Notes to the consolidated financial statements

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 2022 (including the SIC and IFRIC interpretation documents).

For an overview of the accounting standards and the related interpretations endorsed by the European Commission, whose application is planned for 2022 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 2022).

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. For a detailed analysis of the published documents on accounting issues related to the Russia-Ukraine conflict and Covid-19, please refer to the paragraph on "Most significant aspects for 2022 financial statement valuations" 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[1]. 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").
In line with the aforementioned Circular, items that do not show any amounts for the current period and the corresponding period of the previous year are not included in the tables.
The additions to the provisions of Circular no. 262, related to the disclosure of the impact of Covid 19 and measures to support the economy, introduced with the Bank of Italy's communication of 15 December 2020 and subsequent

[1] For the purposes of the preparation of the 2022 financial statements, the amendments introduced with the 8th update of 17 November 2022, related to the new international accounting standard IFRS 17 "Insurance contracts", were not considered, as they are applicable starting from the 2023 financial year.

update of 21 December 2021, were also taken into consideration. The above-mentioned additions are to be considered in effect at the date of preparation of these financial statements, as no other communication was received from the Bank of Italy.

The financial statements provide, in addition to the accounting data as at 31 December 2022, comparative information relating to the last financial statements approved as at 31 December 2021.
In this regard, it should be noted that the financial statements as at 31 December 2022 include some items related to the insurance business, resulting from the acquisition of Banco BPM Vita S.p.A. and Banco BPM Assicurazioni S.p.A. which took place from 1 July 2022, as illustrated in detail in the paragraph "Acquisition of control of Banco BPM Vita S.p.A. and Banco BPM Assicurazioni S.p.A. and related accounting impacts" discussed in "Section 5 - Other Aspects" here below.

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 2022, 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.

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 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 may have to operate. The results, which will be achieved in the future could therefore differ from the estimates made for the purpose of drawing up this report and could consequently make adjustments necessary, which at present cannot be foreseen or estimated, with respect to the book value of the assets and liabilities recorded in the financial statements. In that regard, note that it may be necessary to adjust the financial statement estimates as a result of changes in the underlying circumstances, of new information or increased experience.
As regards the main factors of uncertainty that could impact future scenarios in which the Group may have to operate, the effects on the global and Italian economies related to current geopolitical tensions should not be underestimated. The start of the conflict between Russia and Ukraine and the indirect impacts of the Russian sanctions, primarily related to rising inflation, have caused significant uncertainties on the eurozone economic forecasts, which should be taken as the basis for budget estimates.
For further details, please refer to the paragraph “Most significant aspects for the 2022 financial statement valuations” in the following “Section 5 - Other Aspects”.
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 2022.

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.

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. 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 on 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 historic data available, in order to best represent the estimated realisable value of the credit exposure. For updates introduced in the measurement of expected losses, please refer to the paragraph "2.3 Methods for measuring expected losses" contained in the "Credit risk" Section of "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 2022.

Finally, it should be noted that, as shown in the Report on operations, as part of the ordinary inspection cycle carried out by the Supervisory Authority, as at the date of this Financial Report, some inspection activities on specific areas are underway, while for other inspection activities the closure has been notified but the "Decision" or "Final follow-up letter" is pending. Although the information elements acquired during the inspections are carefully considered by the Group in order to assess any implications on the financial statement estimates, it cannot be excluded that the changes in the processes that will be put in place in response to the requests and final recommendations issued by the Supervisory Authority and the disclosure of new information not known at the date of this Report may prospectively affect the assessments of credit exposures reported in the financial statements.

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.
Generally, it can be said that the risks resulting from the exposure of the borrower counterparty to aspects relating to climate and environment are considered indirectly to the extent that the ECL calculation models take the expected impact of changes in macroeconomic variables on credit risk parameters into account, also through the use of sector satellite models, namely of models that define the functional relationships between changes in macroeconomic variables and the Bank's risk parameters (Probability of Default - PD and Loss Given Default - LGD).
This applies to the measurement of expected credit losses (ECL) of non-performing loans.
Starting from the 2022 financial statements, the Group has carried out preliminary assessments on how climate and environmental risks can directly impact the PD and LGD risk parameters, in order to quantify expected losses on non-performing exposures. In particular, account was taken of:

- the physical risk resulting from the financial impact on the debtor related to climate change, including more frequent extreme weather events and gradual changes in the climate, as well as environmental degradation, i.e. air, water and soil pollution, water stress, loss of biodiversity and deforestation;
- the transition risk resulting from the negative impact that the counterparty may incur, directly or indirectly, as a result of the adjustment process towards a low-carbon and more environmentally sustainable economy.

In greater detail, the inclusion of the aforementioned risks led to an increase in the ECL of 20.4 million, which was implemented through a post model adjustment, given that the current models in use do not factor in such risks.

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 2022.
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.

Estimating 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 interim 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.

It should be noted that an impairment test had been performed on the goodwill of the Bancassurance Protection CGU as at 30 June 2022, in light of the reference macroeconomic context that had shown a sharp increase in the cost of capital deemed such as to cast doubt on the recoverability of the value recorded in the financial statements. As a result of the review, a write-down of 8.1 million was recognised in the half-yearly report, which is also included

in the financial statements as at 31 December 2022, given the impossibility of restoring an impairment recognised in a previous interim report.

As at 31 December 2022, the value of the assets in question totalled 561.0 million and referred to:

- for 56.7 million from goodwill arising from the business combination of Banca Popolare Italiana (Bancassurance Protection CGU for 42.9 million), the acquisition of the controlling interest in the company Oaklins Italy S.r.l. (3.8 million), the acquisition of control of Banco BPM Vita (10.0 million), completed in 2022 as reported in "Part G - Business combinations regarding companies or divisions" of these Notes to the financial statements;
- for 504.3 million from business trademarks recognised following the business combination transactions with the former Banca Popolare Italiana Group (222.2 million) and with the former BPM Group (282.1 million), all allocated to the Retail CGU with the exception of 18.6 million relating to the valuation of the trademark of Banca Akros (Banca Akros CGU).

More specifically, a regards the intangible assets relating to the Retail CGU, which represent around 90% of total intangible assets with an indefinite useful life, valuation analyses were conducted using the income forecasts approved by the Board of Directors of Banco BPM of 20 December 2022 as reference, drawn up according to a multi-scenario approach, with a view to factoring in the uncertainty of future macroeconomic scenarios in which the Group may have to operate. In greater detail, three different reference scenarios were considered, to which different probabilities of occurrence were attributed: 50% for the baseline one, 30% for the adverse one and 20% for the favourable ("benign") one.
The above-mentioned forecasts, drawn in accordance with the latest macroeconomic scenarios approved on the same date, are based on assumptions consistent with those of the 2021-2024 Strategic Plan, approved by the Board of Directors on 4 November 2021; a plan that is still today considered valid, as it reflects the Group's strategic guidelines and business model.
It should be noted that the above-mentioned flows and/or reference scenarios with the relative weighting percentages were considered, for consistency, in all relevant valuation years of the Group (measurement of expected losses on credit exposures and verification of the recoverability of deferred tax assets).

The results of the impairment test conducted as at 31 December 2022 confirmed the recoverability of the book values of intangible assets with an indefinite useful life, with the exception, as indicated above, of the goodwill attributed to the Bancassurance Protection CGU, which was written down in the first half for 8.1 million, 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 in any event that the verification of the recoverability of the intangible assets in question is a complex exercise, the results of which are affected by the valuation methods adopted, as well as by the underlying parameters and assumptions, which may need to be modified to take account of new information or developments that could not be foreseen when this Report was prepared. In order to be able to appreciate whether the recoverable value is maintained with respect to alternative assumptions and situations, please refer to the sensitivity analysis contained in the section "Intangible assets - Item 100 in the assets", of "Part B - Information on the consolidated balance sheet" of these Notes.

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 correspondence of the fair value hierarchy levels.
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 purposes only, tax regulations permit tax losses to 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 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, the probability test was carried out, in line with that carried out in previous years, 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 taxable income forecasts were developed on the basis of the income projections approved by the Board of Directors of Banco BPM on 20 December 2022, as better detailed in the previous paragraph "Estimated impairment losses in relation to intangible assets with an indefinite useful life".
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.
The macroeconomic scenarios used as the basis for the estimate of future income and related probabilities are also consistent with the measurement of expected losses on credit exposures.

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 evaluation 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 (actions to void 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.

Determining 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 properties used in operations, i.e. those used for administrative and/or commercial purposes. The update of the fair value, in compliance with the requirements laid out by IFRS 13, is supported by dedicated appraisals issued by leading companies, on the basis of the "RICS Valuation" standards[1].

In more detail, for properties for investment purposes, the Group's accounting policies require fair value to be updated annually, unless there is evidence that an earlier update is necessary. 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. In particular, for properties for business use, the appraisal is updated every two or three years depending on whether the property has a value of more than or less than 5 million, unless the scenario analysis is such that an earlier revision is required.

As at 31 December 2022, 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 around 80% of the Group's total real estate assets. On the basis of the policy previously described, in 2022, the fair value was updated for all properties held for investment purposes and for those used in operations with a unit amount of less than 5 million. The revaluation of the higher-value real estate used in operations was a function of the previously mentioned scenario analysis.

For the above-cited perimeter, the fair value is calculated by using specific appraisals drawn up by qualified, independent experts, in compliance with the criteria laid out by 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

[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").

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.

In 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, as well as the strategies that the Group intends to adopt to manage real estate assets - may lead to different valuations with respect to those conducted for the 2022 financial statements, with consequent negative impacts on the Group's balance sheet and income statement.

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 judgement 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.
In particular, with regard to employee benefits represented by the provisions for employee severance pay and defined benefit pension funds, changes in actuarial assumptions (demographic and financial), as well as the actual experience recognised with respect to initial forecasts , led to an overall reduction in liabilities of 55.6 million. This reduction is recognised as a balancing entry to a positive income component in the statement of comprehensive income, as shown in Part D of these Notes to the consolidated financial statements (40.4 million net of the related tax effect). In greater detail, this effect, attributable for 41.3 million to provisions for employee severance pay and for 14.3 million to defined benefit pension funds, is mainly due to the increase in the discount rate due to the higher market returns in place as at 31 December 2022 compared to the end of the previous year.
An illustration of the main actuarial assumptions and related impacts, 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.

Estimating insurance liabilities for commitments to policyholders

For the Group's insurance companies, the measurement of technical reserves required by insurance regulations to cover commitments made to policyholders, including shadow accounting and liability adequacy test reserves, as well as the assessment of their congruity, requires the development of a number of demographic and financial assumptions, which can significantly affect the amount of outstanding liabilities.
In particular, the valuation of insurance liabilities is affected by the typical risks of the sector, which are duly analysed and assessed within the framework of the reference regulations (Solvency II Framework); the "Solvency and Financial Condition Report", published annually by the Companies, provides a representation of these risks.

More specifically, the main risks relating to the Life business are represented by mortality and longevity assumptions, as well as the surrender risk identified as the effect on the reserves value, resulting from a change in the surrender

decisions by policyholders. For the Non-Life business, the main risk is related to the estimates of the frequency and value of the claims, which determine the adjustment to the ultimate cost of the reserves.

In light of the above, it cannot be ruled out that the occurrence of risk events other than those assumed during the calculation of tariffs and/or preparation of the financial statements may affect the amount of commitments vis-à-vis the policyholders and consequently the estimate of liabilities in the financial statements.

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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, in order to allow for an appreciation of any negative effects on the financial statements related to the aforementioned factors of uncertainty, exacerbated by certain aspects considered particularly significant for this Financial Report, as illustrated in the paragraph below "Most significant aspects for 2022 financial statement valuations" contained in "Section 5 - Other aspects", 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 2022 were prepared on a going concern basis: 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 judgement, the Directors assessed the impact of the ongoing health pandemic and the Russia-Ukraine conflict, which can reasonably have negative repercussions on the company's future results; nevertheless, said impact was not deemed 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 an investor simultaneously fulfils the following three requirements:

- power to decide on the relevant activities of the entity;
- exposures, or rights, to variable returns resulting from involvement with the entity;
- ability to use its power to affect the amount of said returns, as a result of its involvement 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 2022, 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 2022, 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 2022, there are no arrangements, statutory clauses, or situations able to establish that the Group has the practical ability to unilaterally direct the relevant activities.

Consolidated structured entities

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

On this basis, the structured entities for which consolidation for the purpose of the financial statements as at 31 December 2022 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 2022, 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 sale; 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 sale 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 2022, 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, valued using the equity method, the contribution to the consolidated income statement for the year 2022 also includes the economic result achieved by the investee in the last quarter of 2021, equal to 11.8 million. Please recall that, for the preparation of the 2021 financial statements, it was not possible to recognise the contribution of the fourth quarter, as Anima Holding approved its draft financial statements after those of Banco BPM.

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%
3.	Aletti Fiduciaria S.p.A. Share capital € 1,040,000.00	Milan	Milan	1	Banca Aletti	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 S.p.A. Share capital € 121,163,538.96	Milan	Milan	1	Banco BPM	100.000%	100.000%
6.	Banca Aletti & C. (Suisse) S.A. Share capital CHF 35,000,000	CH - Lugano	CH - Lugano	1	Banca Aletti	100.000%	100.000%
7.	Banco BPM Assicurazioni S.p.A. Share capital € 22,000,000.00	Milan	Milan	1	Banco BPM Vita	100.000%	100.000%
8.	Banco BPM Vita S.p.A. Share capital € 179,125,000.00	Milan	Milan	1	Banco BPM	100.000%	100.000%
9.	Bipielle Bank (Suisse) S.A. in liquidation Share capital CHF 25,000,000	CH - Lugano	CH - Lugano	1	Banco BPM	100.000%	100.000%
10.	BPM Covered Bond S.r.l. Share capital € 10,000.00	Rome	Rome	1	Banco BPM	80.000%	80.000%
11.	BPM Covered Bond 2 S.r.l. Share capital € 10,000.00	Rome	Rome	1	Banco BPM	80.000%	80.000%
12.	BRF Property S.p.A. Share capital € 2,000,000.00	Parma	Parma	1	Banco BPM	65.428%	65.428%
13.	BP Covered Bond S.r.l. Share capital € 10,000.00	Milan	Milan	1	Banco BPM	60.000%	60.000%
14.	BP Trading Immobiliare S.r.l. in liquidation Share capital € 4,070,000.00	Lodi	Lodi	1	Banco BPM	100.000%	100.000%
15.	Consorzio AT01 (*) Share capital € 100,000.00	Lodi	Lodi	1	Banco BPM	95.000%	95.000%
16.	Ge.Se.So. S.r.l. Share capital € 10,329.00	Milan	Milan	1	Banco BPM	100.000%	100.000%
17.	Lido dei Coralli S.r.l. Share capital € 10,000.00	Sassari	Sassari	1	Banco BPM	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.	Sagim S.r.l. Società Agricola Share capital € 7,746,853.00	Asciano (SI)	Asciano (SI)	1	Agriurbe	100.000%	100.000%
20.	Sirio Immobiliare S.r.l. Share capital € 10,000.00	Lodi	Lodi	1	Banco BPM	100.000%	100.000%
21.	Tecmarket Servizi S.p.A. Share capital € 983,880.00	Verona	Verona	1	Banco BPM	100.000%	100.000%
22.	Terme Ioniche S.r.l.	Cosenza	Lodi	1	Banco BPM	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						
23. Terme Ioniche Società Agricola S.r.l.	Cosenza	Cosenza	1	Banco BPM	100.000%	100.000%
Share capital € 100,000.00						
24. BP Mortgages S.r.l. (**)	Milan	Milan	4	-	0.000%	
Share capital € 10,000.00						
25. BPL Mortgages S.r.l. (**)	Conegliano V. (TV)	Conegliano V. (TV)	4	-	0.000%	
Share capital € 12,000.00						
26. 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
(*) Company removed from the Companies' Register on 3 January 2023.
(**) 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 2021 are shown in the tables below:

Fully consolidated companies	
Incoming companies due to acquisition	
Banco BPM Vita S.p.A.	100.00%
Banco BPM Assicurazioni S.p.A.	100.00%
Outgoing company due to liquidation	
BP Trading Immobiliare S.r.l. in liquidation	100.00%
Outgoing companies due to mergers	
Merged company	**Merging company**
Bipielle Real Estate S.p.A.	Banco BPM S.p.A.
Release S.p.A.	Banco BPM S.p.A.

Companies consolidated with the equity method	
Outgoing company due to sale	
Factorit S.p.A.	39.50%
Outgoing company due to acquisition of control	
Banco BPM Vita S.p.A.	19.00%

For further details on the transactions shown in the tables above, reference should be made to the section on significant events during the year in the Report on operations, and, as regards the acquisition of Banco BPM Vita and Banco BPM Assicurazioni, 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 2022, 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 2021.

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 2022, 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 2022, 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 2022) to the date of approval of the draft financial statements by the Board of Directors (7 March 2023), exclusively 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.

Recognition of financial conglomerate status

With its communication dated 7 March 2023, the European Central Bank recognised Banco BPM Group's status as a financial conglomerate pursuant to Directive 2002/87/EC, on the same basis as the main Italian and European financial groups operating in both the banking/investment services and insurance sectors.
The ECB's decision grants the request submitted by Banco BPM following the acquisition of full control over the insurance companies Banco BPM Vita S.p.A. and Banco BPM Assicurazioni S.p.A., which took place in July 2022, and also involves the alignment of the supervisory activity performed by the Supervisory Authority to the overall activity carried out by the Group as a financial conglomerate.

Reporting activities of customers interested in buying diamonds - Information on the release from seizure ordered by the Public Prosecutor

With reference to the reporting to the company Intermarket Diamond Business S.p.A. of customers interested in purchasing diamonds in past years and the related litigation, detailed information on which is provided in Section 10 – Provisions for risks and charges of these Notes to the financial statements, it should be noted that on 16 February 2023, the Verona Public Prosecutor's Office ordered the release of 80.3 million in favour of the Bank. The Public Prosecutor acknowledged the relief activities implemented by the Bank, and, on this basis, also agreeing with the legal arguments of the Bank, retained the amount of the seizure "clearly excessive" ordering its return. In this stage, the Public Prosecutor decided to maintain the seizure of an amount of around a residual 3.5 million. This is because there are still some parties, who have appeared in the criminal proceedings, who have not yet reached a settlement agreement with the Bank.
The Bank has been active for some time to try to settle all claims, including the latter: therefore, a dialogue channel was kept open with the Public Prosecutor to which an updated framework must be submitted in the coming weeks so as to request the release of the residual amounts.
The Bank promptly notified the Supervisory Authorities of the release.

