third parties with the obligation to resell them upon maturity of the transactions at a predetermined price are recognised in loans to banks or to customers (accounting categories of the "Financial assets at amortised cost"), depending on the counterparty. The difference between the spot and forward price of the above-mentioned transactions is recognised as interest (expense or income depending on the case) on an accrual basis throughout the life of the transaction. Securities lending transactions in which the guarantee is represented by cash which is fully available to the lender are recognised in the financial statements like the above-mentioned repurchase agreements.

In the case of securities lending transactions with a guarantee consisting of other securities, or with no guarantee, the lender and the borrower continue to recognise the security subject to the loan and any security provided as a guarantee, respectively, in the balance sheet assets. The remuneration of this transaction is recognised by the lender in item "40. Fee and commission income" and by the borrower in item "50. Fee and commission expense".

Offsetting financial instruments

In accordance with IAS 32, paragraph 42, financial assets and financial liabilities may be offset and the net balance may be reported in the financial statements if the entity:

- has a legally enforceable right to make said offsets, currently exercisable in all circumstances, where they refer to regular business operations or to situations of default, insolvency or bankruptcy of the parties;
- intends either to settle the transactions on a net basis, or to settle the same on a gross basis, the substantial effects of which are equivalent to a settlement on a net basis.

For derivative instruments covered by netting arrangements, which meet the requirements illustrated above, Circular no. 262 envisages that all trading derivatives and all hedging derivatives may be offset. If the imbalance of trading derivatives is the opposite sign of that of the imbalance of all hedging derivatives, said imbalances are to be reported on a net basis: usually, the net balance is allocated to the trading book rather than as hedging derivatives,

depending on the prevailing absolute value of the imbalance of trading derivatives compared to that of hedging derivatives.
In accordance with the requirements of accounting standard IFRS 7, further information is provided in the tables contained in Part B - Other information in these notes to the financial statements. In particular, these tables set out:

- the book values of assets and liabilities that meet the requirements set out by IAS 32, paragraph 42, before and after netting in the accounts;
- exposures subject to master netting arrangements that did not give rise to netting, but could activate it as a result of specific circumstances;
- the collateral guarantees connected thereto.

Securitisations - derecognition from financial statements of financial assets transferred

In securitisation transactions put in place by the Group, the transfer of financial assets to an SPE (special purpose entity), even if with recourse, entails the derecognition of these assets from the financial statements, only if there is a substantial transfer of the risks and rewards. In the event that the substantial transfer of risks and rewards cannot be verified, the transferred assets are derecognised if the Group relinquishes all control over them. In the event of such circumstances, the difference between the book value of the assets sold and the amount received, including the new assets acquired, is recognised as a gain or loss in the income statement.
Otherwise, there is no derecognition from the financial statements if the Group has maintained the risks and rewards associated with the securitised portfolio, even though it has been sold without recourse, for example via the comprehensive subscription of a tranche of junior securities or securities that bear the risk of the initial losses or through the assumption of similar exposures. Consequently, the transferred receivables must continue to be recognised in the separate financial statements of the originator bank as "Assets sold and not derecognised", while the consideration collected for the transfer is recognised as a balancing entry to the payable owed to the SPE, net of the securities subscribed by the bank in question. In the consolidated financial statements, the main impact of the consolidation of the SPE and of the related assets of the securitisation, if the requirements of control established by IFRS 10 are fulfilled, is that the securities issued by the SPE and subscribed by entities not belonging to the Group are recorded in the consolidated balance sheet.
For further details, see the information reported in these Notes to the financial statements "Part E - Section 1 - C. Securitisation transactions".

Leases

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

Accounting in the lessee's financial statements

If the Group acts in the capacity of lessee, the IFRS 16 accounting model provides for recognition in the balance sheet of a liability on the basis of the present value of the future instalments to be paid for the contractual term as a balancing entry to the recognition, among the assets, of the right of use of the asset covered by the lease contract.

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

At this date the lessee recognises:

- among "Property, plant and equipment", the right-of-use asset, determined by the sum of the following amounts:
  - present value of the future payments (amount of the liability recognised);
  - initial direct costs (such as costs for agents);
  - prepaid lease instalments (maxi-instalment);
  - estimate of any costs for removal and reinstatement, recognised in accordance with IAS 37;
  - net of any lease incentives received from the lessor;

- among "Financial liabilities at amortised cost", the financial liability, equal to the present value of the payments due for the lease. The discounting rate used is equal to the incremental borrowing rate as at the date on which the contract is signed. This rate was identified as that used for managerial purposes which expresses the average cost of Group funding, both secured and unsecured, considering in the time bracket in which the contract expires.

In identifying a lease contract, Banco BPM Group avails itself of the option given by IFRS 16 to not consider "short-term" contracts, that is those expiring at less than 12 months, and "low-value" ones, that is those with a value of the assets when new of less than 5,000 euro. This option may be applied on a contract by contract basis; in this case, the costs of the instalments are recognised directly in the income statement at the moment that they fall due.

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

After recognition:

- the right-of-use asset must be measured at cost on the basis of IAS 16 and subject to depreciation and any impairment along the term of the contract or the useful life of the asset;
- the liability is measured at amortised cost, that is it is increased following the accrual of the interest payable and gradually reduced as a result of payment of the instalments.

In the event of changes in the payments due for the lease, the liability must be redetermined, as a balancing entry to the right-of-use asset. The change may result in the recognition of a separate lease (if the subject of the contract in force increases) or a change to the existing contract (lease modification). In the event of a lease modification, the change in the lease payable on the date of effectiveness of the modification, recognised as a balancing entry to the right of use, with the exception of the gains and losses resulting from the (partial or total) derecognition of the lease, which are included in the income statement.

Accounting in the lessor's financial statements

If the Group acts in the capacity of lessor, the IFRS 16 accounting model envisages that it must be stated whether the assets have been granted under a finance lease or under an operating lease, according to the different accounting treatment applicable to the two types.

More specifically, a lease is classified as finance lease if it transfers substantially all the risks and rewards to the lessee. Finance leases, in practice, are loan contracts with which the lease company purchases an asset, on behalf of the lessee, granting it the right of use.

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

Subsequently, the receivable is measured at amortised cost, equal to the initial recognition value decreased by repayments of principal, decreased/increased by the amortisation - calculated according to the effective interest rate method - of the difference between the amount disbursed and the amount repayable at maturity, typically comparable to the costs/income directly associated with the individual receivable. The receivables are subject to impairment rules. For more details of the rules on accounting for receivables measured at amortised cost please see the contents of point "3. Financial assets at amortised cost" of this Part A.2.

For operating lease transactions, in the financial statements of the lessor, the owned assets granted under the lease continue to be recognised and the lease payments are recognised in the income statement as revenues. At Group level, the case regards owned properties rented; in this event, said properties continue to be recognised under "Property, plant and equipment held for investment purposes", based on the relative valuation criterion (fair value). In the income statement, income deriving from the rental of the above-mentioned assets is included in "other operating income".

Off-balance sheet credit exposures - guarantees given and commitments

General off-balance sheet credit exposures are represented by the guarantees issued and by the irrevocable commitments to disburse funds at predetermined terms and conditions entailing the assumption of a credit risk and fall within the scope of the impairment provisions of IFRS 9.
The initial recognition value of guarantees given equals the fair value, which normally corresponds to the amount received on issuing the guarantee.
Subsequently, the guarantees given are measured at the higher of the amount recognised on initial recognition, net of any amortisation charge, and the amount estimated to fulfil the obligation.
For the purposes of calculating expected losses, the same allocation methods in the three stages of credit risk described in IFRS 9 and already described in part "3 - Financial assets at amortised cost" and "2 - Financial assets measured at fair value through other comprehensive income", as well as in part "16 - Other information, Methods for determining impairment losses on financial assets", are used.
As indicated in part "10 - Provisions for risks and charges", the provisions relating to the write-down of guarantees given and commitments to disburse funds are recognised under balance sheet item "100. Provisions for risks and charges: a) commitments and guarantees given". In accordance with the provisions contained in Circular no. 262 of the Bank of Italy, the balancing entry is the income statement item "200. Net provisions for risks and charges: a) commitments and guarantees given".

Business combinations, goodwill and changes in interest holdings

A business combination represents the transfer of control of an enterprise (or an integrated group of assets and goods, conducted and managed consistently).
A combination may give rise to an investment relationship between the purchasing Parent Company and the subsidiary acquired. In such circumstances, the purchaser applies standard IFRS 3 "Business combinations" in the consolidated financial statements while in the separate financial statements the shareholding acquired as an interest in the subsidiary is recorded, applying accounting standard IAS 27 "Separate Financial Statements".
A business combination may also envisage the purchase of the net assets of another entity, including any eventual goodwill, or the acquisition of the capital of another entity (mergers, conferrals, business segment acquisitions). A combination of this type does not translate into an investment relationship similar to that between the parent and subsidiary company and therefore in these cases accounting standard IFRS 3 applies also in the separate financial statements of the purchaser.
Business combinations are recognised using the purchase method, which requires: (i) the identification of the acquirer; (ii) the determination of the acquisition date; (iii) the calculation of the cost of the business combination; (iv) the allocation of the purchase price ("Purchase Price Allocation").

Identification of the acquirer

For all business combinations, IFRS 3 requires the identification of an acquirer, identified as the party that obtains control over another entity, meaning the power to establish the financial and operational policies of that entity in order to obtain benefits from its business activities. For business combinations that result in the exchange of shareholdings, the identification of the acquirer must consider factors such as: (i) the number of new ordinary shares with voting rights issued with respect to the total number of ordinary shares with voting rights which will constitute the share capital of the company existing after the combination; (ii) the fair value of the entities that participate in the combination; (iii) the composition of the new corporate bodies; (iv) the entity that issues the new shares.

Determination of the acquisition date

The acquisition must be recognised on the date on which the acquirer effectively obtains control of the business and/or of the assets acquired. When the acquisition is made by means of a single exchange transaction, the date of

exchange coincides with the acquisition date, unless the parties agree to a transfer of control before the date of exchange.

Calculation of the cost of the business combination

The price transferred in a business combination equates to the fair value, as of the acquisition date, of the assets transferred, the liabilities incurred and the equity instruments issued by the purchaser in exchange for obtaining control over the entity acquired.
The price which the purchaser transfers in exchange for the entity acquired includes any asset or liability emerging from an agreement on the potential price, to be recorded as of the acquisition date on the basis of the fair value. Changes to the transferred price are possible if they derive from additional information on events or circumstances which existed as of the acquisition date and are recognisable within the business combination measuring period (or rather within twelve months of the date of acquisition, as will be specified further on). Any other change which derives from events or circumstances subsequent to the acquisition, such as for example that acknowledged to the seller linked to achievement of specific income-related performances, must be recognised in the income statement.
The costs relating to the acquisition, which include brokerage commission, advisory, legal, accounting and professional costs, general administrative expenses, are recorded in the income statement at the time they are incurred, with the exception of the costs for issuing shares and debt securities which are recorded on the basis of the matters laid down by IAS 32 and IFRS 9.

Purchase Price Allocation (PPA)

On the basis of the acquisition method, at the acquisition date, the acquirer must allocate the cost of the business combination (the "Purchase Price Allocation" or PPA) to the identifiable assets acquired and the liabilities assumed measured at the relative fair values at that date, also recognising the value of the minority interests of the acquired entity. Exceptions to the application of this principle include the recognition:

- of income taxes;
- of liabilities relating to employee benefits;
- of assets deriving from indemnities;
- of rights reacquired;
- of transactions with share-based payments;
- of assets held for sale

to which the respective reference principles shall apply.
Therefore, it is necessary to draw up a balance sheet of the acquired company at the acquisition date, calculating at fair value the identifiable assets acquired (including any intangible assets not previously recognised by the acquired entity) and the identifiable liabilities assumed (including contingent).
With regard to each business combination, the non-controlling interests can be recorded at fair value or in proportion to the portion held in the identifiable net assets of the company acquired.
In addition, if control is achieved by means of subsequent acquisitions (business combinations carried out in several phases, known as step acquisitions), the shareholding previously held is measured at fair value as of the acquisition date and the difference with respect to the previous book value must be recorded in the income statement.
At the acquisition date, the acquirer therefore must determine the difference between:

- the sum of:
  - the cost of the business combination;
  - the amount of any minority interests as described above;
  - the fair value of any interest holdings previously held by the acquirer; and
- the fair value of the net identifiable assets acquired, including contingent liabilities.

Any positive difference must be recognised as goodwill; otherwise, any negative difference must be recognised in the income statement of the entity resulting from the business combination as profit deriving from a bargain purchase (negative goodwill or badwill), after making a new measurement to ascertain the proper process for identifying all assets acquired and liabilities assumed.
Identification of the fair value of the assets and liabilities may provisionally take place before the end of the year in which the business combination takes place and must be finalised definitively within a maximum period of twelve months as from the acquisition date (measuring period).

Once control has been obtained and the acquisition method previously described applied, any further increase or decrease in the shareholding in a subsidiary company which continues to be controlling is recorded as a transaction between shareholders. Therefore, the book value of group shareholders' equity and non-controlling interests must be adjusted to reflect the changes in the holding in the subsidiary. Any difference between the value for which the non-controlling interests are adjusted and the fair value of the price received or paid must be recorded directly in the group shareholders' equity.

In the presence of an event that results in a loss of control, the effect to be recognised in the income statement is equal to the difference between (i) the sum of the fair value of the price received and of the fair value of the residual shareholding held and (ii) the prior book value of the assets (including goodwill), of the liabilities of the subsidiary, and any non-controlling interests. The amounts previously recognised in the statement of comprehensive income (such as the valuation reserves of financial assets measured at fair value through other comprehensive income) must be recorded in the same way as required in the event that the parent company has directly disposed of the assets and the related liabilities (by means of reclassification in the income statement or shareholders' equity).
The fair value of any shareholding held in the former controlling interest must be considered equal to the fair value at the time of initial recognition of a financial asset on the basis of IFRS 9 or, if appropriate, equal to the cost at the time of initial recognition in an associated company or a jointly-controlled entity.

Business Combinations Under Common Control

Transactions achieved for reorganisation purposes, between two or more businesses or corporate assets forming part of the Group, are not considered to be business combinations. These transactions (business combinations under common control) are excluded from the scope of application of IFRS 3 and, in the absence of a reference standard, are accounted for with reference to Assirevi's preliminary interpretative documents/guidelines, or in continuity of the values of the entity acquired in the financial statements of the purchaser, if they do not have a significant influence on future cash flows. In particular, the values adopted are those resulting from the Group's consolidated financial statements at the date of transfer of the assets. This is in compliance with the matters established by IAS 8 paragraph 10, which requires, in the absence of a specific standard, the use of one's own judgement when applying an accounting standard for the purpose of providing relevant, reliable, prudent disclosure which reflects the economic essence of the transaction.

Methods for determining impairment losses on IFRS 9 Financial Instruments

At each annual or interim reporting date, loans and debt securities classified under "Financial assets at amortised cost" and "Financial assets measured at fair value through other comprehensive income" - as well as off-balance sheet exposures represented by commitments to disburse funds and the guarantees given - must be subject to impairment in order to estimate expected losses in value due to credit risk (ECL - Expected Credit Losses).

General features of the impairment model

According to the Expected Credit Losses calculation model, losses must be recorded not only with reference to objective evidence of impairment losses that had already occurred at the valuation date, but also on the basis of expectations of future impairment that has not yet occurred.
In particular, the ECL model states that the aforementioned instruments must be classified into three distinct stages, according to their absolute or relative credit quality or compared to the initial disbursement, to which different criteria correspond for measuring the expected losses. Specifically:

- Stage 1 includes both originated and acquired performing financial assets that display no significant deterioration in credit risk (SICR - Significant Increase in Credit Risk) with respect to the initial recognition date;
- Stage 2 includes performing financial assets with significant deterioration in credit risk (SICR) on the valuation date compared to the initial recognition, albeit not impaired;
- Stage 3 includes all exposures for which one or more events capable of negatively impacting cash flows are found (evidence of impairment), namely exposures that are considered non-performing.

For Stage 1 exposures, the expected loss is accounted for, on the date of initial recognition and on each subsequent reporting date, for up to one year; for Stage 2 and 3 exposures, expected losses are recognised over the entire residual lifetime of the instrument.

An exception to the foregoing is represented by financial assets that are considered non-performing from the time of their acquisition or origin (POCI - Purchased or Originated Credit Impaired). Please refer to the paragraph "Acquired or originated impaired financial assets" for more information on this.

For Banco BPM Group, the scope of the exposures classified in Stage 3 corresponds to that of non-performing loans, identified in accordance with the definitions established by the supervisory provisions in force (Bank of Italy Circular no. 272 "Matrix of accounts") and referred to by Bank of Italy Circular no. 262 "Bank financial statements: layouts and rules for preparation", insofar as retained consistent with IAS/IFRS standards in terms of objective evidence of impairment. Specifically, the circulars identify the following categories of non-performing assets:

- Bad Loans: these represent the set of on and off-balance sheet exposures with respect to a party in a state of insolvency (even if not ascertained in court) or in substantially equivalent situations, irrespective of any loss forecasts developed by the bank;
- Unlikely to Pay: these represent on and off-balance sheet exposures for which the conditions are not met for the classification of the debtor under bad loans and for which it is deemed unlikely that the debtor will meet its credit obligations (for principal and/or interest) in full without recourse to actions such as the enforcement of guarantees. This assessment is carried out irrespective of the presence of any amounts (or instalments) past due and unpaid. Classification as unlikely to pay is not necessarily linked to the explicit presence of anomalies, such as non-repayment, but it is linked to the existence of elements indicative of a situation of risk of default by the debtor (for example, a crisis in the industrial sector in which the debtor operates);
- Non-performing past due and/or overdue exposures: on-balance sheet exposures, other than those classified as bad or unlikely to pay loans which, at the reference date, have a past due and/or overdue position for more than 90 days, in accordance with the thresholds of significance provided for by law. For Banco BPM Group, non-performing past due and/or overdue exposures are determined by making reference to the position of the individual debtor.

In addition, in line with EBA standards, Bank of Italy regulations have introduced the definition of "forborne exposures". In particular, these are exposures benefiting from forbearance measures, which consist of concessions, in terms of changes to and/or the refinancing of an existing loan, granted only to debtors in financial difficulty, or to prevent the financial difficulty of the same, which could have a negative effect on his ability to fulfil his original contractual obligations. They are not granted to a debtor with the same risk profile but who is not in financial difficulty. These forbearance measures must be identified in terms of individual credit lines and may regard the exposures of debtors classified both as performing and non-performing.
For exposures with forbearance measures classified as unlikely to pay, the return to performing exposures, and in particular in Stage 2 exposures, can occur only after one year has elapsed since it was granted (the probation period) and all the other conditions laid out in paragraph 157 of the EBA's ITS are met.
In any event, renegotiated exposures must not be considered forborne when the debtor is not in a situation of financial difficulty: these are renegotiations granted for commercial reasons.

Impairment losses on performing financial instruments

Regarding performing financial assets, i.e. those assets not considered impaired, as defined above, it is necessary to assess, at each reporting date and at the individual relationship level, the existence of a significant increase in credit risk (SICR – "Significant Increase in Credit Risk") by comparing the credit risk associated with the financial instrument at the time of valuation and at the time of initial disbursement or acquisition. This comparison is made on the basis of quantitative and qualitative criteria. More specifically, in order to identify the existence of a significant deterioration in credit quality and the subsequent transfer of the financial instrument from Stage 1 to Stage 2, Banco BPM Group has identified the following criteria (Stage Assignment):

- relative quantitative criteria, based on statistical observations or on changes in the PD beyond a specific threshold considered as a backstop indicator, retained an indication of a significant increase of credit risk over time;
- absolute qualitative criteria, represented by the identification of trigger events or by the surpassing of absolute thresholds as part of the credit monitoring process;
- backstop indicators, namely credit delinquency factors, the emergence of which leads to the assumption that there has been a significant increase of credit risk, unless there is evidence to the contrary.

Once the allocation to the various stages of credit risk has been defined, the expected losses (ECL) are determined by assigning the following risk parameters to each individual transaction or tranche:

- PD (Probability of Default): represents the probability that a performing exposure can move to impaired status over the course of one year. This factor is quantified using internal exposure rating models or on the basis of average segment/portfolio data;
- LGD (Loss Given Default): the percentage of loss in the event of default, quantified on the basis of historical experience of recoveries discounted on the basis of impaired accounts;
- EAD – (Exposure at Default): the exposure at the moment of default.