Agreements with the Trade Unions

On 17 February 2023, discussions with the trade unions led to the identification of mutually agreed solutions regarding the following issues:

- recognition of a welfare bonus to all personnel in the professional areas and in the category of Middle Managers of 1,500 euro per capita (bank cost), usable exclusively in welfare mode;
- extension of the Solidarity Fund already activated with the trade union agreements of 29 December 2020 and 3 May 2021 for an additional 250 workers, already included in the previous ranking, with provision for two new dates for access to these benefits: 30 June 2023 (40% of the pool, equal to 100 positions) and 31 December 2023 (60% of the pool, equal to 150 positions).
  With a view to ensuring generational turnover, in correlation with the Fund’s exits, 125 new hires are expected.
  The extension of the number of people affected by the redundancy programme will entail an extraordinary additional expense currently estimated in a range between 8 and 10 million before tax, which will be charged to the income statement for the year 2023, but conversely it will make it possible to obtain, in perspective and all other conditions being equal, a reduction in the estimated recurring cost of approximately 14.5 million per year;
- confirmation of the Group’s second-level regulations, including the agreement relating to days off work;
- to support the centrality of training as a fundamental element for the value enhancement and growth of resources, execution of an agreement relating to financed training and confirmation of the smart learning initiative, for the performance of training activities outside the Bank’s premises, primarily for the benefit of colleagues in the commercial network;
- with the aim of continuing to foster the focus on the individual and the best management of work-life time, confirming the possibility of using agile work for head office colleagues, with the same modes applied to date and with a view to fostering the achievement of the specific objective of the 2021-2024 Strategic Plan;
- finally, with the aim of promoting a positive business climate and, at the same time, supporting proper, healthy and sustainable growth of the business, renewal of the agreement on Commercial Policies and Work Organisation.

Audit activities by the Italian Tax Authority

On 24 January 2023, the Italian Tax Authority, Lombardy Regional Department, Large Taxpayers Office initiated a tax audit of the Parent Company Banco BPM for IRES, IRAP, VAT and withholding tax obligations for the 2017 and 2018 tax periods.

Issue of a green senior preferred bond

As described in the section of the Report on operations dedicated to significant events during the year, on 11 January 2023 the Parent Company successfully completed a new issue of Green Senior Preferred securities, with a four-year maturity for an amount of 750 million, under the Euro Medium Term Notes Programme.
The security, issued at a price of 99.613%, pays a fixed coupon of 4.875% and is reserved to institutional investors.
The income from the issue of the security will be used to finance and/or refinance Eligible Green Loans, as defined in the Bank's Green, Social and Sustainability Bond Framework.
This is the fifth issue under the Green, Social and Sustainability Bond Framework, for a total value of ESG issues of 3 billion.
The Framework integrates with Banco BPM's ESG strategy and represents the effective implementation of the environmental and social sustainability objectives that are increasingly guiding and characterising the Bank's various business areas.

Liquidation of investee companies

As mentioned in the section of the Report on operations dedicated to significant events during the year, the subsidiary Consorzio AT01 and the associated company Bussentina S.c.r.l, on 3 January 2023 and 19 January 2023 respectively, were cancelled from the related Companies' Registers upon completion of the liquidation procedures.

These transactions did not produce any effects on the balance sheet or income statement of the Group as at 31 December 2022.

Programme to purchase own shares

In implementing the resolution of the Ordinary Shareholders' Meeting of 7 April 2022 and by virtue of the authorisation issued by the European Central Bank, in February 2023, the Parent Company launched an additional programme for the purchase of own shares to support existing short- and long-term incentive plans.
The programme was carried out in the period 28 February - 6 March 2023 with the purchase of 2,418,855 own shares (equal to 0.16% of outstanding ordinary shares) at the average unit price of 4.13 euro, for a total equivalent value of 10 million.
As a result of the above transactions, Banco BPM, taking into account the other own shares already in the portfolio, directly holds 8,578,335 own shares, equal to 0.56% of the share capital.

Renewal of corporate bodies

On 28 February 2023, the Board of Directors of Banco BPM unanimously approved, in compliance with the qualified majority required in Article 23.5.1. of the Articles of Association, to submit, pursuant to Article 20.4.2. of the Articles of Association, the list of 15 candidates for the office of Director for the years 2023-2025 to the next Shareholders' Meeting in view of the renewal of the members of the corporate bodies whose term of office is expiring, composed of:
1) Massimo Tononi (Chairman)
2) Giuseppe Castagna (Chief Executive Officer)
3) Maurizio Comoli (Deputy Chairman)
4) Mario Anolli
5) Paolo Bordogna
6) Paola Ferretti
7) Marina Mantelli
8) Chiara Mio
9) Alberto Oliveti
10) Eugenio Rossetti
11) Manuela Soffientini
12) Luigia Tauro
13) Carlo Frascarolo
14) Costanza Torricelli
15) Giovanna Zanotti.

Section 5 - Other aspects

Most significant aspects for 2022 financial statement valuations

The following section provides a description of the aspects considered as priorities for the assessments carried out for the purposes of the preparation of the 2022 financial statements and for the related disclosure, in line with the recommendations provided by ESMA, most recently, in the communication of 28 October 2022 entitled "*European common enforcement priorities for 2022 annual financial reports*".

Environmental and climate aspects

The consideration of environmental and climate aspects represents an important element of attention in the strategy pursued by the Group, capable of affecting its operating activities, objectives and business conduct, in the knowledge that it can play a leading role in the action against climate change.
In this perspective, in 2022, a greater awareness of the Group with regard to the impact of ESG issues on the business model, on the competitive context as well as on the objectives and strategies, in its guiding role for business and private customers, emerged. in the process of transition towards an economy that supports economic sustainability with environmental and social sustainability. For an overview of the main initiatives undertaken by the Group in the ESG area, please refer to the paragraph "Inclusion of ESG concerns in the Group strategy" contained in the section "Significant events during the year" of the Report on operations of the Group and in the document of the Consolidated Non-Financial Statement.
For information on the Group's ESG risk management, with particular reference to lending processes, please refer to the paragraphs "ESG risk factors" and "Inclusion of ESG factors in credit processes" contained in the paragraph "Section 2 – Risks of prudential consolidation" of Part E of the Notes to the consolidated financial statements and in the above-mentioned document of the Consolidated non-financial statement of the Group.
At the date of preparation of this Financial Report, the main impacts on the financial statements related to the aspects in question pertain to the valuations of credit exposures and properties owned.
In this regard, it should be noted that, starting from 31 December 2022, the Group made a first attempt to estimate expected losses on performing exposures, including the effects of physical risk and transition risk, quantified as 20.4 million of higher value adjustments, based on the assumptions and scenarios illustrated in paragraph "2.3 Measurement methods for expected losses" contained in the credit risk section of Part E of these Notes to the Financial Statements.
As illustrated in the paragraph "Real estate sector", contained in the Report on Operations of the Group, the environmental and climatic aspects can also have an impact on the valuation of properties. The effects of climate risks – consequent, for example, to regulatory adjustments required by the market, in terms of energy efficiency standards, or to probable natural disasters of properties located in particular areas – are elements that affect the ability of the property to be able to generate income. This ability represents a significant input in estimating the fair value, i.e. the criterion adopted by the Group for the financial statement valuations of the assets that therefore take into account environmental and climate aspects.

Lastly, it should be noted that, for the purposes of the impairment test of intangible assets with an indefinite useful life (trademarks and goodwill), no adjustments were made to the cash flow projections to account for ESG risk factors, as these were not deemed to be able to affect the results of the test, due to the significant excess of the recoverable value of the CGU over the book value. In order to estimate the change in value of these intangibles with respect to projected income flows, please refer to the specific sensitivity analyses provided in "Section 10 - Intangible assets" in Part B of these Notes to the financial statements.

Impacts of the Russia-Ukraine conflict

Among the main factors of uncertainty that could affect the future scenarios in which the Group may have to operate, the negative effects on the global and Italian economy directly or indirectly related to the conflict between Russia and Ukraine, must be considered.
After the global recession of 2020, the global economic recovery that started from 2021, albeit in an uneven manner between the various geographical areas thanks to the measures to combat the pandemic and substantial repressed demand, was interrupted by the Russia-Ukraine conflict that started in late February. The conflict in question and the sanctions imposed by the international community on the Russian government, companies and economy, as well as the countermeasures taken by Russia, have led to a situation of elevated uncertainty in terms of

macroeconomics, exchange rates, energy and raw material costs, the cost of debt, inflationary expectations and the cost of credit. The increase in inflation, already triggered by the Covid-19 epidemic, led the central banks of the main countries to adopt restrictive monetary policies, thus raising, several times during 2022, interest rates.
In this context, the uncertainties surrounding the consequences of the war, especially as regards its indirect effects and its duration, make any valuation highly complex, since, on one hand, they increase the risk of the economic environment in which business is carried out and, on the other hand, increase the risk of limited predictivity of economic projections. These uncertainties translate into an increase in the risk of having to make significant adjustments to the book value of assets in the financial statements.

In order to guide the drafter of financial statements in dealing with these uncertainties, the Supervisory Authorities (ESMA and CONSOB) stepped in 2022 formulating a number of recommendations for the boards of directors and auditors aimed at ensuring proper oversight of the valuation issues impacted by the conflict as well as complete and transparent financial statement disclosures. The following table shows the list of documents published by the aforementioned Authorities:

Authority/Document Type	**Date**	**Title**
European Securities and Market Authority (ESMA)		
Statement	14/03/22	ESMA coordinates regulatory response to the war in Ukraine and its impact on EU financial markets (ESMA71-99-1864)
Statement	13/05/22	Implications of Russia's invasion of Ukraine on half-yearly financial reports (ESMA32-63-1277)
Statement	28/10/22	European common enforcement priorities for 2022 annual financial reports (ESMA32-63-1320)
Commissione Nazionale per la Società e la Borsa (CONSOB)		
Notification	18/03/22	Notification on the impact of the war in Ukraine with regard to inside information and financial reporting
Notification	19/05/22	Conflict in Ukraine - Notification on financial disclosure and obligations relating to compliance with the restrictive measures adopted by the European Union against Russia

Below evidence of the Group's credit exposures directly or indirectly impacted by the conflict is provided so as to be able to assess the extent of the problem and the actions taken by the Group to constantly monitor credit risks related to the Ukrainian conflict.
With reference to the uncertainties related to the macroeconomic scenario of reference, also as a result of the conflict, please refer to the following paragraph "Macroeconomic scenario".
In this regard, it should be noted that the impacts of the conflict are constantly monitored by the Group and subject to periodic reporting to the Board of Directors.

Direct exposures to Russia and Ukraine

For Banco BPM Group, the impacts directly related to the Russia-Ukraine conflict are entirely marginal, considering that there are no operating activities located in Russia or Ukraine and that credit exposures to customers residing in these countries or indirectly related to Russian or Ukrainian counterparties are not significant. As at 31 December 2022, these exposures were entirely represented by loans. In fact, the Group's exposure to securities was reduced to zero as from March 2022, with the sale of the only Russian government bond, for a nominal value of 2 million, which generated an insignificant loss (0.1 million).
In detail, direct gross exposures to Russian customers amounted to approximately 19 million, almost entirely referring to a counterparty classified as unlikely to pay; net of the relevant adjustment provisions, the balance sheet value is approximately 8 million. The reduction in exposure compared to the beginning of the year depends on the sale, in the fourth quarter of 2022, of a gross exposure of 62.5 million, for a consideration of 52.9 million. For the above-mentioned exposures, the impact recorded in the income statement for the year 2022 was a total negative of approximately 20 million.
The exposures referring to counterparties belonging to groups with direct control by Russian or Ukrainian entities refer to two Italian counterparties with an overall authorised credit amount of 63.4 million; the relative utilisation amounted to 10.1 million for unsecured loans.
Direct gross exposures to banks resident in Russia - for letters of credit issued by them and used with a discount without recourse and commitment of the Group to the beneficiary - amounted to 15.4 million. Unsecured loans to the same counterparties for letters of credit confirmed and not yet utilised amounted to approximately 14.8 million.
Commercial risks associated with the operations of the Group's main customers and related to ongoing transactions with Russian and Ukrainian counterparties amounted to about 96 million, of which the majority consisted of

unsecured loans risks. The most significant exposure is attributable to a customer with unsecured risks of 71.2 million referring to the pending enforcement of several direct guarantees, the beneficiary of which is a Russian company operating in the energy sector. In particular, these are guarantees issued as part of a construction project for a gas treatment plant in Russia by a consortium which includes, among others, the Group's customer. Against the above-mentioned guarantees, the Group received, in the final days of June 2022, requests for enforcement, which were rejected as they did not comply with the requirements of the Uniform Rules for Demand Guarantees no. 758 ("URDG 758"). On 4 July 2022, Banco BPM was notified of a decree issued by the Court of Turin whereby, upon an appeal pursuant to Article 700 of the Italian Code of Criminal Procedure by the customer and its subsidiary, the Bank as well as the other banks involved in the transaction were ordered, *inaudita altera parte*, not to pay the beneficiary or its assignees any amount as a result of any enforcement of the guarantees. The hearing to verify the outcome of the negotiations between the parties is scheduled for 14 March 2023.
As a result of this ruling, and in the absence of any further intervening circumstances, the Group will refrain from paying the above-mentioned guarantees, at the same time taking steps to preserve its rights vis-à-vis the beneficiaries and counter-guarantors.

Also the Group's exposure to the rouble is substantially equalised.

Lastly, it should be noted that there are no exposures deriving from contracts governed by Russian law, which are subject to the Russian Decree 95/22 according to which payments originally envisaged in currencies other than the rouble can be made in the rouble currency.

Indirect impacts related to the Russia-Ukraine conflict - credit risk

In addition to the above, this conflict has impacts of an indirect nature, i.e. related to the development of macroeconomic scenarios and the relative consequences on the Group's activities.
Particularly with reference to impacts on credit quality, it should be noted that during the first half of the year, in order to ensure proper risk management, the Group undertook a series of initiatives, through contact campaigns and surveys, with respect to customers belonging to certain portfolios considered potentially most vulnerable to the effects of the Russia-Ukraine crisis for a total exposure of 5.8 billion. In particular, these are the "Energy and Raw materials", "Real estate companies with financing of construction sites on a Work In Progress (WIP) basis" and "Companies active in gas and energy trading" portfolios, i.e. the portfolios considered most exposed to the increase in energy prices and raw material procurement difficulties.
The engagement campaign also made it possible to identify customers who need some type of intervention, in terms of new liquidity or restructuring, which will be able to count on support measures with the SACE and Mediocredito Centrale guarantee, established by the Aiuti (Aid) Decree (Decree Law no. 50 of 17 May 2022).
In continuity and expansion with respect to the initiative represented above, during the last quarter a further survey was launched and concluded, following the Aid Decree Law, which involved a wider range of exposures, totalling 10.3 billion.
As at 31 December 2022, as a result of these initiatives and ordinary monitoring activities, the flow of exposures classified in Stage 3 amounted to approximately 150 million (of which 55.3 million recorded in the first half of 2022), with a 1.5% incidence and therefore not significantly different from the average for the overall portfolio. Almost all of the portfolio is classified under performing exposures, permanently concentrated in the low or medium-low risk brackets.
For the other impacts related to the development of the macroeconomic scenario, please see below.

Macroeconomic scenario

From a macroeconomic point of view, the year 2022 was characterised by a sharp increase in inflation, resulting, on the one hand, from the rapid reopening of the post-health emergency economic activities, which caused demand to grow faster than supply, and on the other hand, the disruption of the industrial supply chain at global level and the increase in energy costs fuelled by the Russia-Ukraine conflict. From the health point of view, it is worth noting that life and social habits are being normalised, although they have not yet returned to pre-Covid levels.

In this context, macroeconomic forecasts are characterised by significant factors of uncertainty, therefore requiring significant judgement in the selection of the assumptions and forecasts to be taken as a reference in the financial statement valuations.

For Banco BPM Group, the monitoring of the macroeconomic context is carried out at least quarterly by a working group created ad hoc (Scenario Council), made up of the Chief Financial Officer and Chief Lending Officer and the heads of the various functions involved in various capacities for the planning and reporting processes (Planning and Control, Budget Strategy and Capital Planning, Risk, Administration and Budget), with the participation of the head of the Audit function as an auditor. The Scenario Council is responsible for defining and updating or confirming the macroeconomic scenarios used in the Group's strategic processes and their probability of occurrence, in light of external events or specific vulnerabilities of the Group. It is also responsible for identifying the processes impacted and their potential updating.
In greater detail, the macroeconomic scenarios are reviewed twice a year, at the close of the financial year (December) and the preparation of the half-yearly report (June); on a quarterly basis, a check is made on the sustainability of the scenarios used by the Group, unless the "materiality triggers", currently identified as a change in GDP of more than 0.5%, are exceeded. If the triggers are exceeded, the Scenario Council assesses whether they should be updated, after carrying out a detailed analysis of the factors that have led to the overrun and a technical assessment of their use in the various processes concerned.
Based on the policy described above, in December 2022 the Scenario Council was held to select the macroeconomic scenarios to be used as a baseline for the financial statements, which were specifically approved by the Board of Directors on 20 December 2022. In particular, the scenarios were selected on the basis of the information set made available by a leading info provider in September and October 2022. For a detailed analysis of the selected scenarios and their probability of occurrence, 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.
These scenarios and related probabilities of occurrence were used consistently for all the valuation years impacted (expected losses on performing loans, impairment testing of assets with indefinite useful life, recoverability of DTAs).

Taking the above into account, the main areas of valuation affected by macroeconomic forecasts and related points of attention are provided below, in addition to the elements of uncertainty already illustrated in the previous section "Significant accounting policies and uncertainties regarding the use of estimates in the preparation of consolidated financial statements".

Measurement of expected losses on credit exposures

The various authorities have highlighted the importance of assessing whether the deterioration of the economic situation caused, first, by the Covid-19 scenario and, subsequently, by the Russia-Ukraine conflict has led to a significant increase in credit risk (SICR) and/or impacts on the measurement of expected credit losses (ECL), based on the forward-looking information. The aforementioned assessment could be made on a collective basis, if it is not possible to identify the effects at the level of individual exposure, also taking into account the differential impacts of the crisis on different sectors of economic activity.
While being aware of the difficulty of this estimation of expected losses within a scenario of uncertainty, on 27 March 2020 the IASB reaffirmed the need to consider historical, current and prospective information and has accepted the possibility of resorting to post-model adjustment/management overlay, if it is deemed that the models are not able to fully reflect the effects of the crisis and the relative government support measures.
For the purpose of calculating performing credit exposures (on-and off-balance sheet), in line with what was done for the 2021 financial statements, also when preparing the 2022 financial statements, the Group has applied some "post model adjustments/management overlays", a total amount of 162.1 million (approximately one third of total expected losses on performing exposures), where it was deemed that the estimation models in use were not able to adequately capture certain risk factors, strengthening the Group's capacity to absorb any negative effects of the macroeconomic context, taking into account the factors of uncertainty existing at the date of preparation of this financial report. For a detailed analysis of post-model adjustments made as at 31 December 2022 and related changes during the year, please refer to the paragraph "2.3 Methods for measuring expected losses" contained in the section related to credit risk of "Part E - Information on risks and related hedging policies" of these Notes. The same paragraph also provides an examination of the refinements and changes introduced, during the year, to the models for calculating expected losses - also to reflect the different effects of macroeconomic projections on the various business sectors, particularly evident following the Covid-19 crisis - and ECL sensitivity analyses to different macroeconomic scenarios.

Impairment of non-financial assets

ESMA and CONSOB note that in the current context of uncertainty the determination of the recoverable value of the assets in question requires a careful assessment of cash flow projections. Such projections may require, especially in the current circumstances and depending on the level of risk associated with the assets being tested, considering a variety of scenarios, appropriately weighted on the basis of reasonable, sustainable and realistic estimates and assumptions. ESMA stresses that, in accordance with paragraphs 55 and 56 of IAS 36, the discount rates used in determining the value in use of an asset must reflect current market valuations of the time value of money and the specific risks of the asset in question and exclude the risks and uncertainties that have already been taken into account in determining the expected cash flows. In this regard, ESMA notes that the conflict had an impact on interest rates and inflation trends; as a result, it is necessary to update the discount rate used to determine the recoverable value. ESMA also recommends to provide the main financial and operational assumptions and significant changes in them (including the scenarios used and their weightings).
In light of the aforementioned recommendations, the three-year projections (2023-2025) to be taken as a reference for conducting the impairment test of intangible assets with an indefinite useful life were approved by the Board of Directors of Banco BPM on 20 December 2022. The above-mentioned forecasts, drawn in accordance with the latest macroeconomic scenarios approved on the same date, are based on assumptions consistent with those of the 2021-2024 Strategic Plan, approved by the Board of Directors on 4 November 2021; a plan that is still today considered valid, as it reflects the Group's strategic guidelines and business model.
The above projections, as well as the reference macroeconomic scenarios, are consistent with that used for the other valuation years (probability test of deferred tax assets and expected losses on loans).
The discount rate was also updated to take into account the new macroeconomic context, in continuity with the methodological approach adopted in previous years, according to which the parameters taken into account for the calculation of the rate are determined by using as a reference the observations of a more or less extended period of time. In particular, the one-year average of ten-year Italian government bond (BTP) yields was used as a reference for the risk-free rate. In order to allow an assessment of the impacts resulting from a more accurate recognition of the discount rate compared to the observations in place at the end of the year ("point in time"), a specific sensitivity analysis was developed.

Therefore, for a more thorough look at the parameters, assumptions and sensitivity analysis being considered, please refer to "Section 10 - Intangible assets – Item 100" contained in "Part B, Information on the consolidated balance sheet" of these Notes to the financial statements.

Probability test of deferred tax assets

In the context of the ongoing crisis, 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 previously illustrated in the discussion of "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.
The cash flows used for the probability test and the macroeconomic scenarios are consistent with those used as reference for the verification of the recoverability of intangible assets with an indefinite useful life and of the expected losses on performing exposures as reported above.

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" of Part B of these Notes.

Employee benefits

ESMA reminds issuers that the actuarial assumptions used to estimate the liabilities for employee benefits must be able to reflect the current economic outlook and be mutually compatible.
In this regard, it should be noted that the discount rate, used to calculate the present value of liabilities, is obtained as the weighted average of the rates of the Eur Composite AA curve at the end of the year, using as weights the ratios between the amount paid and advanced for each maturity and the total amount to be paid and advanced until the termination of the population belonging to a given benefit plan. As described in greater detail in Section 9 of

Part B of these Notes to the consolidated financial statements, this curve takes as reference the yields of securities issued by corporate issuers included in the "AA" rating class, belonging to various sectors including Utility, Telephone, Financial, Bank, Industrial and operating in the Eurozone. In fact, it was considered that the above curve is an expression of the market yields of securities of leading companies in the country in which the Group operates, in line with the provisions of IAS 19.
As regards the inflation rate, necessary for the revaluation of the amounts set aside, a weighted average rate was used taken from the European "Zero-Coupon Inflation-Indexed Swap" curve, in place at the end of the year, taking as weights the ratio between the amount paid and advanced for each maturity date and the total amount to be paid and advanced until the termination of the population considered for the various benefit plans.
In the current macroeconomic context, the reference to the inflation curve in place at the end of the financial year not only allows the quantification of the cost-of-living index to be objective, but also ensures consistency with the reference of the discount rate, which is also derived from a curve with the same weighting values.
For the disclosure on the reconciliation between the closing balance and the opening balance of the liabilities in question, the actuarial assumptions used and the relative reference values, as well as the sensitivity analyses with respect to the main variables that affect the estimate of the liabilities (discount rate and inflation rate), please refer to sections 9 and 10 of the liabilities and to the previous paragraph of "Significant accounting policies and uncertainties on use in the preparation of the consolidated financial statements".

Financial Instruments - risks

In the current context of increases in interest rates and the cost of funding, ESMA emphasises the importance of providing in the financial statements, in a complete manner, the disclosure required by the accounting standard IFRS 7 with regard to the entity's exposure to various risks (interest rate, liquidity, etc.) and related sensitivity analyses. In this regard, in addition to what is discussed in the following paragraph "A.4 - Fair value disclosure", reference should be made to Part E of these Notes to the consolidated financial statements.

Financial instruments – reclassifications

ESMA notes that reclassifications of financial assets are permitted only in the presence of a change in the business model, i.e. in the asset management model, to be represented prospectively from the date of reclassification. The expectation of ESMA is that such circumstances will be very rare, even in the current macroeconomic context.
In this regard, it should be noted that, during 2022, as in previous years, there was no change in the business model that required a reclassification of the securities held by the Group. In addition, "Hold to collect" securities were managed in line with the eligibility criteria for sales set forth in the Group's corporate policy, as described in greater detail in the ""Hold to Collect" Business Model – sales" paragraph of the following section "Other significant aspects relating to Group accounting policies".

Other aspects – summary of moratorium measures and other support measures granted in the context of the Covid-19 pandemic

Below is an update of the disclosure required by the Bank of Italy communication of 21 December 2021[1] on the risks, uncertainties and impacts of Covid-19, introduced starting from the 2020 financial statements and also in force for the year 2022, as there was no different communication in this regard.
It should be emphasised that, as far as the pandemic is concerned, the expected scenario, after more than two years of restrictions, is moving towards a normalisation of living and social habits, although the probability of a worsening, especially in the winter period, is expected to become more and more negligible over time. The likelihood that new, potentially more contagious variants may arise, or for which the currently available vaccines are not fully effective, rather than new containment measures will be introduced, appears to be quite limited if compared to the last two years.

In confirmation of the normalisation of the context, in 2022 the various Authorities rather than the IASB did not intervene on the issue of Covid-19 and its impacts, compared to the numerous documents published from March 2020 until December 2021, to evidence of the extraordinary nature of the Covid-19 health crisis, and the exceptional nature of the countermeasures implemented by governments.

[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 following table provides a list of the main documents issued as regards 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

Within this context, with the aim of providing support to the counterparties affected by the suspension or restriction of economic activities due to the Covid-19 crisis, in previous years the Group provided 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 terms of active loans (moratoria) or the disbursement of loans with a government guarantee.

As at 31 December 2022, the total volume of exposures that benefited from support measures since the beginning of the pandemic amounted to approximately 28.6 billion, down compared to the figure at the beginning of the year of 31.5 billion. The aforementioned support measures are distributed among moratorium measures for 12.1 billion, approximately 75% of which refer to Article 56 of Decree Law 18/2020, known as "Cura Italia", and liquidity measures for 16.5 billion. More than 50% of the aforementioned exposures are classified in the two lower risk classes; the default rate, measured on the total of moratoria and new loans granted, stood at 1.82% (1.46% as at 31 December 2021).

COVID-19 moratorium measures

As at 31 December 2022 the total volume of exposures that benefited from Covid-19 moratorium measures amounted to 12.1 billion, down compared to 14.9 billion as at 31 December 2021 due to payments made. 0.1

million of this figure refers to the moratoria for which the suspension of payments is still active and 12.0 billion refers to the moratoria whose terms of suspension have expired and are subject to payment (so-called "expired moratoria").
In terms of credit quality, approximately 73% of the exposures referring to the moratoria granted are classified in Stage 1, 21% in Stage 2 and 6% in Stage 3.
For the portfolio in question, in light of this information and taking into account the initiatives concluded in 2021 - aimed at planning the necessary interventions in the face of positions identified as critical - in 2022 it was not necessary to pursue further specific initiatives beyond what is established within ordinary monitoring processes, applicable without exception to the exposures under review.

Covid-19 new loans with public guarantees

The support measures also include the disbursements covered by the public guarantee – Fondo Centrale di Garanzia [Central Guarantee Fund] or SACE – provided for in the Liquidity Decree (in application of Legislative Decree 23/20) which as at 31 December 2022 amounted, in terms of gross value, to 16.5 billion (16.6 billion as at 31 December 2021).
These loans are amortised for approximately 87% of the total exposure.
In terms of credit quality, approximately 86% is classified among Stage 1 performing exposures, approximately 12% among Stage 2 performing exposures and 2% among non-performing ones.

Lastly, for quantitative information on the support measures granted by the Group as at 31 December 2022, in terms of gross exposures, 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 greater detail, the sub-items "Loans subject to forbearance measures compliant with GL" and "Loans subject to current moratorium measures no longer compliant with GL and not assessed as forborne" include the moratorium measures still active as at 31 December 2022, while the sub-items "Loans subject to other forbearance measures" and "New loans" include loans disbursed or restructured, covered by public guarantees, as discussed above.

For further details on the Covid-19 support measures as at 31 December 2022, please refer to the disclosure available in 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.

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 7 March 2023 and will be submitted for approval by the Shareholders' Meeting convened for 20 April 2023.

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 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 machine readable 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 of the basic taxonomy issued by the ESMA (European Securities and Markets Authority); this compulsory mapping process consisted of two phases:

- the first phase, implemented in the financial year 2021, involved the markup of all numerical values contained in the consolidated financial statements: balance sheet, income statement, statement of comprehensive income, statement of changes in shareholders' equity and cash flow statement;
- the second phase, applied starting from financial year 2022, involved the markup of a more extensive set of information: in addition to the numerical values of the consolidated financial statements, all the information contained in the Notes to the consolidated financial statements that correspond to the mandatory elements is mapped.

In greater detail, from an operational perspective, the markup process was carried out according to two methods:

- the detailed markup, relating to the numeric items of the consolidated financial statements, marks each numeric value contained in the statements themselves, identifying the appropriate label in the core taxonomy;
- the block markup, relating to the content of the Notes to the financial statements, sets out that for each applicable element of the taxonomy, the conceptually corresponding portion of the Notes to the financial statements, consisting of text and tables (so-called "bloc tag") is identified.

The core taxonomy to be used for the single electronic reporting format is updated every year to take into account, among other aspects, the issue of new IFRS, the amendment of those in force and the analysis of the information published by the issuers. The taxonomy applicable to the financial statements of the years starting on 1 January 2022 was published in March 2022; however, on 28 December, ESMA issued a new updated version of the taxonomy applicable to the annual financial reports of the years starting on 1 January 2023.
In this regard, it should be noted that EU Regulation no. 2553/2022, published in the Official Journal of the European Union on 30 December 2022, established in Article 2 "Transitional arrangement", the possibility of early application of the new taxonomy to the consolidated annual report of the financial years starting before 1 January 2023.
Banco BPM has availed itself of the aforementioned option of early application of the 2023 taxonomy in the drafting of this Annual Financial Report, approved by the Board of Directors on 7 March 2023, which will be made public in accordance with the law.

Lastly, on 5 August 2022, ESMA published the Reporting Manual which requires, inter alia, that the information extracted in XBRL format must maintain the semantic structure of the information contained in the financial statements in XHTML format.
In this regard, however, it should be specified that, due to certain technical limitations arising from the use of current IT systems for the production of XHTML documents, some "bloc tags" extracted from XHTML documents in an XBRL application may not be reproduced in a manner identical to the corresponding information reported in the consolidated financial statements in XHTML format.

Independent audit

The separate financial statements and the consolidated financial statements as at 31 December 2022 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 aforementioned engagement was assigned for the years from 31 December 2017 to 31 December 2025, in compliance with the duration envisaged by law (9 financial

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 2022 from those applicable in subsequent years.

IAS/IFRS accounting standards and related SIC/IFRIC interpretations endorsed that must be applied when preparing the 2022 financial statements

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, some limited amendments approved by the IASB on 14 May 2020 to IAS 16, IAS 37 and IFRS 3 were endorsed. 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 condition required in order to operate in the manner intended by the management;
- the amendment to IAS 37 specifies which costs must be considered when assessing whether the contract is onerous. In particular, it is specified that the "fulfilment cost", in order to assess whether a contract is onerous, includes costs that refer directly to the contract; these may be incremental costs but also costs that the entity cannot avoid following the conclusion of 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.

Taking into account the extent of the amendments in question, the application of such amendments did not have any impact on the Group.

Endorsed IAS/IFRS accounting standards and SIC/IFRIC interpretations, the application of which takes effect after 31 December 2022

The standards or the amendments whose application starts after 31 December 2022, and for which the Group, where envisaged, had not opted for early application, are illustrated below.

Regulations (EU) no. 2036 of 19 November 2021 - IFRS 17 "Insurance Contracts" and no. 1491 of 8 September 2022 - Amendments to IFRS 17 "First-time adoption of IFRS 17 and IFRS 9 – Comparative information"

The regulations in question endorsed the IFRS 17 accounting standard, applicable from 1 January 2023, and the subsequent amendments published by the IASB, as illustrated below.

On 18 May 2017, the IASB issued the new accounting standard IFRS 17, which governs the accounting treatment of insurance contracts. On 25 June 2020, the IASB published several amendments to IFRS 17, which did not affect the basic principles but instead provided an aid to the implementation of the standard as well as several simplifications in the disclosure of financial performance.

The IFRS 17 standard was further amended on 9 December 2021, in order to introduce some changes to the transition rules for entities adopting IFRS 9 at the same time, taking into account the different requirements established by such accounting standards for the restatement of comparative balances.

For the Group, the adoption of IFRS 17, applicable from 1 January 2023, will have a direct impact resulting from the valuation of the insurance contracts issued by the Group's insurance companies and an indirect impact related to the equity valuation of interests in associated insurance companies.
With reference to the impacts of the transition related to the insurance companies of the Group subject to consolidation – Banco BPM Vita and Banco BPM Assicurazioni - please refer to the paragraph "Information on the transition to the new accounting standard IFRS 17 – Insurance contracts".
For the insurance companies subject to significant influence - Vera Vita and Vera Assicurazioni - it should be noted that the project to transition to IFRS 17 was guided by the respective Parent Companies; at the date of preparation of this Financial Report, no information was available on the impacts related to the first-time application of this standard. Considering the size of the companies and their respective shareholdings, it can be reasonably assumed that the impacts will not be significant in relation to the shareholders' equity of Banco BPM Group.

Regulation (EU) no. 357 of 2 March 2022 - Amendments to IAS 1 "Presentation of financial statements" and IFRS Practice Statement 2

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 IFRS 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.
The amendments are applicable from 1 January 2023, and may be applied early.
In relation to this amendment, no impact is expected for the Group.

Regulation (EU) no. 357 of 2 March 2022 - Amendments to IAS 8 "Accounting standards, changes in accounting estimates and errors"

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.
Also in relation to this amendment, no impact is expected for the Group.

Regulation no. 1392 of 11 August 2022 - Amendments to IAS 12 "Deferred Tax 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.
In relation to this amendment, no impact is expected for the Group.

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 "Presentation of Financial Statements":

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. Its application, initially scheduled for the year 2022, was first deferred to 1 January 2023, with the amendments approved by the IASB on 15 July 2020, and finally deferred to 1 January 2024, with the amendments issued on 31 October 2022 "Non-current Liabilities with Covenants". This latter amendment requires that only those covenants that an entity is required to comply with on or before the reporting date are likely to affect the classification of a liability as current or non-current. It is also required to indicate in the Notes to the financial statements the information that allows the users of the financial statements to understand the risk that the non-current liabilities with covenants may become repayable within twelve months.

Amendments to IFRS 16 "Lease Liability in a Sale and Leaseback"

On 22 September 2022, the IASB issued, in response to an IFRIC recommendation, the above amendments, with the aim of clarifying how a seller-lessee should carry out the subsequent measurement of liabilities in sale and leaseback transactions that meet the requirements of IFRS 15 for the purposes of accounting as a sale.
The above-mentioned amendments are not expected to have significant impacts on the Group's financial position.