Value adjustments for expected losses are then quantified as a product of PD, LGD and EAD.
The models used to estimate these parameters employ the same parameters used for regulatory purposes, making specific adjustments to account for the different requirements and purposes between accounting and prudential regulations.

For more details on the model for determining expected losses on performing exposures, with specific reference to the criteria of stage assignment, to the calculation methods for risk parameters, to the forecast macroeconomic scenarios and to the related probabilities of occurrence, refer to that illustrated in Paragraph "2.3 Measurement methods for expected losses" contained in Part E of these Notes, in the section on credit risk.

Impairment losses on non-performing financial instruments

As illustrated above, for non-performing financial assets, to which a 100% probability of default is associated, the amount of adjustments for expected losses relating to each loan is equal to the difference between its book value (interim situation) at the time of valuation (amortised cost) and the present value of expected future cash flows, calculated by using the original effective interest rate or a reasonable approximation if the original rate is not directly available. Cash flows are estimated on the basis of expected recovery over the entire lifetime of the asset, after taking into account the estimated realisable value of any guarantees.
To estimate the expected cash flows collected and the related time frames, the receivables in question undergo an analytical evaluation process. For some similar categories of non-performing loans, the assessment processes establish that the loss forecasts are based on a "lump-sum" calculation method, to be applied analytically to each individual position. The scope of exposures subject to lump-sum valuation is represented by:

- bad loans and unlikely to pay with exposures below or equal to an established threshold of 1 million;
- the total number of non-performing past due exposures, regardless of the relevant exposure threshold. In particular, these are loans which show uninterrupted overdrafts or late payments, automatically identified by the Group's IT procedures, based on the cited rules of the Supervisory Authority.

The "lump-sum" calculation method entails valuation approaches that are differentiated based on the counterparty's stage of risk at the time of quantification (Bad Loans, Unlikely to Pay, Past Due), the type of exposure (secured or unsecured), and the presence of guarantees other than mortgages (sureties, pledges, Confidi - consortium guarantees). In detail, for secured exposures the measurement is based on the valuation of the underlying assets (collateral), while for unsecured exposures, the expected loss is defined as a complement of the recovery curves based on the observation of internal time series, considering any mitigating elements deriving from the presence of other guarantees. In addition, for the purposes of estimating losses, the time value is considered, i.e. the estimated time required to recover the receivable, differentiated on the basis of the vintage, as well as the probability of exposures classified as Unlikely to Pay changing to bad loan status (danger rate).

Depending on the non-performing status and type of exposure, the recovery value is determined using a going concern approach rather than a gone concern approach.
The going concern approach is implemented if it is considered that the debtor's operating activity may continue to generate, in the foreseeable future, cash flows to be used for the payment of financial debts to all creditors, based on expected repayment schedules. The approach in question establishes, as a source of repayment, the profitability available deriving from the customer's operating activity or from other financial sources, as well as the estimated amount deriving from the enforcement of any collateral or personal guarantees (for the portion not covered by the available profitability). The available profitability assessment must be carried out prudentially using different analyses, depending on the type of customer and the data acquired by it.
The gone concern approach is used when the customer's operating activity is found or is expected to cease and the main source of repayment is the amount deriving from the enforcement of collateral (pledge or mortgage), as is the

case for all exposures classified as non-performing. In addition, possible repayment flows from seizable assets owned by the debtor or any guarantor must be evaluated.
In line with the targets for the sale of non-performing credit exposures, established on each occasion by the Board of Directors, the quantification of expected losses of the aforesaid exposures includes forward-looking elements, via the introduction of specific sales scenarios, where the Group's NPL strategy establishes that the aforementioned loans may be recovered through sale on the market, with a view to pursuing a de-risking strategy aimed at reducing the NPL ratio, i.e. the percentage of non-performing loans compared to total loans. From 2020, the sales targets, previously related to bad loans only, also included portfolios of exposures classified as unlikely to pay.

Consequently, the estimate of the expected losses of these positions reflects not only the recovery through ordinary operations (work out), but also the presence, appropriately calibrated, of the sales scenario and therefore, of the relevant cash flows.
As expressly provided for by the ITG[1] of the IASB, it is possible to consider the flows recoverable through sale when determining the expected losses, to the extent that it is possible to develop expectations and assumptions inferred on the basis of reasonable and demonstrable information (please see the following document: "Meeting Summary – 11 December 2015 - Inclusion of cash flows expected from the sale on default of a loan in the measurement of expected credit losses").
In line with the sales targets established on each occasion by the Board of Directors, the Group's exposures classified as bad loans or unlikely to pay, are valued by configuring two different estimates of expected cash flows:

- the first is determined assuming recovery from the debtor based on internal activity, according to the ordinary valuation guidelines followed by the Group as illustrated above (work out scenario);
- the second is determined assuming recovery by assigning the receivable (sale scenario), whose estimate is taken from the amount defined for internal recovery.

The estimate of recoverable flows is therefore equal to the weighted average of the probabilities assigned to the two scenarios of the estimated cash flows that the Group expects to receive in the two aforesaid scenarios. Expected losses are therefore determined on the basis of the difference between the gross value of the credit exposure and the estimated lower recoverable flows.
The method of estimating expected losses therefore involves the following steps:

- the segmentation of the portfolio into different clusters considered relevant for the analysis of the portfolio, according to the status (bad loans or unlikely to pay), the date on which they were classified as non-performing (vintage), the amount of the exposures, the existence of planned sales;
- the assignment of a different probability of sale to each cluster, consistent with the achievement of the level of target transfers resolved by the relevant corporate bodies;
- the determination of the recovery flows through sale, based on an internal model of discounting the recoverable cash flows, on the basis of the Discounted Cash Flow technique and some parameters considered representative from the point of view of the potential buyer, with the aim of reaching a price for the hypothetical sale of each cluster, suitably calibrated in order to take into account the comparable transactions observed on the market.

Taking into account that loans likely to be sold cannot be individually identified on the reporting date, the model provides that each loan is associated with a probability of sale.
The expected loss for the loans in question is therefore equal to the weighted average of the probabilities assigned to the two scenarios of the estimated cash flows recoverable in the two scenarios (workout and sale).
Probability is assigned to the various scenarios assuming the segmentation of the Group's total portfolio of exposures classified as bad loans or unlikely to pay, in accordance with the main characteristics that influence the value attributed by the market to loans of this type (vintage, amount of the exposures).

The assignment of the probabilities to the various clusters is guided by the amount of the target sales approved from time to time by the Board of Directors. In other words, the probabilities have been assigned to the various clusters in such a way that the sum of the total nominal values of each cluster multiplied by the relative probability of sale (hereinafter also "expected sale value") amounts to the aforementioned amount of target disposals approved by the Board of Directors. The probabilities assigned to the various clusters vary over time and can range from a minimum value of 0%, assigned to positions that will be excluded from the sale due to their intrinsic characteristics, up to a

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

maximum of 85%, assigned to the cluster that includes the loans deemed more likely to sell (planned sales). The composition of the clusters also varies over time depending on the trend of market appetite for the various types of exposures and the consequent assessments of economic value made by the competent Bank bodies.

The valuation methodology used to calculate the recovery flows through sale is based on a discounting process for the recoverable cash flows (discounted cash flows), which takes into account the main parameters that are normally considered by potential buyers when defining the purchase price, suitably calibrated in order to take into account the comparable transactions observed on the market. In more detail, the factors considered in the estimation process are: the estimate of the recoverable value in line with the value estimated in the work out scenario; the expenses that the purchaser must incur to recover the loan; the estimate of recovery time, based on market information (e.g. average court time); the rates of return expected by the purchasers and the specific market factors defined also based on the type of sale implemented.
It is important to specify that the methodology illustrated above is not applicable to any loans which, at the date of preparation of the financial statements, are already identified in detail as held for sale, which satisfy the conditions set out by IFRS 5 to be classified in the portfolio of assets held for sale. Those loans are measured considering only the sale scenario, assigned a probability of 100% and using as reference the sale prices or information contained in the agreements finalised with the counterparties (binding offers).

Acquired or originated impaired financial assets

If at the time of initial recognition, a credit exposure classified under the item "Financial assets measured at fair value through other comprehensive income" or "Financial assets at amortised cost" is deemed non-performing, it qualifies as "Acquired or originated impaired financial assets" (POCI - Purchased or Originated Credit Impaired).
An asset is deemed non-performing at the time of initial recognition when the credit risk is extremely high and, in the case of acquisition, the price has been paid with significant discounts compared to the residual contractual debt. These assets are initially classified as Stage 3, but may be reclassified as Stage 2, therefore an expected loss will be recognised with the impairment model based on the lifetime ECL.
Regarding the criteria for initial recognition, measurement and derecognition, please refer to the information given for the asset items under which they can be classified, except as specified below, concerning the methods adopted to measure the amortised cost and impairment.
Specifically, the amortised cost and, consequently, interest income are calculated considering the credit-adjusted effective interest rate. With regard to calculating the credit-adjusted effective interest rate, the credit adjustment consists of considering the estimate of future cash flows, including the credit losses expected over the entire residual lifetime of the asset.
Additionally, the assets in question also entail special treatment with regard to the impairment process, as they are always subject to the calculation of the loss expected over the lifetime of the financial instrument. Therefore, subsequent to initial recognition, the loss or gain deriving from any change in the losses expected throughout the entire lifetime of the credit, compared to initial losses must be recorded in the income statement. Thus, it is not possible for the expected losses to be calculated on the basis of one year.

For Banco BPM Group, the only case attributable to the POCI is that arising from business combinations; beyond said circumstance, Banco BPM Group has not purchased or originated any exposure considered non-performing.

With reference to the non-performing loans acquired as part of the business combination with the former Banca Popolare di Milano Group, it should be noted that compliance with the accounting treatment described above was achieved substantially through the recognition in interest income, *pro-rata temporis*, of the reversal effect of the lower values attributed to the impaired loans at the time of Purchase Price Allocation. This approach is considered a reasonable approximation of the credit-adjusted effective interest rate, since the contractual interest rate is, in fact, supplemented by the higher yield deriving from the lower value attributed to the acquired receivables.