Disclosure on the transition to the new accounting standard IFRS 17 - Insurance contracts

Introduction

IFRS 17 "Insurance contracts", applicable from 1 January 2023, introduces new measurement criteria and new accounting rules for insurance products, replacing IFRS 4.
The standard in question was issued by the IASB in May 2017 and was subject to subsequent amendments published on 25 June 2020 and 9 December 2021.
The endorsement took place with Regulation (EU) no. 2036/2021 of 19 November 2021, recently amended by Regulation no. 1491/2022 of 8 September 2022, which introduced some changes of limited scope for the preparation of comparative information for the first-time application of IFRS 17 and IFRS 9. It should be noted that during the endorsement phase, in line with the wishes of the Italian and European industry, the possibility was introduced to exempt intergenerationally-mutualised and cash flow matched contracts from the annual cohort requirement, which was not permitted by the version of the standard approved by the IASB (the so-called "carve out option").

That being stated, in line with the provisions set forth in IAS 8 – and in particular by paragraphs 30 and 31 – the qualitative and quantitative information useful for understanding the impacts on the consolidated statement of financial position, related to the adoption of the new standard for the measurement of insurance contracts issued by the Group, through the subsidiaries Banco BPM Vita and Banco BPM Assicurazioni, and the related implementation process.
In this regard, it should be specified that for Banco BPM Group the transition to IFRS 17 shall take effect from 1 July 2022, i.e. from the date of acquisition of the insurance companies Banco BPM Vita and Banco BPM Assicurazioni, as reported in more details in the paragraph "Procedures for transition to the new standard". For further details on the business combination, please refer to Part G of these Notes to the consolidated financial statements.

In this regard, the guidelines provided by ESMA in the communication entitled "Transparency on implementation of IFRS 17 Insurance Contract" of 13 May 2022, as referred to in the joint statement of the Bank of Italy, CONSOB and IVASS of 27 October 2022 ("IAS/IFRS Financial Statements as at 31/12/2022 - Disclosure on the transition to IFRS 17 and IFRS 9") and in the subsequent ESMA communication of 28 October 2022 ("European common enforcement priorities for 2022 annual financial reports"), were taken into due consideration.

Summary of the standard and information on the Group's projects

For insurance companies, the adoption of IFRS 17 represents the most significant change in accounting requirements after the initial application of the international accounting standards, since it requires an extensive review of the accounting policies for representing the insurance business – both life and non-life business – and the methodologies for measuring the associated liabilities.
In particular, the accounting models proposed by the standard lead to a fundamental change from current accounting policies, with particular reference to the following critical aspects:

- concept of insurance revenue;
- timing of recognition of losses deriving from onerous contracts;
- greater complexity of measurement processes, quantitative requirements, determination of actuarial and financial assumptions, disclosure requirements and analysis of the results;
- misalignment with the amounts used to measure regulatory capital.

Aiming to introduce greater transparency and clarity of information to stakeholders, IFRS 17 defines the principles to be applied for the recognition, measurement and accounting of all insurance and reinsurance contracts and states:

- a clear definition of the insurance contract;
- a consistent standard for accounting;
- a unified valuation model for all types of contracts;
- consistent reporting standards for the assets and liabilities of the companies.

In light of the above, in July 2021, the Group's subsidiaries - Banco BPM Vita and Banco BPM Assicurazioni - started the project to implement the accounting standard in question.
The project, which transversally involves numerous operating structures of the companies, was divided into several sites, with the aim of completing, in 2023, the alignment of all accounting and administrative processes necessary for the production of the data and information required by the IFRS 17.
In greater detail, the sites were defined as follows:

- *methodological-accounting workstream*: this is the workstream aimed at defining the methodological choices of the key aspects of the standard, set out in specific technical documentation. In this regard, the reference accounting framework was also defined, with particular regard to the identification of the chart of accounts and the development of accounting records;
- *IT developments workstream*: this is the workstream dedicated to aligning IT procedures to the new requirements of the standard, which has involved the life actuarial engine , the non-life actuarial engine, the datawarehouse, the IFRS 17 engine, the accounting and financial statements system;
- *target operating model workstream*: the objective of this project was to design the new end-to-end IFRS 17 valuation process, identifying the roles, responsibilities and time-frames for carrying out the various activities;
- *parallel run and transition workstream*: the purpose of this workstream is to process data production in parallel, with the aim of preparing the necessary data for the opening balances and comparative balances for the financial year 2022.

During the second half of 2022, a specific project was also launched, in collaboration with the Parent Company, with the aim of identifying the impacts and defining the rules for the representation of IFRS 17 balance sheet and income statement figures in the Group's consolidated financial statements, with particular reference to the determination of the Contractual Service Margin at a consolidated level, as will be further detailed below.

Interactions between IFRS 17 and IFRS 9 standards

With reference to the valuation of the assets and liabilities held by the consolidated insurance companies, it should be noted that the Group was not able to avail itself of a simultaneous application, as at 1 January 2023, of IFRS 9 and IFRS 17.
In this regard, it must be noted that, based on Regulations (EU) no. 1988/2017 and no. 2097/2020, for entities primarily engaged in insurance activities - including the insurance sector of a financial conglomerate falling within the scope of Directive 2002/87/EC - it is permitted to postpone the application of IFRS 9 (so-called "deferral approach") in place of IAS 39 until 1 January 2023, in order to allow its simultaneous application with the new insurance standard IFRS 17, thus ensuring a representation of the economic and equity impacts of insurance liabilities and related financial assets, in accordance with the provisions of the new standard.

Given that as at 31 December 2022, Banco BPM Group had not yet been recognised by the ECB as a "financial conglomerate"[1] and it was found that it was impossible to apply the "deferral approach", it was necessary to subject the financial assets and liabilities held by insurance companies to the accounting rules of IFRS 9, as of the date of accounting for the business combination of these companies, which took place on 1 July 2022.
In greater detail, taking into account the business model and the characteristics of the financial instruments:

- debt securities are fully classified in the portfolio of "Financial assets measured at fair value through other comprehensive income";
- the shares and UCIT units are included in the portfolio of "Other financial assets mandatorily measured at fair value" through profit and loss, since the option to designate them at fair value through other comprehensive income was not used for equity instruments.

Liabilities related to Class III insurance contracts (unit linked) are included in the portfolio of "Financial liabilities designated at fair value", with the objective of ensuring a consistent accounting treatment with the underlying investments, mainly represented by UCIT units, classified in the portfolio of "Financial assets mandatorily measured at fair value". For further details on the recognition criteria and valuation of the aforementioned financial instruments, please refer to what is explained in Part A.2 below concerning the main items in the financial statements.
In light of the above, it should be noted that, following the application of IFRS 17, no impacts on the classification of the aforementioned instruments are expected. Moreover, the rules set out in paragraphs C28B-C28E of IFRS 17 (so-called classification overlay) - introduced by Regulation (EU) no. 1491 of 8 September 2022 - which allows, for the IFRS 17 comparative periods, to use IFRS 9 rules for the classification and measurement of financial assets linked to insurance liabilities, except for the impairment rules, do not apply.
The separate application of IFRS 9 and IFRS 17 led, during the second half of the year, to a volatility of the economic results related to the fair value measurement through profit and loss of equity instruments and UCIT units. In this regard, it is expected that the so-called "OCI Option", permitted by IFRS 17, will be such as to mitigate the above-mentioned volatility of the income statement, in application of the accounting model of the so-called "VFA - Variable Fee Approach" for those insurance contracts with discretionary participation features (segregated funds), as described in greater detail in the subsequent paragraph "Financial revenues and costs and accounting options adopted to mitigate accounting mismatches".

Most significant accounting requirements and methodological choices adopted by the Group

Below is an illustration of the technical aspects considered most relevant for the application of IFRS 17 and the main options and methodological choices made by the Group, for which it is not possible to exclude possible future adjustments, also in light of the common practices that will be identified on the market.

Definition of insurance contract and identification of the investment component

IFRS 17 applies to contracts falling within the following scope:

- insurance contracts issued, including reinsurance contracts;
- reinsurance contracts held; and
- investment contracts with discretionary participation features issued, provided that the entity also issues insurance contracts.

An insurance contract is defined as a contract based on which one party (the issuer) accepts a "significant insurance risk" from another party (the policyholder), agreeing to indemnify the policyholder if the latter suffers damages as a result of a specific uncertain future event (the insured event).
Therefore, IFRS 17 proposes the definition of "insurance contract" included in the current text of IFRS 4. The guidelines for identifying the presence of "significant insurance risk" establish, however, that this must be based on the present value of the potential cash flows of a given contract, rather than on the absolute value.
IFRS 17 also requires the separation of the distinct investment component in the host insurance contract only if the following requirements are met simultaneously:

- the investment component and the insurance component are not highly interrelated. The two components are highly interrelated if the entity is unable to measure one component without considering the other, as

[1] As explained in the previous "Section 4 - Events subsequent to the reporting date", on 7 March 2023 the European Central Bank announced that it had granted the status of "financial conglomerate" to Banco BPM Group.

the value of one component varies according to the other, or if the policyholder is unable to benefit from one component unless the other is also present; and
- a contract with equivalent terms is sold, or could be sold, separately in the same market or the same jurisdiction, either by entities that issue insurance contracts or by other parties.

The separated investment component must be subject to IFRS 9, unless it is an investment contract with discretionary participation features within the scope of application of IFRS 17.

In light of the above, with reference to the classification of insurance contracts, both non-life and life, the Group does not deem it necessary to change the scope, with respect to the valuations carried out on the basis of IFRS 4. Therefore, the scope of application includes all contracts, non-life and life, with the exception of Class III products represented by Unit Linked products, for which no significant insurance risk has been identified.
With reference to the separation of components from an insurance contract referring to the life business, on the basis of a qualitative analysis, the Group considers it necessary to activate the Multi-segment tariff unbundling procedure. Consequently, the Class I component - i.e. the investment component with discretionary participation features - will be accounted for in accordance with IFRS 17, while the Unit-linked Class III component - Investment component - will be accounted for in accordance with IFRS 9.

Identification of contract boundaries

Having determined the scope of contracts that fall under IFRS 17, the standard requires the setting of contract boundaries within which the cash flows are to be considered for the purposes of the valuation of the liabilities of the company. It is therefore a question of defining whether a contractual option should be considered in the projected cash flows from the time the contract is executed or whether it is such as to generate a new group of contracts.
The companies, in continuity with actuarial calculation logics already in use, consider including in the contract boundaries, and therefore in the cash flow projection, all future premiums and options dependent on the policyholder's decisions, where there is no option for the company to re-price them or to refuse the exercise of the option. For example, based on current analyses, automatic deferrals and additional payments fall within the contractual limits; in this regard, it should be noted that, for non-life business contracts for which the tacit renewal option is available, the cash flows are valued up to the first contractual expiry, since both counterparties have the option to cancel or withdraw from the renewal of the contract.

Level of aggregation (unit of account)

IFRS 17 provides that, upon initial recognition, insurance contracts must be aggregated into groups of contracts and that the provisions relating to their recognition, measurement and presentation in the financial statements must be applied to the group of contracts.
The level of aggregation is therefore not a merely abstract concept, but it directly affects the ability of companies to aggregate contracts in order to proceed with their initial recognition and subsequent measurement. The level of aggregation is relevant for the purposes of identifying onerous contracts, with the consequence that losses attributable to the contracts must be recognised from the beginning (“onerous contract test”).
The level of aggregation is determined on the basis of the following grouping hierarchy:
- portfolio: a group of contracts subject to similar risks and managed together as a single pool;
- cohorts: this is a segmentation of portfolios on the basis of the initial recognition date of the contract;
- profitability “buckets”: these refer to a further division of each cohort, depending on the profitability expected at the time of initial recognition of the contract, according to the following three buckets:
  - onerous contract that is considered unprofitable, and therefore onerous, at the time of initial recognition;
  - contract considered profitable at the time of initial recognition that does not present a significant risk of becoming onerous in the future;
  - other cases, i.e. a profitable contract that presents a significant risk of becoming onerous in the future.

IFRS 17 requires an entity not to include contracts issued more than one year later in the same group. Therefore, each portfolio must be disaggregated into annual cohorts or cohorts that include periods of less than one year. As reported in the introduction, at the time of endorsement by the European Commission with EU Regulation no. 2036/2021, the text of IFRS 17 was amended to provide for the possibility of not applying the requirement of annual cohorts (so-called carve-out option).

In light of the above, for Banco BPM Vita the aggregation into groups of contracts takes place according to the following characteristics: products included in the same Segregated Fund, Class I component of Multi-segment products and pure risk products (e.g. Term Life Insurance - TLI).
With regard to contracts belonging to Multi-segment products or linked to a Segregated Fund, it was decided to exercise the option not to apply the annual cohort requirement ("Carve Out option"), as provided for in the IFRS 17 endorsement Regulation at European level, and therefore to aggregate these types of contracts only with regard to the concept of similar risks managed together and belonging to the same profitability bucket.
For Banco BPM Assicurazioni products, it is deemed that the related legal form also reflects the substance, and it is therefore considered reasonable to classify a contract that provides for the combination of several guarantees based on the prevailing risk it presents. Based on these considerations, the following portfolios of insurance contracts were identified: Motor vehicles, Income, Home, Fire, Accident, Health.

<u>Accounting models for the measurement of insurance liabilities</u>

IFRS 17 provides for three methods for the valuation of insurance contracts applicable to the various business lines.

Building Block Approach (BBA) is the standard method for the valuation of insurance contracts structured on a block approach whereby, at the time of execution of the contract, the insurance liability is equal to the algebraic sum of the present value of the expected contractual cash flows on the basis of an appropriate discount rate (Present Value of Future Cash Flow - PVFCF), the adjustment for non-financial risks related to the uncertainty in the realisation of cash flows (Risk Adjustment - RA) and the expected economic margin (Contractual Service Margin - CSM). *This model is applicable to all insurance contracts with the exception of those with direct participation features for which the "Variable Fee Approach" model is applied or those measured on the basis of the "Premium Allocation Approach" simplified methodology.*
The subsequent measurement of liability requires an assessment of the aforementioned features, in order to reflect the changes between the initial estimates and those in effect at the reporting date. In particular:

- changes in the present value of cash flows, deriving from changes in the discount rate used, result in the corresponding adjustment of the former with a balancing entry in the income statement or, if the so-called "OCI Option" (Other Comprehensive Income) is used, in the statement of comprehensive income;
- changes in the estimate of liabilities relating to future services determine an adjustment of the CSM, to be released to the income statement on the basis of the coverage unit;
- changes arising from the difference between the expected cash flows for the period, recognised in revenues for insurance services, and those actually incurred in the same period, recognised in the costs for insurance services, have an impact on the income statement for the year.

The Premium Allocation Approach (PAA) is a simplified optional methodology set out in the regulations for contracts with a temporary duration, i.e. coverage of 12 months or less, or - under certain conditions - also for contracts with a longer duration. With this approach, a single liability is recognised, without any distinction of the components under the BBA model, called Liability for Remaining Coverage (LRC), which is systematically released to the income statement according to the contractual duration, in a manner entirely similar to the premium reserved based on IFRS 4.

The Variable Fee Approach (VFA) is the mandatory measurement model established for insurance contracts with direct participation features, i.e. contracts that, on the basis of an underlying participation feature, provide a significant additional benefit when the insured event occurs (e.g., contracts linked to Segregated Funds). The model in question is structured in blocks, in line with the standard model: in this case, the CSM represents the fee for the financial management service provided by the company. Based on this model, any changes in the estimate of the CSM, which derive from the performance of the underlying financial assets and therefore affected by market variables, determine a change in the CSM itself, without having a direct impact on the income statement or the statement of comprehensive income, as is the case with the BAA model.

In light of the above, Banco BPM Vita uses the following valuation models:

- Variable Fee Approach, for all insurance contracts with direct participation features, subject to verification of eligibility criteria;
- Premium Allocation Approach for the Unit of Account reserved to single-year non-life products in run-off (health and accident products);
- Building Block Approach for the remaining portfolios.

For Banco BPM Assicurazioni's business, the preferred approach is that of the Premium Allocation Approach, for single-year contracts as well as for multi-year contracts following the successful verification of eligibility. In the event of a negative outcome of the eligibility test for multi-year cases, the Company reserves the right to use the general model.

Inputs, parameters and other elements underlying the valuation models

Discount Rate
As previously illustrated, the valuation of the insurance liability is based on the discounting of expected future cash flows using a discount rate deemed adequate to reflect the time value of money and the financial risk, if the latter is not already incorporated in the cash flow estimates.
The discount rates must:

- reflect the time value of money, the characteristics of cash flows and the liquidity characteristics of insurance contracts;
- be consistent with the current observable market prices (if any) of the financial instruments whose cash flows have characteristics corresponding to those of insurance contracts, for example, in terms of maturities, currency and liquidity; and
- exclude the effect of factors which, although affecting observable market prices, do not affect future cash flows of insurance contracts.

In this regard, the approach used by the Group to define the discount rate is based on a bottom-up approach, according to which the discount curve is determined starting from a risk-free curve (liquid risk-free yield curve), to which an adjustment is applied for the liquidity premium of the insurance contracts, able to reflect the differences between the liquidity characteristics of the financial instruments that are the basis of the rates observed on the market and the liquidity characteristics of the insurance contracts subject to valuation.

Risk Adjustment
As already described above, a further block for the determination of the financial liability is the so-called "Risk Adjustment", i.e. the non-financial adjustment that represents, in substance, the remuneration that the entity requires to assume the risk arising from the uncertainty about the amount and timing of cash flows. The risks covered by the adjustment in question are insurance risk and other non-financial risks, such as lapse risk or expense risk.
Considering that IFRS 17 does not define a specific calculation method, the Group deemed it appropriate to estimate the Risk Adjustment using a Value At Risk (VAR) approach.

CSM release pattern
The Contractual Service Margin represents the expected profit from the insurance contracts in the portfolio and is estimated as the difference between the cash flows due to the entity (premiums) and the total contractual liabilities assumed, including the risk adjustment. The aforementioned margins will be recognised in the income statement throughout the entire period in which the insurance coverage is provided; no profit is therefore recorded at the date of initial recognition of the contracts as they relate to insurance services that will be provided in the future. The release of the CSM is based on the definition of the coverage units, which are determined by identifying for each contract the quantity of service provided to the policyholder and the expected duration of the group of contracts.
If the CSM assumes negative values, at the time of the initial recognition or even subsequently in the event of adverse changes in the expected profitability, the implicit loss arising from the insurance contract must be recognised in full in the income statement.
In the method currently being implemented, the release of the CSM is based on a pattern defined by considering the amounts insured for the TLI (Term Life Insurance) and CPI (Credit Protection Insurance) products and on the mathematical reserves for the other products.

Financial revenues and costs and accounting options adopted to mitigate accounting mismatches
The accounting standard IFRS 17 requires the entity to make an accounting policy choice with regard to the disaggregation of insurance revenues and financial costs between the income statement and the statement of comprehensive income. In greater detail, the options permitted by the aforementioned standard (paragraphs 88, 89, 90) allow a portion of financial costs and revenues of a financial nature relating to insurance contracts to be recognised as a balancing entry to comprehensive income (OCI option), rather than in the income statement. This choice is aimed at reducing any accounting mismatches resulting from the different valuation models required by

IFRS 17 for insurance contracts and by IFRS 9 for the investments underlying the aforementioned contracts. More specifically:

- for contracts accounted for according to the BBA or PAA models, IFRS 17 allows changes in insurance liabilities arising from changes in discount rates to be recognised as a balancing entry to the statement of comprehensive income, with the effects of the reversal of the discount rate identified upon initial recognition (the so-called "locked-in" rate) being recognised in the income statement;
- for contracts accounted for with the VFA model, the standard essentially requires that the net financial return, arising from the difference between the fair value measurement of the assets underlying the insurance contracts and the revaluation of the insurance liabilities, is recognised in the statement of comprehensive income, with a zero effect on the income statement. This approach, also known as the "mirroring approach", will replace the shadow accounting practice under IFRS 4, also aimed at reducing the accounting mismatching resulting from different measurement criteria between insurance liabilities and related financial assets, as represented in the paragraph "15 - Insurance assets and liabilities" of following section "A.2 - Key financial statement items".

In order to reduce potential accounting mismatches and related income statement volatility, the Group decided to use the OCI option for all portfolios of insurance contracts.

Determination of the CSM at consolidated level

For groups within which entities issuing insurance contracts and entities placing insurance contracts coexist, the calculation of the CSM at consolidated level must take place according to a different calculation track than the one followed for the CSM of the financial statements of the insurance companies. This circumstance is recalled by the EMA communication of 28 October 2022, cited in the introduction, which emphasises the importance that the IFRS 10 consolidation requirements must be applied consistently to all intra-group transactions, including those falling within the scope of IFRS 17.
The above is relevant for Banco BPM Group as the Parent Company distributes the insurance products of the subsidiaries, charging the placement fee to the latter. As part of the consolidation process, the elimination of intra-group fees charged to insurance companies requires an adjustment to consider the costs actually incurred by the Parent Company for the distribution of policies. This transaction may therefore entail the recognition of a different consolidated CSM from the one calculated in the financial statements of the individual companies, to the extent that the costs incurred by the Group towards third-party economies differ from the placement fees paid to the banking distribution network.
Taking into account the above, the Group chose to calculate, in the first instance, the CSM at the level of individual insurance companies and, subsequently, determine the Group CSM through appropriate adjustments at the time of consolidation. To this end, the actual costs incurred by the Group are estimated on the basis of the "Cost/income ratio", determined according to operational metrics, based on the historical observation of the actual distribution costs incurred by the Group's networks with respect to the fees paid to the Group's insurance companies, broken down by homogeneous categories of policies and distribution models. The aforementioned operating drivers are also considered in order to identify costs represented by personnel expenses, other administrative expenses, net value adjustments on property, plant and equipment, to be reclassified to the consolidated financial statement item relating to the result of insurance operations.

Presentation and financial statements

The IFRS 17 standard introduces new logic to calculate the income of insurance companies, also with a view to achieving better comparability of the financial disclosure with a consequent impact on insurance products and on the way the performance of insurance companies is measured, based on the product profit margin (CSM) to be measured according to the services provided compared to the current premium income aggregate.
In particular, in the income statement, the items "Net premiums" and "Balance of other income/expenses from insurance activities" were replaced by the items "Profit (loss) on insurance services" and "Balance of revenues and costs of a financial nature relating to insurance activities".
In fact, IFRS 17 introduces a separate representation of the two components that contribute to the profitability of the insurance business:

- the insurance margin shown under "Profit (loss) on insurance services", equal to the difference between:

- insurance revenues: mainly represented by the expenses that are expected to be incurred during the year, by the evolution of the liability for the explicit adjustment for the risk, as well as by the allocation to the financial year of a share of the CSM in relation to the services provided;
- the related costs mainly represented by the amount of expenses for insurance services actually incurred in the current year (claims), fees and other acquisition costs, losses for onerous contracts.

- the margin related to the financial components is instead shown in the item "Balance of revenues and costs of a financial nature relating to insurance activities". In particular, these are interest accrued during the year due to the time value of money, the effects related to changes in the time value of money and the financial risks of insurance contracts, changes in the fair value of the underlying assets of issued insurance contracts valued using the VFA approach, other than those recognised in the statement of comprehensive income as a result of the OCI option.

In terms of disclosure, the standard requires different statements of changes, occurred during the year, of the individual components making up the insurance liabilities.
In this regard, it should be noted that the new requirements for the presentation of the results of the insurance business and the related disclosure are incorporated in the Bank of Italy Circular no. 262 "Bank financial statements: layouts and rules for preparation", from the 8th update of 17 November 2022. The aforementioned disclosure requirements take into account the provisions issued by IVASS with reference to the insurance financial statements, by reference to ISVAP Regulation no. 7 of 13 July 2007, as amended by Measure no. 121 of 7 June 2022.
At Group level, the necessary activities are underway to ensure that the administrative accounting processes are able to ensure for the year 2023 a disclosure compliant with the requirements of IFRS 17.

Procedures for transition to the new standard

As indicated in the introduction, IFRS 17 is mandatorily applicable for annual periods beginning on or after 1 January 2023. The transition date is identified with the start of the financial year immediately preceding the one of first application (i.e. 1 January 2022).
For the purposes of the transition, IFRS 17 provides for the application of three different approaches, which can be adopted on the basis of the availability of historical information:

- the full retrospective approach. This approach requires that the contracts in the portfolio are accounted for as if the rules introduced had always been in force from the date they were entered into;
- the simplified approach (the so-called "modified retrospective approach"), where the complete approach is not feasible. This method introduces a number of simplifications with reference to the estimate of the CSM, the level of aggregation of contracts, the use of annual cohorts and the discount rates to be used. In any case, the objective of this method is to determine a CSM at the date of initial recognition of the contract and reconstruct its value at the transition date;
- the fair value approach. This transition method is based on the possibility of calculating the CSM at the transition date as the difference between the fair value of the group of insurance contracts - determined according to the logic envisaged by IFRS 13 - and the so-called "fulfilment cash flows" at the transition date, equal to the sum between the "Present Value of Future Cash Flow - PVFCF" and the "Risk Adjustment - RA".

IFRS 17 also governs the case of the acquisition of insurance contracts as part of a business combination that occurred after the transition date. For this case, applicable to the Group, IFRS 17 provides that the initial recognition of insurance contracts, and consequently of the contractual services margin (CSM), must refer to the date of the business combination transaction. Considering that the acquisition of the insurance companies Banco BPM Vita and Banco BPM Assicurazioni took place on 1 July 2022, for Banco BPM Group the application of IFRS 17 will take effect from that date and the approach pursued will be the fair value approach, in line with that recognised in the "Purchase Price Allocation - PPA" process pursuant to IFRS 3.

Effects of the transition to IFRS 17

In order to allow an appreciation of the effects related to the application of the new accounting rules, the report on operations provides a preliminary estimate of the quantitative impacts expected on the Group's shareholders' equity,

of an insignificant amount, also as a result of the importance of the insurance companies with respect to the entire Group.
This estimate was carried out relying on the best information available at the date of preparation of this financial report, obtained through processing outside the accounting system, for which the appropriate internal and external control activities are underway. During the year 2023, the Group will continue with activities aimed at refining the reference methodological framework as well as the related accounting processes and control systems.

Interest Rate Benchmark Reform ("IBOR Reform")

IBOR Reform - regulatory aspects

The InterBank Offered Rates (IBOR or benchmark rates) are variable parameters, fundamental for the economic stability of countries. Their performance is reflected in the markets and is an indispensable factor in defining the characteristics and value of financial and credit instruments. The main indices now in use include: the Euribor, the ESTR, introduced in 2019 as a replacement for the EONIA (discontinued in December 2020), and the USD LIBOR, the latter is close to being discontinued on 30 June 2023.
As is well-known, the need to reform IBORs emerged from the evidence of manipulation in the process of determining their value, essentially based on estimates made by the intermediaries, which made it necessary to switch to a more objective methodology.
The process of transition to new, more robust rates, known as IBOR Transition is based on two key documents:

- in 2014, the recommendations of the Financial Stability Board (hereinafter FSB) set in 2021 the deadline within which it was necessary to promote the development of more robust alternative benchmarks and at the same time strengthen the methodologies for calculating the rates by anchoring them to actual transactions;
- in 2016, the European Regulation no. 1011/2016 (Benchmark Reform, BMR) amended the reference regulatory framework of market indices to ensure their integrity against possible manipulation. In fact, the Regulation aims to adapt the calculation methodology to international standards, through new provisions regarding the provision, contribution and use of benchmarks with which all the players involved in the process must comply. For the most widely used indices, more prescriptive measures are envisaged, which take their systemic importance into account. The regulation also provides that the banks that "use" indices produce the so-called "Robust written plan" in which the actions to be taken in the event of cessation and/or substantial change of a benchmark rate, as well as one or more alternative benchmark rates, must be specified ("fallback").

In addition, the following documents, which have assumed particular importance in the context of the Reform, should be mentioned:

- Regulation (EU) no. 168 of 10 February 2021, of the European Parliament and of the Council (amending Regulation 2016/1011 - BMR) 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 of 5 March 2021 of the FCA (Financial Conduct Authority, the British regulatory authority) that sets the LIBOR cessation dates (only the USD LIBOR remains, which will cease on 30 June 2023);
- the joint statement of 24 June 2021 in which the European Commission, the ECB, the EBA and the ESMA urged market participants to reduce their exposure to LIBOR in all currencies and in all tenors, without exception, and to draw up solid written plans in which to indicate alternative interest rates for all contracts that use LIBOR as a 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 the EONIA rate were designated;
- the Final Recommendations published on 11 May 2021 in which the "Working Group on euro risk-free rates" formalised a forward structure based on the €STR as a replacement for the LIBOR, with the addition of a "credit spread adjustment". It is worth mentioning that in April of the same year, the publication of the Risk Free Rate called "€STR Compounded Average Rate" begun.

Last published in chronological order, but of primary importance for the treatment of loans underwritten before 2021, is the New European Delegation Law no. 127 of 4 August 2022, in force since 10 September 2022, which governs the different areas of intervention to be adopted by the Italian Government in 2023. In fact, the law

explicitly refers to the implementation of two articles of the BMR: the 23 (replacement of a benchmark by Union law) and 28 (changes to and cessation of a benchmark - production and maintenance of robust written plans). The salient points for the purposes of the IBOR project are: i) the mandate to amend the Consolidated Banking Law, to allow the orderly management of the consequences that would fall on the banking world as a result of the cessation of a benchmark; ii) the creation of a Committee for macro-prudential policies, which will have among its tasks also that of assessing the adequacy of the substitute benchmarks and the fallback clauses with respect to the market and financial stability of the country; iii) the obligations for banks to inform customers in advance in the event of cessation of or change to a benchmark and to constantly update the Robust Written Plan in line with changes in market indices.

IBOR Reform – accounting aspects

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

- Phase 1 (endorsed with Regulation no. 34/2020 of 15 January 2020) which has introduced amendments to accounting hedges to prevent uncertainties on the amount and timing of cash flows resulting from the reform from leading to the discontinuation of existing hedges and difficulties in designating new hedging relationships;
- Phase 2 (implemented by Regulation no. 25/2021 of 13 January 2021), which analyses the impacts of the application of the new rates, in particular on existing contracts and accounting hedges and introduces 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. Details are provided below on the progress of the IBOR Transition project in Banco BPM Group, the quantitative disclosure and the risks associated with the instruments subject to the reform and related management methods.

IBOR Reform - planning aspects in Banco BPM Group

In Banco BPM Group, the IBOR reform was managed with the "IBOR Transition" project, launched in 2019 and still in progress. Until 2021, project activities were dedicated to adapting internal processes to the provisions of the BMR Regulation and the competent authorities on derivative contracts and indexed rate loans, in Euro and foreign currency.
With reference to derivatives, with the signing of ISDA agreements, the indices applicable to new contracts with market counterparties were standardised, and those covering existing contracts were amended. With regard to the transactions with the Clearing Houses, LCH and EUREX led the EONIA - €STR migration, closing the existing contracts and simultaneously opening new identical contracts but linked to the new index.
With regard to instalment-based loans in Euro indexed to the Euribor, the Bank has decided to use the forward structure based on the €STR indicated by the Working Group as the rate replacing the LIBOR. In 2021, the IT implementations necessary for the transposition of the new index in the bank's procedures were carried out so that the new loans issued from November were already adjusted to the new rate. At the same time, activities were carried out for the application of the substitute rates defined by law to the loans indexed to EONIA and CHF LIBOR.
In 2022, the intervention was extended to non-instalment based loans in euro (so-called "credit facilities"), thus closing the part of the project relating to the adjustment of new loan agreements.
For foreign currency transactions represented by current accounts and non-instalment based loans in the main currencies (CHF, USD, GBP, YEN, AUD, CAD, HKD), the new Risk Free Rates indicated by the Authorities of the reference countries have been used since 2021, while for minor currencies, a fixed rate was used.
With regard to internal regulations, Banco BPM Group, as the "user" of the indices, has published the "Robust written plan" required by the BMR and is constantly updated.
Lastly, as regards communications to customers, the section on the IBOR Transition published on the institutional website of Banco BPM (*www.gruppo.bancobpm.it/IBOR)* and the subsidiaries Banca Aletti and Banca Akros, was updated with a reference to the Parent Company's website.
On the other hand, in relation to the possible risk of discontinuation of the Euribor, regulatory guidelines are expected that will arrive by 2023 with the implementing decrees stemming from the aforementioned European delegation act no. 127/2022.

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, that were terminated, in terms of number and counter value. It should be noted that the scope refers to contracts in place as at 31 December 2022 the maturity of which is subsequent to the cessation of the index. The aforementioned maturity has already occurred for the EONIA rates, for GBP, EUR, CHF, JPY LIBOR and for USD LIBOR for 1-week and 2-month tenors; for USD LIBOR for overnight tenors and 1, 3, 6 and 12-month tenors, the maturity date is 30 June 2023.

Exposure to discontinued "IBOR transition" rates: data as at 31 December 2022 (amounts in millions of euro/units of euro by number of contracts)

Exposure to discontinued "IBOR Transition" rates Figures as at 31 December 2022								
Amounts in millions of euro	**Product categories**							
	Non-derivative financial assets		**Non-derivative financial liabilities**		**Derivatives**			
	Loans and advances		**Current accounts and deposits**		**OTC**		**With Clearing house**	
	number of contracts	**amount**	**number of contracts**	**amount**	**number of contracts**	**notional**	**number of contracts**	**notional**
Contracts indexed to IBOR rates:								
LIBOR	**142**	**647.6**	**2,435**	**(216.7)**	**18**	**442.5**	**23**	**1,021.7**
of which: USD	**124**	**647.1**	**1,987**	**(150.7)**	**18**	**442.5**	**23**	**1,021.7**
of which: GBP	**10**	**0.3**	**204**	**(38.6)**	**-**	**-**	**-**	**-**
of which: CHF	**5**	**0.2**	**167**	**(10.2)**	**-**	**-**	**-**	**-**
of which: JPY	**3**	**0.0**	**77**	**(17.2)**	**-**	**-**	**-**	**-**

The residual exposures are concentrated on the USD LIBOR rate. Specifically:

- *Loans and advances*: almost all of the 142 outstanding positions are indexed to the USD LIBOR rate, of which 94 loans ("drawdowns") refer to 30 pool contracts for a total value of 612.5 million euro, whose transition to the new rate will be negotiated between the participating banks and the counterparty during the first half of the year. 2023. Multi-currency accounts remain active, of which 30 positions in USD for a value of 34.6 million euro and 18 positions in other currencies for 0.5 million euro;
- *Current accounts and deposits*: most of the positions are index-linked to USD LIBOR (1,987 accounts payable with multi-currencies for a countervalue of 150.7 million euro) with a residual amount referring to other currencies (448 accounts for a countervalue of 66.0 million euro);
- *Derivatives*: all positions are indexed to USD LIBOR. The Clearing Houses have already provided the banks with the migration schedules of existing contracts to the new rates. The Bank opted for preventive management, aimed at replacing all existing contracts (including OTC) with new contracts indexed to the SOFR rate, by the end of June 2023.

Lastly, it should be noted that, following the recommendations of the main Authorities on the subject, Banco BPM has adjusted its processes and procedures so that LIBOR USD is no longer used in new transactions.

For a complete overview of the disclosure required by IFRS 7, paragraph 24H, regarding uncertainties stemming from the benchmark reform for determining interest rates on hedging relationships and on the notional value of hedging derivatives, please refer to the specific section prepared in Part E - Information on risks and related hedging policies - Section 1.3 "Derivative instruments and hedging policies" - 1.3.2 "Hedge accounting" - "F Disclosure envisaged by IFRS 7 relating to the reform of benchmark rates".

Risks deriving from financial instruments subject to the IBOR reform and related management methods

The most critical part of the transition of the Group's IBOR rates can be considered completed at the end of 2022, with the almost full mitigation of the risks associated with the discontinuation of the EONIA and LIBOR indices, as illustrated above. 30 June 2023 is now expected for the cessation of USD LIBOR, the effects of which will be visible on loans and derivatives, both intended to be converted at the new rates with bilateral renegotiations.

Still in regard to derivatives, it is worth mentioning that the risks relating to the planned discontinuation of the USD LIBOR rather than the possible discontinuation of the EURIBOR were substantially mitigated by the subscription to the ISDA Protocol, which Banco BPM and Banca Akros and most of their respective market counterparts have adhered to.
In the area of financing, there is still an area of potential risk related to the stock of Euribor-indexed loans, which mostly have EUR LIBOR as an alternative rate. However, the risk is lower after the announced publication of the implementing decrees that the Italian Government will have to promulgate by 2023 in order to transpose the indications of the measure L.127/2022 (law delegating power to the Government to implement the European regulations with particular reference to the BMR). In fact, the decrees provides for an intervention on the Consolidated Banking Law to extend the possibility of unilateral modification of interest rates to loans (currently only for current accounts). As a further mitigating factor, to be noted is also the option represented by the power, entrusted to the European Commission, to define an *ex-lege* rate in the event of the discontinuation of the Euribor.