Renegotiations

If a financial asset is renegotiated (i.e. when the original contractual conditions are amended by the parties), it must be verified whether the financial asset should continue to be recorded in the financial statements, or if this is not the case, the original financial asset should be derecognised and a new financial instrument recognised.
To this end, it must be assessed whether the changes to the contractual terms of the renegotiation are substantial or not.

If the changes are substantial, the entity must derecognise the financial instrument that is subject to change and proceed to recognise a new financial asset on the basis of the new contractual provisions, either where the renegotiation is formalised through the signing of a new contract or where the renegotiation entails amendment to an existing contract. In particular, substantial renegotiations are those which:

- introducing specific objective elements which affect the characteristics and/or cash flows of the financial instrument (such as a change in the currency of denomination, a change in the counterparty not belonging to the same group as the original debtor, the introduction of indexing to equity or commodity parameters, the introduction of the option to convert the receivable into equity instruments/participating financial instruments/other non-financial assets, the provision of "pay if you can" clauses, which allow the debtor the utmost freedom in repaying the loan in terms of timing and amount) considering the significant impact expected on the original cash flows; or
- are carried out for customers that are not in financial difficulty, with the objective of adjusting the cost of the contract to the current market conditions.

In the latter case, it should be noted that if the bank does not agree to the renegotiation of the contractual conditions, the customer would be able to borrow from another intermediary with the consequent loss of the revenue flows provided by the renegotiated contract for the bank. In other words, it is deemed that there is no loss for the bank that must be recognised in the income statement as a result of realigning to the best current market conditions for its customers for commercial renegotiations.
Otherwise, i.e. in the presence of non-substantial changes, the renegotiated exposures will not be derecognised. Non-substantial renegotiations include modifications granted to counterparties with financial difficulties (concessions of forbearance measures) relating to the bank's attempt to maximise the recovery of the original exposure, the risks and rewards of which, however, continue to be retained by the bank. This does not apply to modifications that introduce substantial objective elements into the contract that could result in the derecognition of the financial asset, as described above.
With regard to financial assets at amortised cost, in the event of non-substantial renegotiations relating to financial difficulties of the debtor, the gross value is restated by calculating the present value of the cash flows resulting from the renegotiation, based on the original rate of exposure existing before the renegotiation. The difference between this gross value, as determined above, and the greatest gross book value prior to the change is recognised in the income statement (Item 140 "Gains (losses) from contractual modification without derecognition", known as modification accounting). For non-performing exposures, any renegotiation measures represented by write-offs of the gross exposure are recognised in the income statement item "130. Net credit impairment losses/recoveries".
For renegotiations due to Covid-19, that cannot be specifically classified in the above two types, please refer to the accounting treatment illustrated in the paragraph entitled "Risks, uncertainties and impacts of the Covid-19 pandemic" contained in "Section 5 - Other aspects" in Part A.1 of these Notes.

Financial liabilities designated at fair value

For Banco BPM Group, financial liabilities designated at fair value relate to certain bond and certificate issues, as illustrated in more detail below, with specific reference to the requirements stated by IFRS 9 for classification in the portfolio of liabilities in question.

Bond issues

To obtain funding, the Parent Company issues different types of bonds, both at a fixed rate and structured types (index-linked to share components, to exchange rates, to interest rate structures, inflation rates or similar indices).
The risks resulting from the above-mentioned issues are hedged by the Group, as part of its overall market risk management, by means of entering into derivative contracts.
From an accounting perspective, some of these contracts are designated as hedges according to the rules of Hedge Accounting, and in particular of the "fair value hedge", as illustrated in paragraph "4. Hedging transactions".
Conversely, for other contracts, whose hedging is not qualified according to hedge accounting rules, asymmetric accounting would be created, between the financial liability and the hedging transaction, resulting from the different measurement criteria applied to the bond issue - valued at amortised cost - and to the operational hedge derivative instrument, measured at fair value. The Group overcomes this asymmetry by designating bond issues subject to operational hedging at fair value. In addition to simplifying the administrative and accounting management of hedges, with specific reference to structured issues, the adoption of the Fair Value Option instead of Hedge

Accounting is closely linked to the actual methods the Group uses to carry out its hedging policies, by managing its market exposure globally and not through a discrete relation with the bond issued.
Unlike Hedge Accounting, whose accounting rules require that only fair value changes attributable to the hedged risk be recognised on hedged instruments, the fair value option requires the recognition of all fair value changes, irrespective of the hedged risk factor.

With regard to recognition criteria for the balance sheet and income statement components of the bond issues and of the related operational hedging derivatives, note that:

- derivatives that are associated operationally with financial liabilities at fair value are classified as "Financial assets at fair value through profit and loss: a) Financial assets held for trading" or "Financial liabilities held for trading". The related economic, valuation and realisation effects are recognised in income statement item "80. Net trading income";
- the spreads and the margins accrued on the derivatives up until the valuation date are recorded, depending on the balance, under "interest income" or "interest expense", consistent with the accrual recorded for the bond issues subject to operational hedges;
- the profits and losses resulting from the disposal or valuation of bonds issued under the fair value option are recognised under the income statement item "110. Net gains (losses) from other financial assets and liabilities measured at fair value through profit and loss", with the exception of valuation and realisation effects correlated with the change in own credit risk, which are recognised as a balancing entry to a specific equity reserve (item "120. Valuation reserves"), as described in more detail in paragraph "13. Financial liabilities designated at fair value".

Issues of certificates

Certificates are securitised derivative instruments issued by the Group and traded on multilateral trading systems, which replicate, with or without leverage, the performance of the underlying asset(s). These products may include protection for the amount subscribed by the customer or a portion of the same, unconditional with respect to the trend in the financial parameters to which they are indexed. From a substantial perspective, certificates can be defined as combinations of strategies of derivative instruments or of underlying financial assets and derivatives, thanks to which financial instruments can be generated, which have their own characteristics, substantially different to those of the assets they originated from. More specifically, certificates can be classified as the following two types of instrument:

- "certificates with unconditional capital protection": these are products that envisage an unconditional guarantee exceeding 50% of the capital initially invested. For accounting purposes, these instruments are considered "structured securities", given the predominance of the guaranteed component with respect to the variable one, determined by the performance of the certificate's underlying asset. Based on the way in which the products in question are managed, at Group level, the eligible accounting portfolios are those of "Financial liabilities designated at fair value", as illustrated below, or "Liabilities held for trading" if actively managed as part of an overall trading portfolio held to make a short-term profit;
- "other certificates": these are products without any protection, with conditional protection, or with unconditional protection equal to or less than 50% of the initial capital. For these products, the value depends exclusively or prevalently on the performance of the parameter to which they are indexed. For this reason, they are classified as "derivative financial instruments", and in particular among the options issued. For these instruments, the only eligible accounting portfolio is that of "Financial liabilities held for trading".

Therefore, from June 2020, the Parent Company Banco BPM started to issue certificates with unconditional capital protection, mainly for the purpose of funding and classified in the accounting portfolio of "Financial liabilities designated at fair value". The above classification is due to the presence of embedded derivatives which, in the absence of the fair value option, should be separated from the host instrument, as able to significantly alter the contractual cash flows. In this case, the fair value measurement of the entire contract, namely of the entire certificate, would be less onerous than the separate valuation of the host instrument and of the related embedded derivatives.
In addition, said classification would enable a "natural hedge" to be pursued with respect to operational hedging derivatives which, at Group level, are stipulated according to a "mass" approach, with the aim of hedging the entire Group exposure.

With regard to recognition criteria for the balance sheet and income statement components of the certificates recognised under "Financial liabilities designated at fair value" and of the related operational hedge instruments, note that:

- the entire margin for the Group resulting from the issues in question is included in item "110. Net gains (losses) from financial liabilities measured at fair value through profit and loss". Said item also includes the valuation effects related to the fair value measurement - consequent to the change in the market parameters to which the certificate is indexed, with the exception of changes in own credit risk - as well as the spreads paid to customers, periodically or at maturity. The effects resulting from changes in own credit risk are recognised as a balancing entry of a specific equity reserve (item "120. Valuation reserves"), as described in more detail in paragraph "13. Financial liabilities designated at fair value";
- derivatives that are associated operationally with financial liabilities at fair value are classified as "Financial assets at fair value through profit and loss: a) Financial assets held for trading" or "Financial liabilities held for trading". The valuation losses and gains, as well as the effects realised including any spreads collected and paid are recognised in income statement item "80. Net trading income".

Fair value and procedure to calculate the effects relating to its own credit risk

For the bond and certificate issues in question, fair value is measured first by referring to prices observable in markets considered active, such as regulated markets, electronic trading networks (e.g. Bloomberg) or organised trading systems or equivalent.
Lacking prices observable in active markets, the measurement is based on the prices of recent transactions on the same instrument in non-active markets rather than on valuation techniques based on a cash flow discounting model, which must consider all factors considered significant by market participants in determining a hypothetical trade.
In particular, to determine credit risk, the spreads implicit in the comparable issues of the same issuer obtained on active markets are used rather than the curve of the credit default swaps in the name of Banco BPM with an equal degree of subordination as the security subject to the assessment.
For further details on how fair value is determined, please refer to that described in detail in the specific section in "Part A.4 – Fair value disclosure".
The impact resulting from the change in the Bank's credit risk, between the issue date and the valuation date, is quantified by calculating the difference between the fair value obtained, considering all risk factors to which the issue is exposed, including credit risk, and the fair value obtained considering the same factors, with the exclusion of the change in credit risk arising during the period. For an illustration of the cumulative effects relating to a change in the credit risk of the Group of the issues in question, please refer to the content of "Section 3 - Financial liabilities designated at fair value" in "Part B – Information on the Balance Sheet" of these Notes.
The same methodology was applied to determine the effects resulting from a change in own credit risk for certificates classified in the accounting portfolio of "Financial liabilities held for trading"; for quantitative information relating to the above-cited effects, please refer to the content of "Section 3 - Financial liabilities held for trading" in "Part B – Information on the Balance Sheet", as well as in paragraph "A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: distribution by fair value hierarchy" contained in Part "A.4 - Fair value disclosure" of these Notes.

A.3 - DISCLOSURE ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

At the reporting date, there were no transfers between portfolios of financial assets that required the disclosure set out by IFRS 7.
In this regard, it should be noted that, during 2021, as in previous financial years, there was no change in Banco BPM Group's business model, i.e. the way in which the Group manages financial instruments.