Finally, it is worth mentioning that at present there is no assumption to discontinue the Euribor, which could nevertheless be ceased should the "hybrid" method for its determination be deemed too dependent on the subjective valuations made by the 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).

Other significant aspects relating to Group accounting policies

Below is an illustration of several transactions or events occurring during 2022, deemed significant for defining the related accounting treatment and/or impacts on the balance sheet or income statement.

Acquisition of control of Banco BPM Vita S.p.A. and Banco BPM Assicurazioni S.p.A. and related accounting impacts

Accounting treatment of the acquisition of control based on IFRS 3 and related impacts

On 22 July 2022, following the authorisation by IVASS, Banco BPM has acquired 81% of the share capital of Bipiemme Vita S.p.A. held by Covéa Coopérations SA. After exercising the call option resolved on 12 April 2022, the completion of this transaction allowed Banco BPM to acquire the entire share capital of Bipiemme Vita S.p.A., an insurance company operating mainly in the life insurance area, which, in turn, holds the entire share capital of Bipiemme Assicurazioni S.p.A., which operates in the non-life business.
Since July, the Group has therefore taken the necessary steps to obtain the status of "financial conglomerate", i.e. a party that carries out significant activities in both the banking and investment services sector, and in the insurance sector, in view of the application of the Danish Compromise[1].
Following this acquisition, the insurance companies - which from 9 September 2022 had changed their company names to Banco BPM Vita S.p.A. and Banco BPM Assicurazioni S.p.A. - were consolidated on a line-by-line basis in the consolidated financial statements of Banco BPM Group.
For accounting purposes, the business combination in question is defined as a "step acquisition", i.e. a multi-stage business combination transaction that was carried out since Banco BPM already held 19% of the share capital of Banco BPM Vita (and indirectly of Banco BPM Assicurazioni).

For details on the accounting treatment required in the case of transactions for the acquisition of control according to IFRS 3 and the effects resulting from the Purchase Price Allocation process concerning the acquisition of control of the insurance companies, please refer to paragraph "16 – "Other information, Business combinations, goodwill and changes in interest holdings" of part "A.2 - Key financial statement items" and part "G - Business combinations regarding companies or divisions".

[1] As explained in the previous "Section 4 - Events subsequent to the reporting date", on 7 March 2023 the European Central Bank announced that it had granted the status of "financial conglomerate" to Banco BPM Group.

Impacts on the financial statements and on the notes to the financial statements

The consolidation of insurance companies, described above, made it necessary to value those financial statement items required by Bank of Italy Circular no. 262 specifically attributable to the insurance business and related to the valuation of insurance contracts under IFRS 4. More specifically these are:

- item "80. Technical reserves of reinsurers" for the balance sheet assets;
- item "110. Technical reserves" for the balance sheet liabilities;
- items "160. Net premiums" and "170. Balance of other income/expenses from insurance activities" for the income statement.

With reference to financial assets and liabilities held by insurance companies, the reference accounting standard is IFRS 9, in line with that applicable to all financial instruments held by the Banking Group; for a thorough analysis of the classification and measurement criteria for financial instruments, please refer to Part A.2 below relating to the main financial statement items. For further details on the IFRS 9 classification of financial instruments of insurance companies and on the interaction with IFRS 17, applicable from 1 January 2023, please refer to the description in the previous paragraph "Disclosure on the transition to the new accounting standard IFRS 17 – Insurance contracts".
In order to allow an appreciation of the contribution provided by the insurance companies, specific information is provided at the bottom of the tables showing financial assets and liabilities (in detail, these are asset items "20.c) Financial assets mandatorily measured at fair value", "30. Financial assets measured at fair value through other comprehensive income" and the liability item "30. Financial liabilities designated at fair value").

With regard to the economic contribution of Banco BPM Vita and Banco BPM Assicurazioni, it should be noted that, based on IFRS 10, this contribution is reflected in the income statement, on a line-by-line basis, starting from 1 July 2022; otherwise, the contribution from the first half-year, when the companies were 19% owned, is shown under item "250. Gains (losses) of associates and joint ventures".

Further information on the activities and risks of insurance companies is contained in the "Other information" section of part B of the Balance Sheet, table "4. Breakdown of investments against unit-linked or index-linked policies" and in Section 3" Risks to insurance companies" of Part E of these Notes to the consolidated financial statements, to which reference should be made.

Lastly, in order to allow a more immediate understanding of the contribution provided by the Group's insurance companies on the consolidated balance sheet and income statement as at 31 December 2022, specific statements are also provided in the annexes to the consolidated financial statements (Consolidated balance sheet: contribution of insurance companies; Consolidated income statement: contribution of insurance companies).

Reorganisation and partnerships in the bancassurance segment for the Non-Life/Protection sector

As part of the bancassurance business valuation operation, described in the paragraph "Integration of the insurance business" in the section "Significant events during the year" in the Report on Operations of the Group, on 23 December 2022 Banco BPM has signed a binding term sheet with Crédit Agricole Assurances S.A. ("CAA") for the establishment of a long-term strategic partnership in bancassurance in the Non-Life/Protection sector. The term-sheet covers (i) the acquisition by CAA of the 65% stake in Banco BPM Assicurazioni and, subject to Banco BPM's repurchase of the interest currently held by Cattolica Assicurazioni, of 65% of Vera Assicurazioni, which in turn holds 100% of Vera Protezione (the "Insurance companies") and (ii) the launch of a 20-year commercial partnership in the Non-Life/Protection sector.

The transaction is expected to close by 2023 following due diligence, the approval by the relevant authorities and the repurchase of the equity interest in Vera Assicurazioni, as a result of Banco BPM exercising its call option on Cattolica Assicurazioni.

Accounting treatment of Banco BPM Assicurazioni disposal

As a result of the agreements described above, concerning, inter alia, the disposal of the controlling interest of 65% of Banco BPM Assicurazioni, as at 31 December 2022 the assets and liabilities of the aforementioned company are not recorded "line by line ", but under the summary balance sheet items "120. Non-current assets and disposal

groups held for sale" and "70. Liabilities associated with assets classified as held for sale" as IFRS 5 was deemed to be applicable. Pursuant to paragraph 8 A of the standard, this statement covers 100% of the assets and liabilities of the investee, regardless of whether, after the sale, the Group retains a non-controlling interest (35%) in the former subsidiary.
Otherwise, in the income statement, the contribution of the investee is shown "line by line" in the individual items, since the disposal of the company in question is not attributable to the case under IFRS 5 of discontinued operations for which, on the other hand, its inclusion in the summary income statement item "320. Profit (loss) after tax from discontinued operations" was required. As indicated in paragraph "8. Non-current assets and disposal groups held for sale" of Part A.2 of these Notes to the financial statements, pursuant to the afore-mentioned IFRS 5 standard, discontinued operations shall mean a significant, autonomous business or geographical area of operations, including one that is part of a single coordinated disposal programme, rather than a subsidiary acquired exclusively with a view to its re-sale.

Accounting treatment of Vera Assicurazioni disposal

With reference to the equity interest in the associate Vera Assicurazioni shown in the balance sheet item "70. Interests in associates and joint ventures", as at 31 December 2022 it was not necessary to classify assets held for sale, pursuant to IFRS 5, as the share currently held (35%) will be confirmed also as a result of the reorganisation in question.

Merger by incorporation of the subsidiaries in the Parent Company

As part of the initiatives to rationalise the corporate and organisational structure of the Group, described in the section "Significant events during the year" in the Report on Operations of the Group, in 2022 the merger by incorporation of Bipielle Real Estate S.p.A. and Release S.p.A. (companies formerly wholly owned by Banco BPM) into the Parent Company was finalised. In particular, from 1 January 2022, the incorporation of Bipielle Real Estate into the Parent Company took effect, while the merger by incorporation of Release into Banco BPM S.p.A. became effective from 21 February 2022. Both transactions took effect for accounting and tax purposes on 1 January 2022.
On the basis of the standard discussed in the paragraph "Business combinations, goodwill and changes in interest holdings", Part A.2 relating to the main items of the financial statements, the above-mentioned transactions, involving subsidiaries, had no impact on the financial position and income statement of Banco BPM Group, as also highlighted in Part G of these Notes to the financial statements. In this regard, it should be noted that - as these are mere reorganisations within the Group deemed not to entail, in substance, a significant influence on cash flows - in the financial statements of the Parent Company, the mergers in question do not fall within the scope of application of IFRS 3, but are accounted for by adopting the principle of continuity of accounting values, with reference to the values resulting from the consolidated financial statements at the merger date.

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 - in the period between September 2019 and December 2021, with a total of ten drawdowns - for the purpose of maintaining favourable borrowing conditions for banks through incentives. Each operation has a duration of three years, without prejudice to any early redemption option, which can be exercised according to the timing established for each operation.
Following the emergency linked to the Covid-19 pandemic, several of the criteria initially established by the ECB in 2019 were improved between March and December 2020, particularly as regards the maximum financeable amount and the relative remuneration.
With regard to the remuneration of the loans, following these revisions, the interest rate was set at a level equal to the average rate of the Eurosystem's Main Refinancing Operations (MRO), except for the period from 24 June 2020 to 23 June 2021 (the so-called "special interest rate period" or "SIRP") and between 24 June 2021 and 23 June 2022 (the so-called "additional special interest rate period" or "ASIRP"), where a rate 50 basis points below this rate shall apply.
An incentive mechanism has also been provided for that allows for access to more favourable rate conditions, depending on the achievement of certain benchmarks, which depend on net lending. In more detail, it is possible to benefit from the average rate on deposits (Deposit Facility - DF) for the entire duration of the operation instead of the

MRO rate, with a further reduction of 50 basis points for the entire special period from 24 June 2020 to 23 June 2022.
With Decision ECB/2022/37 of 27 October 2022, the ECB, in addition to raising interest rates, intervened retroactively recalibrating the conditions applicable to the loans in question and setting the reference deadline as 22 November 2022 in order to benefit from an improved average rate, previously extended to maturity. In greater detail, before the decision in question, against the achievement of the benchmarks, the reference rate for calculating the accruals of the pre-SIRP and post-ASIRP periods was equal to the average of the DF rates for the entire duration of the loan, also including the special period (SIRP and ASIRP), without prejudice to the guarantee of a negative rate of -1% for this last period. With the aforementioned decision, starting from 23 November 2022, remuneration is indexed to the interest rate applicable during this period, maintaining the method for calculating the average rate, applicable to the pre-SIRP and post-ASIRP periods, counted from the date of issue of the loan until 22 November 2022, without prejudice to the guarantee of a rate of -1% for the special period.

Accounting treatment

The accounting treatment of the transactions in question, and in particular the recognition of interest based on the various remuneration mechanisms, does not seem to be directly attributable to any IAS/IFRS accounting standard. This was confirmed by the request that ESMA submitted 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 clarifications as to the accounting treatment to be applied to the financing in question.
In light of the foregoing, taking into account that at the date of preparation of these financial statements no official interpretations have been received on the accounting treatment of TLTRO III transactions, Banco BPM Group has defined the reference accounting policy, based on the provisions of IAS 8, as specified 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. In greater detail, the rules envisaged by IFRS 9 for floating-rate financial instruments (paragraph B5.4.5) are deemed applicable, in line with the treatment applied in the past for loans obtained under the previous TLTRO programmes. Interest is then recognised on the basis of the rates, in existence over time and applicable for each reference period, according to the probability of being able to achieve certain “benchmark” objectives. Also as a result of the changes introduced in the conditions of TLTRO III of 27 October 2022, the model for the recognition of accruals is pursued in substantial continuity with the accounting treatment defined in previous years.
In this regard, it should be noted that, since all the “net lending” objectives have been achieved, the interest accrued on the aforementioned liabilities is assessed on the basis of the most favourable interest rate applicable to the Deposit Facility (DF). In greater detail, for the loans in place for Banco BPM Group, which were issued from 24 June 2020 onwards, the accrued interest was therefore calculated for each time period as reported below:

- for the special SIRP and ASIRP periods (from 24 June 2020 to 23 June 2022): the fees are calculated and allocated on the basis of the -1% rate, i.e. equal to the Deposit Facility rate (DF) in place in the aforementioned periods (-0.5%), in addition to the additional remuneration (-0.5%) guaranteed by the ECB at a fixed rate and not dependent on the residual duration of the individual tranches;
- for the post-ASIRP period (from 23 June 2022) and until 22 November 2022: the fees are determined based on the interest rate recognised by the ECB for this period – now known – which is equal to the average of the DF rates from 24 June 2020 (or later date depending on the issue date) to 22 November 2022 (so-called "main interest period"). As previously illustrated, before the recalibration on 27 October 2022, the main interest period was to be understood as extended until the maturity date, therefore being able to benefit from an improved average rate for a longer period of time;
- for the last period (from 23 November 2022 until maturity/repayment of the loans): the accruals are determined on the basis of the variable rate DF in that period (equal to 1.5% until 21 December 2022, now 2 % as a result of the further increase in rates).

The accrual thus determined as at 31 December 2022, as for future reporting to maturity, corresponds to what would be paid by the ECB if an early repayment at each reference date would be admitted.

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 (IFRIC) to provide clarification on the accounting treatment for TLTRO III operations.
In March 2022, the IFRIC, after consultation with the IASB, confirmed that the issue will be discussed as part of the "Post Implementation Review" (PIR) project relating to the Classification and Measurement of IFRS 9.
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 be issued 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 until 31 December 2022.

Active loans and relative interest pertaining to FY 2022

As at 31 December 2022, the residual nominal value of the TLTRO III operations underwritten by the Group amounted to 26.7 billion and pertained entirely to six quarterly drawdowns by the Parent Company in the period between 24 June 2020 and 22 December 2021. The reduction compared to the amount as at 31 December 2021, when it was 39.2 billion, is due to the partial early repayment of 12.5 billion of the 4th series (24 June 2020 - 24 June 2023) which took place on 21 December 2022.
Considering the interest accrued but not yet collected, i.e. a total positive of 367.6 million, the book value of the TLTRO III loans as at 31 December 2022 amounted to 26,332.4 million. This value corresponds to the amount that would be paid by the ECB to Banco BPM, in the case of early repayment of the loans as at 31 December 2022.
The interest for the year 2022, taking into account the interest paid on the early repayment of 12.5 billion, is a positive total of 181.4 million, down compared to 2021 (352.2 million). The lower contribution is attributable to the second half of 2022, due to the joint effect of the termination of the favourable remuneration mechanisms described above and the increase in interest rates, which led to a negative contribution in the last quarter of 2022 equal to -39.1 million, down compared to the positive contributions, albeit in continuous decline, of the previous three quarters (27.3 million is the contribution of the third quarter of 2022; 95.2 million that referred to the second quarter of 2022 and 98.0 million that for the first quarter of 2022).

Tax credits linked to the "Relaunch" Decree obtained following 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), a range 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").
These incentives are proportional to a percentage of the expenses incurred and are disbursed in the form of the granting of tax deductions to the parties that bear the expenses relating to the aforementioned interventions. The aforementioned regulation also makes it possible to transform the tax deduction into a tax credit also by obtaining a discount on the amount due to the supplier.
Tax credits may only be recovered by offsetting them against tax and social security debts of the transferee in compliance with the timeframe of the original tax deduction. If the transferee is unable to offset the receivable with its tax and social security payables within the above-mentioned terms, the non-offset amount is definitively lost.
However, tax credits may be transferred to other parties (including banks and other financial intermediaries).
Below are the accounting policies relating to the treatment of the above-mentioned tax credits acquired by the Group through the Parent Company.
The peculiarity of the tax credits described above does not make it possible to associate them with any specific international accounting standard; in this case, IAS 8 provides that the company management must independently define the accounting treatment considered the most suitable in order to guarantee relevant and reliable information to users of the financial statements.
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 provisions under IFRS 9. More specifically, the tax credits in question were deemed to be substantially similar

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 purchase of tax credits was deemed attributable to the "Hold to Collect" business model, as the Bank's objective is to hold them until their maturity and recover them by offsetting them against its tax and social security 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 tax credits purchased with its tax and social security debts, as they cannot be refunded by the Tax Authority. Said credits are recognised in the residual item "130. Other assets", as they do not represent, pursuant to the international accounting standards, tax assets, public contributions, intangible assets or financial assets, in line with what is set forth in the joint document cited above.
The interest accrued based on the amortised cost is recognised in the income statement in item "10. Interest and similar income".

As at December 31, 2022, the nominal value of the tax credits acquired amounted to 2,436.0 million, of which 1,523.9 million during the year 2022. Credits recovered during the year through offsetting amounted to 305.6 million, therefore the residual nominal value as at 31 December 2022 was 2,130.4 million. The corresponding book value, shown in the balance sheet item "130. Other assets" on the basis of the amortised cost, which takes into account the purchase price and the net interest accrued as at 31 December 2022, amounted to 1,966.9 million (817.4 million as at 31 December 2021).
As at 31 December 2022, commitments were also made with third parties for future purchases of tax credit for a total amount of 1,479.5 million.
The amount of the credits purchased and the purchase commitments undertaken is lower than the estimate of the prospective offsetting capacity of the bank or of its tax and social security payables. As at 31 December 2022, the tax credits recognised in the financial statements are therefore considered fully recoverable. Even in connection with the commitments to purchase additional tax credits mentioned above, no risks of irrecoverability are foreseeable.
It should be noted that Banco BPM did not transfer any of the tax credits purchased.