A.4 - FAIR VALUE DISCLOSURE

QUALITATIVE INFORMATION

Fair value is defined as the price that would be received for the sale of an asset or paid to transfer a liability in an orderly transaction between market participants, at the current conditions on the measurement date in the main market or in the most advantageous market (exit price). Underlying the fair value measurement is the assumption that the entity is a going concern, namely that it is in a fully operational situation and that it does not intend to liquidate

or significantly reduce its operations or undertake transactions at unfavourable conditions. Fair value is not therefore the amount that the entity would receive or pay in the event of forced transactions or sales below cost.

Fair value is a market valuation approach not specifically referring to estimates concerning possible future cash flows developed by the individual entity; indeed, fair value must be determined by adopting the assumptions that market participants would use in determining the price of assets and liabilities, presuming that they are acting in their own best economic interest.
To measure the fair value of financial and non-financial assets and liabilities, IFRS 13 establishes a three-level fair value hierarchy, based on the source and the quality of the inputs used:

- **Level 1**: the inputs are represented by listed prices (unadjusted) on active markets for identical assets and liabilities;
- **Level 2**: the inputs are represented by:
  - prices listed on active markets for similar assets and liabilities;
  - prices listed on non-active markets for identical or similar assets and liabilities;
  - parameters observable on the market or corroborated by market data (e.g. interest rates, credit spreads, implicit volatility, exchange rates) and used in the valuation technique;
- **Level 3**: the inputs used are not observable on the market.

For financial instruments, measured in the financial statements at fair value, the Group has implemented a "Fair Value Policy" that assigns the highest priority to prices listed on active markets (level 1) and the lowest priority to the use of unobservable inputs (level 3), as more discretionary, in line with the above-illustrated fair value hierarchy. More specifically, this policy establishes:

- the rules for identifying market data, the selection/hierarchy of the sources of information and the price configurations needed to measure the financial instruments listed on active markets and classified as level 1 of the fair value hierarchy ("Mark to Market Policy");
- the valuation techniques and the relative input parameters in all cases in which the Mark to Market Policy cannot be adopted ("Mark to Model Policy").

Mark to Market

To measure the fair value, the Group uses, whenever available, information based on market data obtained from independent sources, as considered the best evidence of the fair value. In this case, the fair value is the market price of the same instrument being measured, namely without changes or reorganisations of the same instrument, inferable from the prices listed on an active market (classified as level 1 of the fair value hierarchy). A market is considered active when the list prices express actual and regular market transactions and are readily and regularly available through stock markets, brokers, intermediaries, sector companies, listing services or authorised entities.

Mark to Model

If the "Mark to Market Policy" is not applicable, due to the absence of prices directly observable in markets considered active, valuation techniques must be adopted that maximise the use of information available on the market, based on the following valuation approaches:

1. Comparable Approach: in this case, the instrument's fair value is derived from the prices observed in recent transactions on similar instruments in active markets, suitably adjusted to take into account differences in the instruments and in the market conditions, rather than from the prices of recent transactions on the same instrument as that subject to valuation not listed in active markets;
2. Model Valuation: if there are no transaction prices observable for the instrument to be measured or for similar instruments, a valuation model needs to be adopted; this model must be of proven reliability in estimating the hypothetical "operating" prices and therefore must be widely acknowledged by market operators.

The classification as level 2 rather than level 3 is established on the basis of the market observability of the significant inputs used to determine the fair value. A financial instrument must be classified in its entirety at a single level; therefore if inputs belonging to different levels are used in the valuation technique, the entire valuation must be classified in correspondence with the level of the hierarchy at which the lowest level input is classified, when deemed significant to the calculation of the fair value as a whole.

The following types of investment are considered level 2:

- financial instruments represented by OTC derivatives and by repurchase agreements on debt securities ("Bond Repo") when the inputs of the pricing models used to calculate the fair value, are observable in the market or, if not observable, are deemed that they do not significantly influence the fair value measurement;
- equity instruments not listed on active markets, measured using the market multiples technique, referring to a selected sample of comparable companies with respect to the subject of the valuation, or measured on the basis of the effective transactions made in a period of time reasonably close to the reference date;
- debt securities of third parties or own issues, not listed on active markets, for which the inputs, including the credit spreads, are taken from market sources;
- UCIT units featuring significant transparency and liquidity, measured based on the NAV provided by the management company/fund administrator.

As a rule, the following financial instruments are considered level 3:

- hedge funds characterised by significant levels of illiquidity, and for which the process to evaluate the assets of the fund requires a considerable amount of assumptions and estimates. The fair value measurement is made on the basis of the NAV. Said NAV may be appropriately corrected to take the poor liquidability of the investment into account, namely the period of time between the repayment request date and the effective repayment date, as well as to take any exit commissions of the investment into account;
- real estate funds measured on the basis of the last available NAV;
- private equity, private debt and similar funds, measured on the basis of the last available NAV, possibly adjusted to take into account events not included in the valuation of the price or to reflect a different valuation of the assets underlying the fund in question;
- illiquid shares for which no recent or comparable transactions are observable, usually measured on the basis of the equity model;
- debt securities characterised by complex financial structures for which sources that are not publicly available are usually used. These are non-binding prices and are also not corroborated by market data;
- debt securities issued by parties in financial difficulty, for which the management has to use its own judgement to establish the "recovery rate", as no significant prices can be observed on the market;
- financial instruments represented by OTC derivatives, for which the non-observable input parameters used by the pricing model are deemed significant in order to measure the fair value;
- medium-long term loans (performing and non-performing) valued on the basis of the expected cash flows determined using models that vary according to the status of the counterparty, and discounted at an interest rate considered representative from the perspective of the potential buyer.

For information on the fair value of non-financial assets attributable to the property, plant and equipment represented by property and works of art, refer to that set out in the following section.

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

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

Financial assets and liabilities measured at fair value on a recurring basis are represented by all financial instruments measured at fair value in the financial statements (items 20, 30, 50 of balance sheet assets and items 20, 30, 40 of balance sheet liabilities). For these financial instruments, in the absence of prices directly observable in active markets, the fair value must be determined using the "Comparable Approach" or the "Valuation Model", as described in the previous paragraph. A description is provided below of the main valuation techniques adopted for each type of financial instrument.

Debt securities

These are measured by discounting expected cash flows (Discounted Cash Flow Method), suitably adjusted to account for issuer risk. The sources of information used to determine the spread deemed expressive of issuer risk are, in hierarchical order: i) the cash credit spread curve drawn from the prices of securities of the same issuer, characterised by the same seniority and currency, listed on markets considered active; (ii) the "Credit Default Swap" curve of the issuer with an equal seniority; (iii) the credit spread curve of debt securities listed in active markets

relating to comparable issuers; (iv) the rating/sector cash credit spread curves; (v) the sector credit default swap curve.

Loans that do not pass the SPPI test

These are loans that are mandatorily measured at fair value, since the contractual cash flows do not exclusively envisage repayment of the principal and payment of interest on the principal to be repaid (i.e. they do not pass the SPPI test), either because of clauses originally established in the contract or subsequent amendments.

The techniques used to determine fair value are illustrated below:

- for loans that do not pass the SPPI test due to the presence of contractual clauses originally provided for in the contract, the fair value is determined on the basis of cash flows, suitably adjusted for expected losses, based on PD and LGD parameters. These flows are then discounted using a market interest rate, adjusted to take account of a premium considered to express risks and uncertainties. In the presence of implicit optional components, such as the possibility of changing the interest rate, the fair value also takes into account the valuation of these components;
- for loans that do not pass the SPPI test as a result of contractual changes due to restructuring agreements (these are in the form of forborne exposures), the fair value measurement takes the cash flow forecasts expressed by the operator as its initial reference, in line with the method used to determine the impairment of loans at amortised cost. These flows shall be adjusted to take account of the likelihood or otherwise of the success of the forbearance rate granted to the counterparty and of the legal and management costs considered upfront from the perspective of the potential buyer. The estimated recovery flows are discounted on the basis of interest rates, obtained by relying on those observed on the market considered as consistent as possible with respect to the assets to be valued.

Unlisted equity instruments

These are measured by referring to direct transactions of the same security or similar securities observed over a suitable time frame as compared to the valuation date, using the market multiples method of comparable companies, and, as an alternative, using financial, income and equity valuation methods.

Investments in UCITs, other than open-ended harmonised UCITs

These are generally measured on the basis of the NAV made available by the fund administrator or the management company, unless it is deemed that said NAV does not represent fair value in the eyes of a market operator. These investments typically include private equity, private debt and similar funds, real estate funds and hedge funds.

Repurchase agreements on debt securities ("Bond Repo")

The fair value is obtained by discounting the forward contractual flows expected, determined based on the characteristics of the contract, based on the interest rate curve differentiated based on the issuer of the security underlying the contract (government securities and corporate securities).

Over The Counter (OTC) Derivatives

These are measured on the basis of multiple models, depending on the type of instrument and input factors (interest rate risk, volatility, exchange rate risk, price risk, etc.) which affect their valuation. For future cash flow discounting purposes, the risk-free interest rate refers to the OIS ("Overnight Indexed Swap") curve.

In detail, for non-option instruments (such as interest rate swaps, forward rate agreements, overnight interest swaps and domestic currency swaps), the valuation techniques adopted belong to the category of "discounted cash flow models", based on certain or trend-based cash flow discounting.

For option instruments, models generally accepted in market practice, such as Black & Scholes, Black-like and Hull & White, are used. In particular:

- for plain vanilla options, the methodologies most used fall within the forward risk-neutral framework and are based on analytical black-like formulas, in which volatility depends on maturity and the strike (volatility skew);
- for more complex options (such as exotic options, barrier options and autocallable options), the methodologies most used, again within the risk-neutral sphere, are based on Monte Carlo simulations, according to which the option pay-off is evaluated through simulations for a sufficiently high number of repetitions relating to the evolution over time of the risk factors underlying the option. Such models estimate the likelihood that a specific event will take place by incorporating assumptions such as the volatility of estimates or the price of the underlying instrument. The price of the derivative is therefore obtained as the discounted arithmetic average of the values obtained for each scenario.

For instruments that contain different option and non-option derivative components, the valuation is conducted by applying the appropriate valuation methodology to each instrument component.