Issue of Additional Tier 1 (AT1) financial instruments

As indicated in the "Significant events during the year" section of the Report on Operations, on 5 April 2022, Banco BPM issued Additional Tier 1 instruments for an amount of 300 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 12 April 2027; 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 7%. If the option of early redemption envisaged, for 12 April 2027, 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, 14 January 2020 and 12 January 2021 for 1.1 billion. Since these are perpetual securities, the issuer has the option of early redemption starting respectively from 18 June 2024, 21 January 2025 and 19 January 2026; in case of failure to call, the call can be exercised every five years in the first case and every 6 months for the other two issues. The six-monthly coupon, non-cumulative, was set at an annual rate of 8.75%, 6.125% and 6.5%, respectively. If the option of early redemption 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 2022, the price received from the above-cited issues, after deducting the directly attributable transaction costs, net of the related tax charge (10.2 million), is shown under shareholders' equity item "140. Equity instruments", for an amount of 1,389.8 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. In 2022, the shareholders' equity decreased by 63.3 million, as a result of the payment of the coupons related to AT1 issues (87.3 million) net of the related tax effect (IRES tax) of 24.0 million.

"Hold to Collect" Business Model – sales

In 2022, transactions were settled for the sale of debt securities classified in the portfolio of "Financial assets at amortised cost" with a nominal value of approximately 5.5 billion. Approximately 2.0 billion of this amount refers to the settlement of some forward sale transactions on Italian Government bonds by the Parent Company stipulated in 2021, in compliance with the sales eligibility thresholds calculated for 2021.
As at 31 December 2022, the result achieved from the aforementioned sales amounted to a total of 148.7 million (of which 94.0 million related to the settlement of forward sales) and is shown in the income statement item "100. Gains (losses) on disposal or repurchase of: a) financial assets at amortised cost".
It should be noted that for exposures classified in the portfolio of "Financial assets at amortised cost", namely in the portfolio held for the purpose of collecting contractual cash flows (so-called "Hold to Collect" - HTC - Business Model), accounting standard IFRS 9 envisages that their sale is permitted in observance of specific materiality and frequency thresholds, close to maturity, in the event of a significant increase in credit risk or in the case of exceptional circumstances.
In this regard, it should be noted that the transactions for the sale of HTC debt securities resolved by the Group in 2022, not attributable to the causes of eligibility due to proximity to maturity or increase in credit risk, amount to approximately 1.9 billion and took place in compliance with significance and frequency thresholds set out in the Group's accounting policies.
More specifically, such sales correspond to around 9.7% of the nominal value of securities in issue as at 1 January 2022 and therefore within the materiality threshold of 10% of the nominal value of the securities portfolio at the beginning of the year, established by Group policy. The annual frequency threshold, defined in terms of twelve annual transactions, was also respected.
In addition, in 2022, sales were also completed for a nominal value of approximately 1.6 billion not calculated in the significance and frequency thresholds; almost all of this relates to the sale of some Italian government bonds with a residual maturity of less than three months and with a difference between the sale price and the residual contractual cash flows not exceeding 5% as well as a bond issued by Russia for a nominal value of 2 million USD, following the significant increase in credit risk caused by the Russia-Ukraine conflict, as described in the previous paragraph on "Most significant aspects for 2022 financial statement valuations".
As specified above, forward sales settled in 2022 are not included in the eligibility thresholds for the year 2022, as they are already counted in the 2021 thresholds, i.e. in the year in which the sale was approved.
Lastly, it should be noted that, in addition to the sale of debt securities described above, during the third quarter of 2022, the sale of an exposure represented by a performing loan to a Russian counterparty was completed for a gross value of 62.5 million, as per the previous paragraph "Most significant aspects for 2022 financial statement valuations". It is believed that this sale should not be included in the eligibility thresholds of sales, given the exceptional circumstances provided for in the accounting standard IFRS 9; in any case, taking into account the stock of performing loans in place at the beginning of the year, any calculation would confirm a non-significant sale percentage (less than 0.1%).

For more details on the configuration 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".

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 Wolf - restructuring of credit exposures classified as unlikely to pay

As illustrated in the "Significant events during the year" section of the Report on Operations of the Group, in December 2022 Banco BPM completed a significant and complex restructuring of non-performing loans attributable to a leading real estate group, aimed at pursuing an active management of the properties underlying the aforementioned exposures, with the support of a specialised partner and the inflow of new financing by third parties for the development of the properties. In particular, these are UTP credit exposures – represented by mortgage or unsecured loans and lease receivables – with 12 properties as collateral, attributable to 10 debtors.
The main terms of the transaction and the related accounting treatment are provided below.
In particular, the transaction initially involved the sale of loans for a gross value of 461.1 million, to a Special Purpose Entity for securitisation, established pursuant to the Law 130/99 (Lilium SVP S.r.l.), as well as the transfer of lease contracts and related properties to a LeaseCo (Ninfa LeaseCo S.r.l.). Taking into account the unrecognised default interest, the nominal value of the sale is equal to 495.8 million.
For the purposes of the subsequent restructuring of the exposures sold, the transaction has involved a corporate reorganisation of all debtor entities of the exposures in question, which were placed under the control of a new holding company, whose share capital was transferred to a trust company, which, on the basis of a specific mandate, will operate in the interest of the special purpose entity Lilium SPV S.r.l..
In detail, the restructuring agreement pursuant to Article 67 of the Bankruptcy Law, which became effective on 28 December 2022, provided for the existing credit exposure to be converted into participating financial instruments for 177 million, with the waiver by Banco BPM of its share of loans aimed at ensuring that the debt total financial position of the new holding company, after restructuring, was 263.7 million. On the basis of this agreement, changes were also introduced into the amortisation plan of loans with bullet repayments, except for voluntary or mandatory early repayments based on the net income realised as part of the implementation of the respective plans for the sale of properties, and, where specified, interest recognised at maturity (so-called "PIK - Payment in kind" interest). Banco BPM is also expected to waive, as of now, its share of the total financial indebtedness that is not settled at the date of completion of all the disposals of properties and of all the distributions of net income pursuant to the applicable agreement (so-called "Pay if you can" clause).
The agreement also introduced some cross-collateralisation mechanisms, based on which the cash flows deriving from the sale of assets referring to some positions can be used to hedge other restructured exposures, in order to maximize the recovery value for Banco BPM.
Lastly, some indicators (so-called KPIs - Key Performance Indicators) were defined with the aim, on the one hand, of guaranteeing the fulfilment by the debtors of the commitments made as part of the transaction, and on the other hand, to enable a precise monitoring of the initiatives implemented. Should these KPIs be disregarded, the Board of Directors in office will be dissolved and the majority of the new Boards of Directors will be appointed by the trust company, which will be required to implement the business plan in accordance with the instructions of the servicer of the securitisation transaction.

In light of the above, on 5 December 2022, Banco BPM carried out a sale without recourse of UTP loans to the SPE Lilium SPV S.r.l., for a consideration of 495.8 million, corresponding to the nominal value of the loans at the cut-off date contractually set up (30 September 2022), including default interest.
In order to finance the purchase of the loans, on 12 December 2022, the SPE Lilium SPV S.r.l. issued tranches of ABS securities, which were fully subscribed by Banco BPM at a price corresponding to the nominal value of the loans sold (495.8 million). The obligation to pay the securities by Banco BPM was offset by the payment obligations by the SPE for the purchase of the loans by Banco BPM.
Following the restructuring agreement, finalised between the debtor companies and the SPE, on 29 December 2022, Banco BPM transferred a number of tranches of securities – with a nominal value of 94.8 million – to a third-party investor, which is also committed to provide financing to the SPE in the amount of 55 million, in order to enable the development of the properties.

For further details on the securitisation transaction and in particular on the notes issued by the SPE, please refer to "Part E - Section 1 - C. Securitisation transactions".

Accounting treatment

On the basis of the above, the loans sold to the SPE Lilium SPV S.r.l., although without recourse, were not derecognised from the financial statements as the Group substantially retained the risks and rewards of the assets transferred. Therefore, at the date of the sale, the loans sold were retained as assets, while the consideration for the sale was recognised as "Liabilities to the SPE in relation to the loans sold and not derecognised", net of the securities issued by the SPE and held by the Group.
From an accounting point of view, all events affecting the aforementioned loans must be reflected in the Group's financial statements, as they are assets sold and not derecognised. Therefore, it was necessary to assess the accounting profiles related to the restructuring of loans, to be treated in accordance with the Group's policy for renegotiations, which is described in paragraph "16 - Other information" of Part A2 below, concerning the main items of the financial statements. In line with the aforementioned policy, the contractual changes introduced to the restructuring agreement – see in particular the pay if you can clauses for capital and PIK for interest, the conversion of part of the exposure into Participating Financial Instruments – are qualifiable as substantial, as they introduce objective elements able to significantly affect the cash flows of the renegotiated assets. Therefore, it was necessary to derecognise the loans subject to change and recognise a new financial asset on the basis of the new contractual provisions. The so-called SPPI (Solely Payment of Principal and Interest) test was carried out against the new assets thus recognised, so as to ascertain the nature of the cash flows of the instrument which is relevant for the purpose of establishing the classification accounting portfolio. In this regard, the outcome of the test was negative, as the loan remuneration mechanisms, together with the capital repayment forecasts and the cross-collateralisation mechanisms among the various credit exposures, were not compatible with the classification among "assets measured at amortised cost", as the contractual flows do not exclusively represent the repayment of the principal and interest accrued on the principal.
The new restructured loans are therefore classified in the accounting portfolio of "Financial assets mandatorily measured at fair value"; for obvious consistency reasons, the corresponding liabilities for loans sold and not derecognised are measured at fair value and are stated net of securities held – i.e. securities subscribed and not sold to third-party subsidiaries – also measured at fair value.
As at 31 December 2022, the fair value of the exposures sold and not derecognised amounted to 219 million; while the corresponding liabilities, stated net of securities measured at fair value, amounted to 18.3 million.
On the same date, financial assets at amortised cost include the loan of 4.8 million for the revolving liquidity line granted by Banco BPM to the special purpose entity Lilium SPV, aimed at financing the expenses of the SPE itself, the repayment of which is in advance of the more senior tranche issued by the SPE.
The completion of the transaction in question did not entail significant differential economic impacts with respect to those existing prior to the transaction itself, which are fully recognised in the financial statements item "130 Net credit impairment losses/recoveries".
Lastly, it should be noted that Banco BPM, like all other Group companies, does not hold any control over special purpose entities (Lilium SPV S.r.l. Ninfa LeaseCo S.r.l.) pursuant to IFRS 10, as it has no decision-making power to unilaterally intervene to change the economic rights of the securities and assets that govern the management of the assets underlying the securitisation. On the basis of the contractual documentation of the securitisation, the majority required to be able to change the terms of the transaction and therefore to be able to affect the transferred assets – such as, for example, a change in the strategy for the sale of the properties or in the agreements established in the fiduciary mandate – is 85% (76% on second call) to be reached simultaneously on all the sub-classes of notes. On the basis of the notes issued by the special purpose entities and held by Banco BPM – as detailed in "Part E – Section 1 - C. Securitisation transactions" – it is clear that Banco BPM does not have the quorum necessary to manage the relevant activities of the SPE, as it does not hold certain sub-classes of notes.

Project Argo - sale of a portfolio of bad and unlikely to pay loans

As indicated in the section "Significant events during the year" of the Group Report on Operations, in the first half of 2022, the "Argo" project was completed, for the purpose of derisking a portfolio of non-performing loans, achieved through the sale of the loans to a securitisation SPE established pursuant to Law 130/99.

On 8 June 2022, Banco BPM therefore carried out a sale without recourse for consideration and en bloc to the special purpose entity Tevere SPV S.r.l. of a portfolio of bad and unlikely to pay loans, for a total gross exposure of 673 million at the date of 31 December 2021 (cut-off date).

In order to finance the acquisition of the loans, on 16 June 2022 the special purchase entity issued the following three tranches of ABSs:

- Class A Senior for a nominal value of 104.7 million;
- Class B1 Mezzanine for a nominal value of 22.4 million;
- Class B2 Mezzanine for a nominal value of 11.2 million;
- Class J Junior for a total nominal value of 18.7 million initially subscribed for 11.2 million.

In compliance with the retention rule established by supervisory provisions, Banco BPM Group subscribed all of the Senior securities, 5% of the Mezzanine tranche and 5% of the Junior tranche, while 95% of the Mezzanine and Junior tranches were acquired by Elliott Group companies.

Following subscription of the above-mentioned tranches by third parties, or the shares that support the first loss and which possibly benefit from the excess spread on the transactions, the conditions established by IFRS 9 were fulfilled for derecognition of the portfolio of loans sold, because the relative risks and rewards have substantially been transferred.

The sale had a negative impact of 176.5 million recorded in item "100. a) Gains (losses) on the disposal of financial assets at amortised cost", determined by taking into account the provisions for impairment that were in place at the beginning of the year.
The above-mentioned sale also entailed the release of a portion of the provisions set up as at 31 December 2021 in order to adjust them to the lower sales targets remaining after the sale of the portfolio in question. This release, estimated at 65 million, is recognised in the item "130. a) Net credit impairment losses/recoveries relating to financial assets at amortised cost".
Taking into account other minor components, the overall economic effect directly and indirectly related to the sale is estimated at approximately 110 million.

In light of the above, as at 31 December 2022 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 96.0 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 1.6 million and 0.6 million, respectively. The fair value measurement was considered as level 3 in the fair value hierarchy.

Investments in the Voluntary Scheme of the Interbank Deposit Guarantee Fund

In 2022, the Interbank Deposit Guarantee Fund (IDGF) completed the sales of all positions relating to the interventions carried out in previous years in Banca Carige, Caricesena, Carim and Carismi.
Accordingly, on 29 September 2022, it notified the banks participating in the Voluntary Scheme that the position of the member banks towards the Voluntary Scheme should be considered extinguished and that the residual liquidity resulting from the aforementioned sales will not entitle them to any distribution as it will be used for the fund's expenses and charges.

This notification had no impact on the financial statements of Banco BPM Group as the value of the investments in Banca Carige and in the financial instruments held through the Voluntary Scheme had already been fully written down in previous years.

Contributions to deposit guarantee 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. Where the available financial resources of the IDGF and/or the SRF are insufficient to guarantee the protected reimbursement of depositors or to fund the resolution, respectively, it is set out that banks shall provide such funds via the payment of 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 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).

For further details on the contributions charged during 2022, 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 2022 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. These standards are aligned with those adopted for the preparation of the comparative consolidated financial statements as at 31 December 2021, with the integrations that became necessary in relation to the consolidation of the insurance companies Banco BPM Vita S.p.A. and Banco BPM Assicurazioni S.p.A. from 1 July 2022, illustrated in more detail in point "15 - Insurance assets and liabilities".

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;
- the investments underlying the unit and index-linked insurance policies.

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".

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.

Financial instruments managed on the basis of fair value are also classified in this category, as the information obtained makes it possible to assess their performance and make decisions in line with the risk management or investment strategy.
This business model is applicable to financial assets, mainly represented by UCIT units, backing contracts issued by insurance companies, for which the investment risk is borne by the policyholders. In particular, these are assets relating to Class III insurance contracts (unit-linked or index-linked policies) whose services are related to the performance of market indices and investment fund units. In line with the aforementioned management model, the related liabilities of insurance contracts are measured at fair value, in application of the so-called "fair value option".

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 the income statement in the 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 sold, 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 effect, 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. Dividends collected are the only component recognised in the income statement ("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 sold, 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 sold, 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 instrument 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

Hedging derivative financial instruments are recognised at fair value, at the date on which the relative contracts are entered into, and are classified under balance sheet 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, on 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 in the investee (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 (under 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 sale 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 include:

- software;
- intangible assets generated as part of business combinations and linked to the enhancement of customer relationships. As detailed in "Section 10. Intangible assets" of Part B "Information on the Consolidated Balance Sheet", these assets are defined as "client relationships" if they concern relationships of assets under management/assets under custody or other assets not related to the provision of services and "value of business acquired" (so-called VoBA) if related to the insurance portfolio;
- intangible assets linked to the valuation of trademarks, also recognised in business combinations;
- goodwill, which is 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 and by the VoBA. 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-mentioned 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

<u>*Provisions for risks and charges: commitments and guarantees given*</u>
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.

<u>*Provisions for risks and charges: post-employment benefits and similar obligations*</u>
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 embodying economic benefits will be required 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 embodying 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".

The Group also opted to designate products of a financial nature that do not present a significant insurance risk and that do not envisage discretionary participation features as they are not linked to segregated funds as liabilities designated at fair value.
In particular, these are liabilities related to class III insurance products (unit-linked and index-linked policies), whose services are related to the value of market indices and investment fund units. The investments underlying these products, as previously stated, are also measured at fair value, eliminating or significantly reducing possible "accounting asymmetries" that would otherwise result from the recognition of these assets and the related liabilities on the basis of different accounting criteria.

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 the income statement under 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

From 1 July 2022, Banco BPM Vita S.p.A. and Banco BPM Assicurazioni S.p.A. entered the scope of consolidation. The accounting policies adopted for the recognition of the specific products of the insurance business are shown below, while for the remaining items, please refer to the relevant accounting policies of the Group, taking into account the like-for-like application of the policies by the insurance companies.

Insurance products and financial products with discretionary participation features

For contracts that transfer significant insurance risks (e.g. policies on the duration of human life, annuity policies and contracts with conversion coefficients guaranteed at the time of issue, non-life policies) and for financial products which, despite not having a significant insurance risk, envisage discretionary participation features (for example policies linked to segregated funds), for the purposes of recognising premiums and technical reserves, the criteria envisaged by Italian accounting standards are applied, as they are consistent with the regulations of accounting standard IFRS 4.

Net premiums

The income statement item "160. Net premiums" includes revenues for premiums relating to the products in question recognised on an accrual basis, regardless of the date of actual collection, net of cancellations and reinsurance.

Life technical reserves

Against the income for the above-mentioned premiums, balance sheet liability item "110. Technical reserves", shows the amount of total commitments to policyholders, determined in accordance with the relevant local accounting standards, without prejudice to the requirements of IFRS 4 (see in particular the paragraph below on shadow accounting).
More specifically, these technical reserves are established before reinsurance, and on the basis of the regulations in force at the time - in particular in compliance with the provisions of ISVAP Regulation no. 22 of 4 April 2008, as amended and supplemented by Annex no. 14 of IVASS Measure no. 53 of 6 December 2016 - in a sufficient amount to allow the company to meet, as far as reasonably foreseeable, the commitments undertaken with respect to policyholders.
The technical reserves in question include the mathematical reserve, calculated with the prospective method and analytically for each contract, using the first-order technical bases adopted to determine the pure premium and tariff, in line with the commitments undertaken. It also includes additional reserves to cover the guaranteed interest rate risk for products related to segregated funds and demographic risk for contracts that envisage the option of converting the accrued capital into an annuity at maturity.
Lastly, the technical reserves of the Life business include reserves for amounts payable, the reserve for profit sharing and reversals, the reserve for future expenses, as well as the technical reserves of supplementary insurance.

Shadow accounting

For contracts that envisage discretionary participation features (contracts relating to segregated funds), in order to mitigate the valuation mismatch between the investments underlying the Life insurance contracts - designated at fair value according to IFRS 9 - and the technical reserves measured according to Italian accounting standards, shadow accounting is applied. This method envisages that, for the aforementioned contracts, a reserve is estimated, based on the unrealised capital losses and capital gains that may be retroceded to policyholders, within the limits of the commitments undertaken. The balancing entry of shadow accounting depends on the way in which the above-mentioned capital gains/losses are recognised in the income statement or shareholders 'equity.
In particular, for securities classified in the accounting portfolio "Financial assets measured at fair value through other comprehensive income", shadow accounting requires that the differences between the book value and the fair value be allocated to the technical reserves, for the component pertaining to policyholders, and to equity valuation reserves, for the component pertaining to the insurance company.
For securities measured at fair value through profit and loss, the difference between the book value in the segregated fund and the market value is charged to the income statement, resulting in a change in the technical reserves by the portion pertaining to the policyholders.
The policyholders' share is calculated on the basis of the contractually envisaged average profit-sharing rates, taking into account the minimum guaranteed rate in relation to which specific additional reserves are established, as illustrated above, to cover financial risks if the foreseeable returns, calculated over an adequate time horizon, are not sufficient to guarantee compliance with the financial commitments undertaken contractually.

Liability Adequacy Test (LAT)

In compliance with the provisions of IFRS 4, the adequacy of the technical reserves is verified through the so-called "Liability Adequacy Test (LAT)", aimed at verifying that the technical reserves are able, in the future, to cover the present value of the cash flows deriving from the insurance contracts.

Non-Life technical reserves

These technical reserves include the premium reserve and the claims reserve.
More specifically, the premium reserve consists of the "reserve for unearned premiums", which includes the amounts of gross premiums recorded pertaining to subsequent years, calculated analytically for each policy using the pro rata temporis method, and the "premium reserve for unexpired risks", to cover impending risks after the end of the year to cover claims and related costs that exceed the reserve for unearned premiums.
The claims reserve is determined according to a prudent valuation of claims, conducted on the basis of objective and forward-looking elements that take into account all foreseeable future charges. The amounts in the reserve are deemed adequate to also cover the payment of damages and settlement expenses for claims incurred but not yet reported at the end of the year.
The claims reserves are therefore set out, for each insurance class, on the basis of the best estimate of the cost that the company may be called upon to indemnify (the so-called "ultimate cost"), using a statistical-actuarial methodology developed on the claims managed. For claims incurred but not yet reported, the reserve is determined, for each insurance class, by estimating the expected number of claims and the relative average cost, on the basis of the experience acquired in previous years.

It should be noted that the technical reserves of the non-life business, which should be indicated in balance sheet liability item "110. Technical reserves", are represented in item "70. Liabilities associated with assets classified as held for sale" following the recognition of the assets and liabilities of Banco BPM Assicurazioni subject to disposal on the basis of the provisions of IFRS 5. For further details, see the paragraph "Reorganisation and Partnerships in the bancassurance segment for the Non-Life/Protection sector" in Section "5. Other aspects".

Technical reserves of reinsurers

The item includes the commitments of reinsurers deriving from reinsurance contracts governed by IFRS 4. These reserves are calculated in accordance with the amounts of technical reserves of direct business, as illustrated above, on the basis of the reinsurance treaties in place at the date of assessment.

Balance of other income and expenses from insurance activities

In line with the provisions of Bank of Italy Circular no. 262 the item in question includes: the net change in technical reserves, the cost of claims for the year paid during the year, as well as other income and expenses from insurance activities. These amounts are shown net of the amounts paid by reinsurers.

Financial products

Financial products that do not present a significant insurance risk and do not include discretionary participation features (therefore not representing policies linked to segregated funds) are recognised on the basis of IFRS 9 and classified in the portfolio of "Financial liabilities measured at fair value", based on the so-called "Fair Value Option". For the Group, these products are essentially attributable to unit-linked policies.
For the products in question, the income statement does not reflect the premiums, but the revenue (fee and commission income) and cost (fee and commission expense) components on the basis of the rules established by IFRS 9 and IFRS 15. In particular, the revenues and costs relating to the products in question may be attributable to the activities carried out in the origination phase, to be charged to the income statement at the time of issue of the product, or in the investment management phase, to be spread over the life of the product, depending on the provision of the service. The income statement also includes costs and revenues resulting from changes in the fair value of liabilities related to the products in question.
For these products, the provisions made for payments of principal (for example for maturities, surrenders, annuities) and for which the payment right has already accrued at the end of the financial year/interim situation, are shown in the balance sheet liability item "80. Other liabilities".

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 definition includes the available funds that can be withdrawn at any time without notice or with a notice of 24 hours or one 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, 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 represented by item "90. Fair value gains/losses on hedging derivatives", as well 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.

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;
- fees and commissions for revenues from services are recognised, on the basis of existing contractual agreements, in the period in which the services are provided. Fees and commissions considered in the amortised cost for the purposes of determining 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.

Traditional securitisations - derecognition from financial statements of financial assets sold

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 assets sold 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".

Synthetic securitisations

In synthetic securitisation transactions, through the contracting of collateral arrangements, the Group purchases protection from the credit risk underlying a portfolio of loans, of which the Originator retains full ownership.
Therefore, synthetic securitisation transactions aim to free up regulatory and economic capital by reducing the level of credit risk of the portfolio underlying the transaction (Significant Risk Transfer - SRT), which is transferred to an external counterparty without entailing the derecognition of the assets.

The SRT must be constantly monitored also during the course of the transaction, in order to verify that the criteria envisaged by the regulations which provide that the Originator retains a portion of the net economic interest (Retention) of at least 5% of the nominal value of the securitised portfolio are respected.
The transactions are structured in different tranches (Junior, Mezzanine and Senior) according to the risk level of the portfolio.

With regard to the accounting treatment, synthetic securitisation transactions are considered financial guarantees received in which the Group exclusively provides the purchaser with protection against credit risk.

The premium paid by the Group to the Investor for credit risk protection is recorded in income statement item "50. Fee and commission expense". The enforcement of the financial guarantee received by the Investor if the conditions established in the contract materialise (so-called credit event) and referring to the securitised loans contributes to the overall determination of income statement item "130. Net credit impairment losses/recoveries".
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 acquiring Parent Company and the subsidiary acquired. In such circumstances, the acquirer 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 acquirer.
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 acquirer in exchange for obtaining control over the entity acquired.
The price which the acquirer 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 on in the other income components of the statement of comprehensive income, as appropriate. More specifically, any change in the value of the shareholding already held recognised as a balancing entry to the valuation reserves must be recognised in the statement of comprehensive income or in the income statement, on the basis of the same treatment that would have been applied in the event of the direct sale of the investment.
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 acquirer, 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 transfers 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 sales 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 maximum of 85%, assigned to the cluster that includes the loans deemed more likely to sell (planned sales). The

[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.

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 workout 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".

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 - measured 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 own 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 the 2022 financial year, as in the previous ones, there was no change in Banco BPM Group's business model, i.e. the way in which the Group manages financial instruments.

A.4 - FAIR VALUE DISCLOSURE

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, not listed on active markets, characterised by significant levels of transparency and liquidity. The above-mentioned units are valued on the basis of 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 characterised by significant levels of illiquidity and valued 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 prices, where available, against internal parameters.
In this regard, it should be noted that during the year 2022 some adjustments were introduced in the methodology for determining the expected future exposure, which is the basis for calculating the CVA/DVA corrective measures, using a Monte-Carlo type simulation approach, in line with market best practices. For further details, please refer to the following paragraph "A.4.5 Fair value hierarchy".

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

[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").

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.

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 loans sold 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 1,390.4 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 832.7 million (corresponding to 59.9% 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 514.8 million (corresponding to 37% of level 3 financial assets measured at fair value).
For these instruments, the fair value is affected by both the forecasts of recovery of contractual cash flows and by the financial component linked to the selection of discount rates.
In particular, a 1% decrease in the rate used to discount the expected cash flows would result in an increase in the fair value of the instruments by approximately 5%; while a 1% increase in the same rate would decrease the instruments' fair value by 8.2%.

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 2022 which had a different level of fair value than as at 1 January 2022, 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	31/12/2022			31/12/2021		
	L1	L2	L3	L1	L2	L3
1. Financial assets at fair value through profit and loss	4,884,588	2,823,048	1,227,859	3,379,057	2,044,482	913,571
a) financial assets held for trading	1,721,009	2,786,156	1,332	2,518,850	2,017,586	2,189
b) financial assets designated at fair value	-	-	-	-	-	-
c) other financial assets mandatorily measured at fair value	3,163,579	36,892	1,226,527	860,207	26,896	911,382
2. Financial assets measured at fair value through other comprehensive income	12,487,636	176,477	162,578	10,312,065	166,209	196,805
3. Hedging derivatives	-	1,717,211	-	-	127,076	-
4. Property, plant and equipment	-	-	2,319,802	-	-	2,482,871
5. Intangible assets	-	-	-	-	-	-
Total	**17,372,224**	**4,716,736**	**3,710,239**	**13,691,122**	**2,337,767**	**3,593,247**
1. Financial liabilities held for trading	180,938	10,000,754	-	385,882	13,747,049	-
2. Financial liabilities designated at fair value	-	3,920,223	18,295	-	1,405,190	-
3. Hedging derivatives	-	948,424	-	-	227,972	-
Total	**180,938**	**14,869,401**	**18,295**	**385,882**	**15,380,211**	**-**

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

Financial assets measured at fair value on a recurring basis

As at 31 December 2022, financial instruments measured significantly on the basis of non-observable parameters (Level 3) were 88.2% comprised of instruments classified in "Other financial assets mandatorily measured at fair value" and 11.7% comprised of instruments classified in the portfolio of "Financial assets measured at fair value through other comprehensive income". The remainder is classified in "Financial assets held for trading".
More specifically, level 3 financial assets amounted to 1,390.4 million and are represented by the following types of investment:

- unlisted equity instruments of 194.6 million, mostly valued on the basis of internal equity models or with transaction prices, which do not meet the requirements to be assigned to level 2;
- UCIT units of 638.0 million, represented by private equity, private debt and similar funds (584.7 million), property funds (49.8 million) and hedge funds (3.5 million). These funds are characterised by significant levels of illiquidity, and for which the process to evaluate the equity of the fund requires a considerable

amount of assumptions and estimates. 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 514.8 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. The increase compared to the previous year is due to the exposure sold and not derecognised from the financial statements, for 219.0 million, as part of the Wolf transaction described in the previous "Section 5 - Other aspects" of Part A.1 - General Part";
- debt securities amounting to 41.8 million, mainly relating to structured credit securities (40.8 million);
- Over The Counter (OTC) derivatives amounting to 1.2 million, for which the fair value was conclusively measured by means of non-observable parameters or 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 134.6 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 4,305.4 million.

Financial liabilities measured at fair value on a recurring basis

Level 1 financial liabilities refer to listed trading derivatives for 104.1 million and to technical overdrafts on securities listed in active markets for 76.8 million.
The remaining financial liabilities are primarily 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 5,527 million, financial and credit derivatives for 2,670.3 million and issues of Certificates unconditionally guaranteed by Banca Akros for 1,803.5 million. Level 2 "Financial liabilities designated at fair value" mainly includes liabilities related to Class III insurance products (unit-linked and index-linked policies), whose services are related to the value of market indices and units of investment funds, for 1,441.8 million and the unconditionally guaranteed capital certificates issued by Banco BPM for a book value of 2,467.5 million (1,394.4 million as at December 2021).

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

During the year 2022, the transfers of a significant amount involved some securities in the portfolio of "Financial assets held for trading", transferred from level 1 to level 2 for a book value at the beginning of 2022 of 55.3 million euro, of which 53.2 million euro to third-party certificates and 2.1 million euro to a limited number of bonds. Other transfers, again from level 1 to level 2, occurred for two bonds in the portfolio "Financial assets measured at fair value through other comprehensive income" for a total value of 16.7 million euro.

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 2022, 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 32.8 million, and were comprised by:
- adjustments for CVA which resulted in a cumulative loss, in terms of lower assets/higher liabilities, of 1.7 million;
- adjustments for DVA which resulted in a cumulative benefit, in terms of higher assets/lower liabilities, of 34.5 million.

As at 31 December 2021, cumulative fair value adjustments to take account of counterparty risk (CVA/DVA) were positive overall for 2.7 million, equal to the imbalance between negative adjustments for CVA (10.0 million) and positive adjustments for DVA (12.7 million).

The resulting impact on the income statement for 2022 was therefore a positive 30.1 million.
The afore-mentioned trend in DVA/CVA adjustments was affected by changes in interest rates, as well as by the adoption of a more advanced approach in the calculation of CVA/DVA adjustments starting from the second quarter of 2022.
In detail, the increase in interest rates, which occurred during the year, had a significant impact on the fair value of derivatives and consequently on the measurement of counterparty risk (CVA/DVA), in particular for contracts not backed by Credit Support Annex (CSA) agreements. For the latter, in fact, there is no counterparty risk mitigation element represented by the exchange of collateral, based on the change in the fair value of the derivatives. The increase in the fair value of derivatives recorded in the year, and in particular of liabilities, led to an increase in the CVA/DVA adjustments, and in particular in the DVA, with the resulting recognition of an overall positive economic effect for 2022.
Taking into account the importance of the phenomenon due to what is set forth above, some adjustments in the methodology for determining counterparty risk were introduced from the second quarter of 2022 onwards for derivatives not backed by CSA, particularly with reference to the method of calculating future exposure, using more advanced approaches based on the Monte Carlo simulation. This latest approach was extended, starting from the third quarter of 2022, also to derivatives backed by CSAs.
The above-mentioned refinements led to a reduction in future exposure, i.e. the basis for calculating the CVA/DVA adjustments. In greater detail, for derivatives without CSA, the application of the new methodology, starting from the second quarter, had an estimated negative impact of approximately 15 million, obtained by comparing the corrective DVA/CVA as at 31 March 2022 determined respectively according to the new and the old calculation methods. For derivatives with CSA, the effects of the new method were not significant, amounting to approximately -0.3 million, as the counterparty risk was mitigated by the exchange of collateral.

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 2,266.8 million;
- valuable works of art for 53.0 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 132.8 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	**913,571**	**2,189**	**-**	**911,382**	**196,805**	**-**	**2,482,871**	**-**
2. Increases	**557,707**	**58,751**	**-**	**498,956**	**1,567**	**-**	**137,842**	**-**
2.1. Purchases	219,533	58,440	-	161,093	802	-	52,981	-
2.2. Profits charged to:	56,975	309	-	56,666	765	-	76,088	-
2.2.1. Income statement	56,975	309	-	56,666	-	-	61,500	-
- of which capital gains	44,991	-	-	44,991	-	-	55,047	-
2.2.2. Shareholders' equity	-	X	X	X	765	-	14,588	-
2.3. Transfers from other levels	-	-	-	-	-	-	-	-
2.4. Other increases	281,199	2	-	281,197	-	-	8,773	-
3. Decreases	(243,419)	(59,608)	-	(183,811)	(35,794)	-	(300,911)	-
3.1. Sales	(62,388)	(58,740)	-	(3,648)	(311)	-	(4,113)	-
3.2. Redemptions	(21,411)	(8)	-	(21,403)	-	-	-	-
3.3. Losses charged to:	(71,060)	(418)	-	(70,642)	(29,471)	-	(191,651)	-
3.3.1. Income statement	(71,060)	(418)	-	(70,642)	-	-	(184,349)	-
- of which capital losses	(70,111)	(418)	-	(69,693)	-	-	(179,971)	-
3.3.2. Shareholders' equity	-	X	X	X	(29,471)	-	(7,302)	-
3.4. Transfers to other levels	(6,256)	-	-	(6,256)	-	-	-	-
3.5. Other decreases	(82,304)	(442)	-	(81,862)	(6,012)	-	(105,147)	-
4. Closing balance	**1,227,859**	**1,332**	**-**	**1,226,527**	**162,578**	**-**	**2,319,802**	**-**

The “Transfers to other levels” of financial assets refer to the book value at the beginning of the year of a security for whose valuation, at the date of the financial statements, it was possible to rely on observable parameters that resulted in their assignment to level 2 of the hierarchy.
"Other increases" includes the exposure sold and not derecognised from the financial statements, for 219.0 million, as part of the Wolf transaction described in the previous “Section 5 - Other aspects” of Part A.1 - General Part”.

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	**-**	**-**	**-**
2. Increases	**6**	**18,295**	**-**
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	6	18,295	-
3. Decreases	**(6)**	**-**	**-**
3.1. Redemptions	-	-	-
3.2. Buy-backs	-	-	-
3.3. Profits charged to:	-	-	-
3.3.1. Income statement	-	-	-
- of which capital gains	-	-	-
3.3.2. Shareholders' equity	X	-	-
3.4. Transfers to other levels	-	-	-
3.5. Other decreases	(6)	-	-
4. Closing balance	**-**	**18,295**	**-**

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	31/12/2022				31/12/2021			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets at amortised cost	139,139,766	24,206,671	176,198	111,061,524	140,448,388	19,268,151	284,849	126,955,952
2. Property, plant and equipment held for investment purposes	-	-	-	-	-	-	-	-
3. Non-current assets and disposal groups held for sale	-	-	-	-	-	-	-	-
Total	**139,354,503**	**24,258,531**	**176,198**	**111,194,354**	**140,678,359**	**19,268,151**	**284,849**	**127,061,980**
1. Financial liabilities at amortised cost	153,874,094	8,866,975	3,697,759	140,951,573	166,561,146	12,153,100	1,175,513	153,500,607
2. Liabilities associated with assets classified as held for sale	-	-	-	-	-	-	-	-
Total	**153,905,825**	**8,866,975**	**3,697,759**	**140,951,573**	**166,561,146**	**12,153,100**	**1,175,513**	**153,500,607**

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 2022, 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.