In addition, in order to measure the fair value, several fair value adjustments are considered in order to best reflect the sale price of an actually possible market transaction. These adjustments are specifically model risk, liquidity risk and counterparty risk, illustrated here below.

Model risk: this adjustment is made to cover the risk that the pricing models, though validated, may generate fair values not directly observable or not immediately comparable with market prices. In general, this is the case for structured products, whose valuation is highly complex and for which the break down into elementary components which can be "summed" (host instrument and embedded derivative) may generate imprecisions in the valuation, or in the event of pricing algorithms or types of pay-offs that are particularly "exotic", which do not have a suitable degree of dissemination on the market, or in the presence of models that are highly sensitive to variables that are difficult to observe on the market.

Liquidity risk: this adjustment is made to take account of the size of the "bid/ask spread", i.e., the actual cost of unfreezing positions in OTC derivatives in markets with low efficiency. The effect of the liquidity risk adjustment is greater the more the product is structured, due to the related hedging/unfreezing costs, where the valuation model is not sufficiently confirmed and disseminated among operators, because this makes the valuations more random.

Counterparty risk: adjustments to the market value of OTC derivative instruments, classified as performing, are made in order to reflect:

- the risk of possible default by the counterparty; in this case, the adjustment is called Credit Valuation Adjustment (CVA);
- the risk of non-fulfilment of one's own contractual obligations (own credit risk), in order to calculate the Debt Valuation Adjustment (DVA).

The consideration of own credit risk in the designation of a financial liability at fair value is consistent with the valuation made for an entity that holds the same instrument as a financial asset and is expressly envisaged by IFRS 13 (non-performance risk).

CVA and DVA are determined for each separate legal entity belonging to the Group, on the basis of the expected future exposure of the derivative instruments, the Probability of Default (PD) of the parties, and the relative expected losses, or Loss Given Default (LGD). More specifically, the calculation of expected exposure takes into account the effects resulting from the existence of netting or collateral agreements, which are able to mitigate counterparty risk. Specifically, the "Credit Support Annex" (CSA) contracts negotiated with counterparties for derivative transactions govern the procedures for settling financial collateral, based on mark-to-market trends.

When estimating PD, maximum use of market parameters is made, referring to Credit Default Swap quotations, where available, against internal parameters.
The table below summarises the main types of derivatives existing in the Group, indicating the related valuation models and the main inputs.

Derivative category	Product	Valuation models	Main input of the model
Financial derivatives on interest rates	Swaps	Discounted cash flow and Libor Convexity adjustment	Interest rate curves, interest rate volatility, interest rate correlation
	Caps - Floors	Bachelier - Analytical	
	European Swaptions	Bachelier - Analytical	
	Bermuda Swaptions	Hull-White one-factor mixture - Trinomial tree	
	CMS Spread Options	Bachelier - Analytical	
	CMS caps/floors/swaps	Bachelier and CMS Convexity adjustment (Hagan)	
	FRA	Discounted Cash Flow – Analytical	
	Interest Rate Futures	Analytical with Hull-White one-factor convexity adjustment	
	Bond Option	Black - Analytical	
	Bond Futures and Bond Repo	Discounted Cash Flow - Analytical	
	Bond Futures options	Binomial tree	
Derivatives on inflation rates	Swaps, Caps - Floors	Lognormal Forward Inflation Model - Analytical	Interest rate and inflation rate curves, interest/inflation rate volatility/correlation, calibrated on market prices
Derivatives on shares/share indices/exchange rates	Single asset plain vanilla options	Black and Scholes - Analytical	Equity/forex volatility, interest rate and exchange rate curves, spot prices of share indices, dividends, repo rates
	Single asset American options	Black and Scholes – Binomial tree (equity) – trinomial tree (forex)	
	European options on controlled volatility index	Local volatility – Monte Carlo	Equity/forex volatility, interest rate and exchange rate curves, spot prices of share indices, repo rates
	Controlled volatility index options representative of an investment portfolio	Black and Scholes hybrid, Hull and White with two factors - Monte Carlo with Jumps	Equity/forex/interest rate volatility, correlations, interest rates, exchange rates, spot prices of share indices, dividends, repo rates, Crash Put market prices
	Exotic options on basket equity	Local volatility – Monte Carlo	Equity/forex/interest rate volatility, correlations, interest rates, exchange rates, spot prices of share indices, dividends, repo rates, retail credit curve
	American Barrier Options on basket equity	Local volatility – Monte Carlo	
	Autocallable options on basket equity	Hybrid Black and Scholes, two-factor Hull and White – Monte Carlo	
	Autocallable options on exchange rates	Local volatility – Monte Carlo	Forex, interest rate and exchange rate volatility
	American Barrier Options on exchange rates	Trinomial tree	Forex, interest rate and exchange rate volatility
	Dividend Swaps and Total Return Swaps	Discounted Cash Flow - Analytical	Interest rates, exchange rates, dividends, repo rates
Credit derivatives	Credit Default Swaps	Discounted Cash Flow - Analytical	Interest rates, Credit Default Swap curve

The techniques and parameters for determining fair value and the criteria for assignment under the fair value hierarchy are defined and formalised in a specific fair value policy adopted by the Group. The reliability of the fair value measurements is also guaranteed by the verifications carried out by a Risk Management department. This department, which is independent from the Front Office units that hold the positions, periodically reviews the list of pricing models to be used under the Fair Value Policy: these models must represent market standards or best practices and the related calibration techniques must guarantee a result in line with valuations capable of reflecting the "current market conditions". Specifically, to correctly determine the fair value, each product is associated to a pricing model generally accepted by the market and selected based on the characteristics and market variables underlying said product. For highly complex products or in the event that the existing valuation model for the products is deemed lacking or inadequate, an internal process is launched to supplement the current models. Based on this process, the Risk Management department conducts an initial stage of validation of the pricing models, which may be native to the position keeping system or issued by a specific internal department. This is followed by a stage conducted by the same department, to guarantee constant reliability of the previously validated model.
In detail, the validation aims at verifying the theoretical robustness of the model through independent repricing, possible calibration of the parameters and comparison with counterparties' prices. If the validation is successful, the use of the models is still subordinate to approval by specific internal committees of the Group. Following the

validation stage, continuous revision is planned in order to confirm the accuracy and adherence to the market of the pricing models used by the Group, through suitable actions, if necessary, on the models and the related underlying theoretical assumptions. In order to cover the risk that the pricing models, though validated, may generate fair values not immediately comparable with market prices, a suitable adjustment will be made for "model risk", as described above.

Non-financial assets measured at fair value on a recurring basis

For Banco BPM Group, non-financial assets measured at fair value on a recurring basis are represented by owned real estate assets and valuable works of art.

Fair value of owned real estate assets

The fair value of properties, whether used in operations or for investment purposes, is determined by availing of specific appraisals drawn up by qualified independent companies operating in the specific field, capable of providing property appraisals based on the RICS Valuation standard.[1]
Those standards guarantee that:

- the fair value is determined in line with the indications of the international accounting standard IFRS 13, insofar as consistent with the notion of "arm's length value" defined as "the estimated amount at which an asset would be sold or purchased, at the valuation date, by a seller or a buyer without specific links, both interested in the purchase and sale, at arm's length conditions, following suitable marketing in which the parties acted in an informed and aware manner, without coercion";
- the experts have the professional, ethical and independence requirements in line with the provisions of international and European standards.

For properties of a significant amount, i.e. for properties with a value exceeding 5 million, full appraisals are conducted, i.e. conducted via an inspection of the property, in addition to a detailed analysis of the available documentation. For the remaining properties, a desktop appraisal is instead possible, i.e. appraisal based on the examination of documentation, without any physical inspection of the property by the appraiser.
With regard to the frequency of update of the appraisals, based on Group policy:

- for properties for investment purposes, an annual update is necessary, unless there is evidence that an earlier review is needed, considering that the measurement criterion for those assets is fair value;
- for properties used in operations it is possible to request an update after more than one year, to be defined based on the specific characteristics of the property (such as, by way of example, the materiality, the location) and the changes in the real estate market, based on a scenario analysis, for the purpose of ensuring that the book value does not differ significantly from that which would have been determined using the fair value at the reporting date.

The methodologies used to determine the fair value can be based on the discounted cash flow method, the market multiples method or the transformation method, based on the characteristics of the property subject to valuation.

Lastly, it should be clarified that, based on IFRS 13, there is an assumption that the current use of the asset represents the highest and best use of the same, unless the market or other factors suggest that market participants could utilise the asset in a different way, in order to maximise the relative value ("highest and best use"). In line with these provisions, the valuation approach was therefore defined on the basis of the current use of the properties, on the assumption that it represents the highest and best use, and considering, in limited cases, potential alternative uses. More specifically, as regards properties used in operations, the valuation was conducted from the perspective of continuity of use of the same, namely assuming that the Group will continue to occupy the property on the basis of the lease payment aligned to market conditions for the foreseeable future. For certain real estate investments, the measurement of the fair value may have taken the potential "upgrade" of the current use of the property into account, if it was retained that market participants are able to increase its potential through the future development of the property, for the purpose of defining a hypothetical transaction price.

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[1] Standards set out in the "RICS Valuation – Global Standard" of the Royal Institution of Chartered Surveyors of the United Kingdom (also known as the "Red Book").

Fair value of valuable works of art

The fair value measurement of works of art is determined through specific appraisals issued by qualified, independent companies.
In determining the value of the works, the following elements are considered: the quality of the style, the size (in some cases these are museum-level works), the degree of conservation, origin, presence of a notification of restriction by the state, and the historical and artistic notes proposed in the sheets drawn up by the assigned researchers. More specifically, the reference value for measurement in the financial statements is the "commercial or market value", i.e. the estimated minimum revenues expected on the sale of the work in a short period of time, assumed as a few months. For the purposes of measurement in the financial statements, thus, the "insured value", which is normally higher than the commercial value by a range of 20%-30%, was not considered, as that value configuration refers to the hypothetical opportunity to repurchase on the market a work equivalent to the one lost, at a significantly higher cost than the sale cost.
The Group policy states that the appraisal may be updated with a frequency of more than one year, to be defined based on the characteristics of the work of art and the performance of the market, taking account of the objective of ensuring that the book value is a reasonable approximation of the fair market value.

Fair value hierarchy of real estate assets and works of art

The fair value of property and works of art is classified in level 3 of the fair value hierarchy set out by the accounting standard IFRS 13, as it significantly depends on the estimates made by the management, which feature elements of judgement and subjectivity, in relation to the unique, distinctive characteristics of the object to be evaluated.
In particular, the selection of relevant inputs (income flows, discount rates, value per square meter, prices of similar transactions) for measuring the fair value of properties is influenced by the specific characteristics of the properties in question, such as, by way of example, their geographical and commercial position, accessibility and infrastructure, the urban context, the state of conservation, the size, any easements, the state of outdoor/indoor facilities. In addition, in the presence of situations where marketing and sale is difficult, further adjustments may be necessary based on the sales policy that the company management intends to pursue.
Theoretically, there could be circumstances deemed absolutely exceptional, in which the fair value of the properties could be considered in level 2, i.e., determined based on parameters considered observable in active markets. In that case, there must be a sufficient volume of transactions that have taken place in a recent period of time with respect to the valuation date and no significant adjustments can be made, due to the high similarity between the unit to be valued and the units involved in the said transactions (e.g. residential units that are part of a building/area with a sufficient number of comparable units or offices located in a business district with several similar buildings featuring comparable offices).
In that regard, it must be noted that, at the reporting date, the fair value of real estate assets and works of art is fully classified in level 3.

Financial assets and liabilities at amortised cost in the financial statements

For financial assets and liabilities recognised in the financial statements based on amortised cost, classified in the accounting categories of "Financial assets at amortised cost" (loans to banks and customers) and "Financial liabilities at amortised cost" (due to banks and customers and debt securities in issue), the determination of fair value is important only for reporting purposes, in line with the provisions of the reference accounting standard IFRS 7. In particular:

- for performing medium/long-term loans (mostly loans represented by mortgage loans and leases), fair value is determined on the basis of cash flows, suitably adjusted for expected losses, on the basis of PD and LGD parameters. These flows are discounted using a market interest rate adjusted to take account of a premium considered to express risks and uncertainties. For the above loans, the fair value is entirely classified at level 3 of the fair value hierarchy;
- for "non-performing" loans (bad loans, unlikely to pay and past due), the fair value is typically recorded as net book value and is included in level 3 of the fair value hierarchy. In this regard, it should be noted that, recently, the Italian market for NPLs (Non-Performing Loans) saw the completion of significant transactions for the sale of non-performing loans. However, the prices of the above transactions were affected by the specific characteristics of the assigned receivables and the variability of the returns requested by the purchasing counterparties. The fair value determined on the basis of the above transactions would therefore be characterised by a high dispersion of values, such as to render the identification of a reference value to be

used for the purposes of information in the financial statements non-objective. For this reason, the fair value of non-performing loans has been traditionally set at the book value;
- for debt securities classified in the portfolio of "Loans to banks or customers" or "Debt securities in issue", the fair value is measured by using prices obtained on active markets or valuation models, as described in the previous paragraph "Financial assets and liabilities measured at fair value on a recurring basis", to which reference is made also as regards the assignment of fair value in the three-level fair value hierarchy;
- for demand or short-term receivables and payables, the book value is considered a good approximation of fair value, as permitted by IFRS 7. The relative fair value, which is typically recorded as book value and included in level 3.

With regard to medium-long term performing and non-performing loans, note that the methods and the assumptions used to estimate fair value are based on subjective valuations (level 3). For this reason, the fair value shown in the financial statements for reporting purposes only, could be significantly different to the values calculated for different purposes, just as it may not be comparable to those provided by other financial institutions.

A.4.2 Processes and sensitivity of valuations

For an examination of the techniques, inputs and valuation processes adopted by the Group for the instruments classified in level 3 of the fair value hierarchy, please refer to the previous paragraph.
Exposures in level 3 financial instruments totalled 1,110.4 million and are mostly represented by equity instruments, UCIT units and loans mandatorily measured at fair value as illustrated below.

Equity instruments and UCIT units

Investments in equity instruments and in UCIT units, classified as level 3, totalled 740.8 million (corresponding to 66.7% of level 3 financial assets measured at fair value), as illustrated in more detail in the paragraph below "A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: distribution by fair value hierarchy".
For the above instruments, it is not usually possible to make any quantitative sensitivity analysis of the fair value, with respect to the change in non-observable inputs, insofar as the fair value was acquired from external sources or was generated by a model with specific inputs (for example, the company's capital values) and for which the necessary information for a sensitivity analysis is not available.

Loans mandatorily measured at fair value

Level 3 financial instruments include loans to customers which, if they do not pass the SPPI test, are classified in the portfolio of assets mandatorily measured at fair value, equal to 319.0 million (corresponding to 28.7% of level 3 financial assets measured at fair value).
For these instruments, the fair value is significantly influenced by the forecasts of recovery of contractual cash flows and, to a lesser extent, by the financial component linked to the selection of discount rates.
In particular, for loans measured at fair value, following the introduction of certain contractual clauses to restructuring agreements, resulting in the failure of the SPPI test, totalling 93.5 million, a reduction of 10% in the cash flows with respect to those used to measure the fair value, which are largely based on the plans certified and approved, would result in a decrease of around 7.8% with respect to the book value; an increase in the discount rate of 1% would instead result in a reduction in the fair value of around 0.3% with respect to the book value.

A.4.3 Fair value hierarchy

For the purpose of preparing the disclosure on transfers between levels set out in paragraphs A.4.5.1, A.4.5.2 and A.4.5.3, it is noted that, for securities in the hierarchy as at 31 December 2021 which had a different level of fair value than as at 1 January 2021, it was assumed that the transfer between levels occurred with regard to the balances at the beginning of the reference period.

A.4.4 Other information

For derivative contracts included in the same Netting arrangement, to calculate counterparty risk, the Group did not use the option of measuring net exposure considering all of the instruments covered by the above-mentioned arrangement, as illustrated in paragraph "A.4.1 Fair value levels 2 and 3: valuation techniques and input used" above. In the presence of collateral agreements (CSA), the exposure associated with the individual derivative is determined in relation to its marginal contribution to the expected net exposure generated by all the contracts stipulated with a given counterparty within the same CSA.

QUANTITATIVE INFORMATION

A.4.5 Fair value hierarchy

A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: distribution by fair value hierarchy

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

Assets/liabilities measured at fair value	31/12/2021			31/12/2020		
	L1	L2	L3	L1	L2	L3
1. Financial assets at fair value through profit and loss	3,379,057	2,044,482	913,571	3,491,133	4,705,654	846,738
a) financial assets held for trading	2,518,850	2,017,586	2,189	2,833,138	4,413,483	1,727
b) financial assets designated at fair value	-	-	-	-	-	-
c) other financial assets mandatorily measured at fair value	860,207	26,896	911,382	657,995	292,171	845,011
2. Financial assets measured at fair value through other comprehensive income	10,312,065	166,209	196,805	10,408,048	115,435	187,313
3. Hedging derivatives	-	127,076	-	-	75,046	-
4. Property, plant and equipment	-	-	2,482,871	-	-	2,657,823
5. Intangible assets	-	-	-	-	-	-
Total	**13,691,122**	**2,337,767**	**3,593,247**	**13,899,181**	**4,896,135**	**3,691,874**
1. Financial liabilities held for trading	385,882	13,747,049	-	2,052,688	10,634,315	541
2. Financial liabilities designated at fair value	-	1,405,190	-	-	955,781	-
3. Hedging derivatives	-	227,972	-	-	585,680	-
Total	**385,882**	**15,380,211**	**-**	**2,052,688**	**12,175,776**	**541**

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

Financial assets measured at fair value on a recurring basis

As at 31 December 2021, financial instruments measured significantly on the basis of non-observable parameters (Level 3) were 82.1% comprised of instruments classified as "Financial assets at fair value through profit and loss", and 17.7% of instruments classified in the portfolio of "Financial assets measured at fair value through other comprehensive income"; the remainder is classified as "Financial assets held for trading".
More specifically, level 3 financial assets amounted to 1,110.3 million and are represented by the following types of investment:

- unlisted equity instruments of 235.1 million, mostly valued on the basis of internal equity models, Discounted Cash Flow techniques or with transaction prices, which do not meet the requirements to be assigned to level 2;
- UCIT units of 505.7 million, represented by private equity, private debt and similar funds (451.9 million), real estate funds (50 million) and hedge funds (3.8 million); these funds are characterised by significant levels of

illiquidity, and for which the process to evaluate the equity of the fund requires a considerable amount of assumptions and estimates. For more details on UCIT units held by the Parent Company in relation to sales of multi-originator loans, refer to that illustrated in "Section 2 – D. Sale transactions – Financial assets sold and fully derecognised" contained in Part E of these Notes;
- loans to customers amounting to 319.0 million, measured at fair value, for failure to pass the SPPI test, as the related cash flows do not exclusively represent the payment of interest and principal;
- debt securities amounting to 48.5 million, mainly relating to structured credit securities (45.6 million);
- Over The Counter (OTC) derivatives amounting to 2.0 million, for which the fair value was conclusively measured by means of non-observable parameters or that relied on third party sources.

With regard to derivative financial instruments held for trading and hedging, excluding the share of level 3 illustrated above, the same are almost all classified as level 2, with the exception of listed derivatives classified as level 1, as illustrated below:
- level 1 includes listed derivatives (futures and options), measured on the basis of the prices provided by the Clearing Houses, for a total of 172.0 million;
- level 2 includes Over The Counter (OTC) derivatives measured on the basis of models that use observable market parameters to a significant extent, or on the basis of prices originating from independent sources, for 1,948.5 million.

Financial liabilities measured at fair value on a recurring basis

Level 1 financial liabilities refer to listed trading derivatives for 114.8 million and to technical overdrafts listed in active markets for 271.1 million.
The remaining financial liabilities are entirely classified as level 2 of the fair value hierarchy and mainly regard the portfolio of "Financial liabilities held for trading" relating to Bond Repo trading for 9,714.9 million, financial and credit derivatives for 1,843.7 million and issues of Certificates unconditionally guaranteed by Banca Akros for 2,188.5 million. With regard to "Financial liabilities designated at fair value", these include instead Certificates with unconditionally guaranteed capital, issued by Banco BPM, for a book value of 1,394.4 million (742.2 million at December 2020).

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

During 2021, the significant transfers refer to a limited number of securities. Specifically:
- transfers from level 2 to level 1 amounted to 1.2 million (value at beginning of year) belonging to the portfolio of "Financial assets held for trading";
- transfers from level 1 to level 2 amounted to 3 million (value at beginning of year) belonging to the portfolio of "Financial assets measured at fair value through other comprehensive income".

Impact of Credit Valuation Adjustment (CVA) and Debt Valuation Adjustment (DVA) on the determination of the fair value of derivative financial instruments

Based on the method illustrated in the section above entitled "A.4.1 Fair value levels 2 and 3: valuation techniques and input used", as at 31 December 2021, cumulative adjustments made to the fair value of derivative instruments, other than issues of certificates, to account for counterparty risk "Credit Valuation Adjustment (CVA) and Debt Valuation Adjustment (DVA)", were positive overall for 2.7 million, and were comprised by:
- adjustments for CVA which resulted in a cumulative loss, in terms of lower assets/higher liabilities, of 10.0 million;
- adjustments for DVA which resulted in a cumulative benefit, in terms of higher assets/lower liabilities, of 12.7 million.

As at 31 December 2020, cumulative fair value adjustments to take account of counterparty risk (CVA/DVA) were positive overall for 1.5 million, equal to the imbalance between negative adjustments for CVA (-13.0 million) and positive adjustments for DVA (+14.5 million).
The resulting impact on the income statement for 2021 was therefore a positive 1.2 million.

Property, plant and equipment measured at fair value on a recurring basis

Property, plant and equipment measured at fair value on a recurring basis, entirely classified as level 3, are represented by property and valuable works of art.
Sub-item "4. Property, plant and equipment" includes the assets classified in item 90 of balance sheet assets and measured at fair value. These regard:
- owned property used in operations and for investment purposes, for a total of 2,432.8 million;
- valuable works of art for 50.1 million.

In that regard, it is noted that, in addition to the above property, plant and equipment, the Group also holds property measured at fair value on a recurring basis, for 106.0 million (level 3 in the fair value hierarchy), classified in balance sheet item "120. Non-current assets and disposal groups held for sale", in relation to the sales negotiations under way.

A.4.5.2 Annual changes in assets measured at fair value on a recurring basis (level 3)

	Financial assets at fair value through profit and loss				Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Property, plant and equipment	Intangible assets
	Total	of which: a) financial assets held for trading	of which: b) financial assets designated at fair value	of which: c) other financial assets mandatorily measured at fair value				
1. Opening balance	**846,738**	**1,727**	**-**	**845,011**	**187,313**	**-**	**2,657,823**	**-**
2. Increases	**210,110**	**1,307**	**-**	**208,803**	**30,857**	**-**	**100,399**	**-**
2.1. Purchases	68,810	-	-	68,810	2,653	-	51,477	-
2.2. Profits charged to:	94,230	529	-	93,701	26,294	-	47,852	-
2.2.1. Income statement	94,230	529	-	93,701	1	-	26,322	-
- of which capital gains	82,608	527	-	82,081	-	-	25,448	-
2.2.2. Shareholders' equity	-	X	X	X	26,293	-	21,530	-
2.3. Transfers from other levels	10,341	3	-	10,338	1,910	-	-	-
2.4. Other increases	36,729	775	-	35,954	-	-	1,070	-
3. Decreases	(143,277)	(845)	-	(142,432)	(21,365)	-	(275,351)	-
3.1. Sales	(43,122)	(2)	-	(43,120)	(2,079)	-	(17,012)	-
3.2. Redemptions	(23,322)	-	-	(23,322)	(1,304)	-	-	-
3.3. Losses charged to:	(44,493)	(843)	-	(43,650)	(17,521)	-	(191,089)	-
3.3.1. Income statement	(44,493)	(843)	-	(43,650)	-	-	(180,540)	-
- of which capital losses	(31,773)	(843)	-	(30,930)	-	-	(162,845)	-
3.3.2. Shareholders' equity	-	X	X	X	(17,521)	-	(10,549)	-
3.4. Transfers to other levels	-	-	-	-	-	-	-	-
3.5. Other decreases	(32,340)	-	-	(32,340)	(461)	-	(67,250)	-
4. Closing balance	**913,571**	**2,189**	**-**	**911,382**	**196,805**	**-**	**2,482,871**	**-**

The "Transfers from other levels" of financial assets refer to the book value at the beginning of the year of certain securities for whose valuation, at the date of the financial statements, it was no longer possible to rely on transaction prices or on observable parameters that led to the assignment to level 3 of the hierarchy.

Sub-items "2.2.1 Profits charged to the Income statement" and "3.3.1 Losses charged to the Income statement" include the profits and losses recognised in total in the income statement for the year, relating to the following items:
- "80. Net trading income" for "financial assets held for trading";
- "110. b) Net gains (losses) from other financial assets and liabilities measured at fair value through profit and loss" for the "other financial assets mandatorily measured at fair value";
- "260. Fair value gains (losses) on property, plant and equipment and intangible assets" for the adjustment to fair value of property, plant and equipment measured on the basis of the fair value criterion (IAS 40) or the revalued amount method (IAS 16);
- "210. Depreciation and impairment losses on property, plant and equipment" for depreciation charges on property used in operations, measured on the basis of the revalued amount criterion (IAS 16);

- "280. Gains (losses) on disposal of investments" for the recognition of the gain or loss made from the sale of property, plant or equipment, represented by property or by works of art and measured on the basis of the fair value/revalued amount criterion.

Sub-items "2.2.2 Profits charged to Shareholders' equity" and "3.3.2 Losses charged to Shareholders' equity" include the profits and losses recognised in total as a balancing entry of the shareholders' equity item "120. Valuation reserves", and shown in the statement of comprehensive income relating to the following items:
- "20. Equity instruments designated at fair value through other comprehensive income";
- "140. Financial assets (other than equity instruments) measured at fair value through other comprehensive income" for the other securities.
- "50. Property, plant and equipment".

A.4.5.3 Annual changes in liabilities measured at fair value on a recurring basis (level 3)

	Financial liabilities held for trading	**Financial liabilities designated at fair value**	**Hedging derivatives**
1. Opening balance	**541**	**-**	**-**
2. Increases	**-**	**-**	**-**
2.1. Issues	-	-	-
2.2. Losses charged to:	-	-	-
2.2.1. Income statement	-	-	-
- of which capital losses	-	-	-
2.2.2. Shareholders' equity	X	-	-
2.3. Transfers from other levels	-	-	-
2.4. Other increases	-	-	-
3. Decreases	**(541)**	**-**	**-**
3.1. Redemptions	-	-	-
3.2. Buy-backs	-	-	-
3.3. Profits charged to:	(541)	-	-
3.3.1. Income statement	(541)	-	-
- of which capital gains	(541)	-	-
3.3.2. Shareholders' equity	X	-	-
3.4. Transfers to other levels	-	-	-
3.5. Other decreases	-	-	-
4. Closing balance	**-**	**-**	**-**

A.4.5.4 Assets and liabilities not measured at fair value, or measured at fair value on a non-recurring basis: distribution by fair value hierarchy

Assets/Liabilities not measured at fair value, or measured at fair value on a non-recurring basis	31/12/2021				31/12/2020 (*)			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets at amortised cost	140,448,388	19,268,151	284,849	126,955,952	141,249,323	21,747,434	387,498	126,674,823
2. Property, plant and equipment held for investment purposes	-	-	-	-	-	-	-	-
3. Non-current assets and disposal groups held for sale	-	-	-	-	-	-	-	-
Total	**140,448,388**	**19,268,151**	**284,849**	**126,955,952**	**141,249,323**	**21,747,434**	**387,498**	**126,674,823**
1. Financial liabilities at amortised cost	166,561,146	12,153,100	1,175,513	153,500,607	151,420,894	13,059,867	1,871,203	136,929,751
2. Liabilities associated with assets classified as held for sale	-	-	-	-	-	-	-	-
Total	**166,561,146**	**12,153,100**	**1,175,513**	**153,500,607**	**151,420,894**	**13,059,867**	**1,871,203**	**136,929,751**

(*) The figures relating to the previous year have been restated to take into account the amendments introduced by the 7th update of Circular no. 262 of the Bank of Italy

Assets and liabilities not measured at fair value

Financial assets and liabilities classified in level 1 and level 2 of the fair value hierarchy refer to debt securities/bonds in the portfolio (assets) or own issues (liabilities), for which listed prices available in active markets or valuation techniques whose relevant parameters are observable on the market were used. In greater detail, securities held in assets are mainly represented by government bonds classified in level 1.

The remaining financial assets and liabilities at amortised cost (loans, deposits, current accounts, other payables) are classified in level 3, as:

- fair value was determined on the basis of unobservable parameters, mainly attributable to estimates of expected losses determined on the basis of unobservable market indicators; or
- the fair value was not measured, as it was deemed approximately equal to the book value, as permitted by accounting standard IFRS 7.

For said types of financial instruments, the selection of techniques and parameters used in estimating the fair value to indicate in the financial statements only for disclosure purposes, as well as the appreciation of the significance of the unobservable inputs require significant judgements. It cannot therefore be ruled out that a different approach to said parameters or the use of alternative valuation techniques may lead to significantly different fair values, also depending on the purpose for which the same are being calculated.

For the disclosure on the methods of determining the fair value of financial assets and liabilities at amortised cost, refer to that illustrated in the previous paragraphs “Financial assets and liabilities at amortised cost in the financial statements”.

Assets and liabilities measured at fair value on a non-recurring basis

In line with the provisions envisaged by Circular 262 for assets and liabilities measured at fair value on a non-recurring basis, a disclosure of the three-level fair value hierarchy has to be provided. By way of example, this case would arise if a tangible asset, usually measured on the basis of the cost criterion, were to be measured at fair value, net of costs to sell, following its IFRS 5 classification as a non-current asset held for sale.
In this regard, it must be clarified that as at 31 December 2021, as in the previous year, no disclosure on the fair value hierarchy of assets and liabilities measured at fair value on a non-recurring basis is not provided, as the Group does not own this type of asset.

A.5 DISCLOSURE OF “DAY ONE PROFIT/LOSS”

Pursuant to IFRS 7, paragraph 28, in the area of Group financial instruments, note that at the reporting date, there were no impacts deriving from the “Day 1 Profit/Loss”, understood as the difference between the fair value at the time of initial recognition (transaction price) and the amount determined at that date using a measurement technique.