BANCO BPM

Annual Report

Consolidated 2022

Consolidated 2022
Annual Report

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

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

Banco BPM S.p.A.

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

OFFICERS, DIRECTORS AND INDEPENDENT AUDITORS AS AT 31 DECEMBER 2022

	Board of Directors
Chairman	Massimo Tononi
Deputy Chairman	Mauro Paoloni
Chief Executive Officer	Giuseppe Castagna
Directors	Mario Anolli
	Maurizio Comoli
	Nadine Farida Faruque
	Carlo Frascarolo
	Alberto Manenti
	Marina Mantelli
	Giulio Pedrollo
	Eugenio Rossetti
	Manuela Soffientini
	Luigia Tauro
	Costanza Torricelli
	Giovanna Zanotti

	Board of Statutory Auditors
Chairman	Marcello Priori
Standing Auditors	Maurizio Lauri
	Silvia Muzi
	Alfonso Sonato
	Nadia Valenti
Alternate Auditors	Francesca Culasso
	Gabriele Camillo Erba
	Wilmo Carlo Ferrari

	General Management
Co-General Manager	Domenico De Angelis
Co-General Manager	Salvatore Poloni (*)

Manager responsible for preparing the Company's financial reports
Gianpietro Val

Independent Auditors
PricewaterhouseCoopers S.p.A.

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

CONTENTS

BANCO BPM

NOTICE OF CALL OF ORDINARY SHAREHOLDERS' MEETING

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

AGENDA

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

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

******

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

PARTICIPATION IN THE SHAREHOLDERS' MEETING AND REPRESENTATION

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

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

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

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

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

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

COMPANY'S DESIGNATED PROXY

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

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

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

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

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

*****

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

RIGHT TO ASK QUESTIONS ON ITEMS ON THE AGENDA

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

SHARE CAPITAL INFORMATION

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

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

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

Entitlement to submit lists

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

Composition of the lists

Appointment of the Board of Directors

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

The Board List must meet the following requirements:

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

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

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

Appointment of the Board of Statutory Auditors

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

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

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

Procedures for submitting lists and documentation to be filed

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

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

The ownership of the minimum percentage of shares in the share capital required to submit the List of Shareholders for the Board of Directors and the List of Shareholders-Employees is determined with respect to the shares that are

registered in favour of the individual shareholder, or by more shareholders on a joint basis, on the day on which the lists were filed with the Company.
Certification of ownership of the number of shares necessary for the submission of the Lists of Shareholders for the Board of Directors and Shareholders-Employees Lists may be received by the Bank even after the filing of the Lists of Shareholders for the Board of Directors and Shareholders-Employees Lists, provided that **it is no later than the deadline for publication of the lists which will be made by Banco BPM no later than 30 March 2023** (at least 21 (twenty-one) days before the date of the Shareholders' Meeting).
The following documents must also be filed together with each list:

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

In addition to this documentation, the shareholders-employees who submit the Shareholders-Employees List must file the documentation confirming their status as employees of the Company or of its subsidiaries.
Any lists submitted that do not fulfil the above-mentioned procedures will be considered not to have been submitted. However, the lack of documentation relating to the individual candidates on a list will not automatically invalidate the entire list but only the candidates who are not compliant.
In submitting the lists, Shareholders are also invited to take into account the document "*Qualitative and quantitative composition of the Board of Directors*" - also drawn up pursuant to the provisions of the Bank of Italy on corporate governance, contained in Circular no. 285/2013 - which contains indications and suggestions available to Shareholders, with a view to helping them to formulate proposals for the composition of the Board of Directors of Banco BPM, as well as the document that contains the "*Operating procedures for the submission of lists for the appointment of the corporate bodies of Banco BPM SpA*", containing indications on the procedure for the appointment of the Directors and Statutory Auditors of Banco BPM and on the procedures for submitting lists for the appointment of the Board of Directors and the Board of Statutory Auditors of Banco BPM. The documents are available on Banco BPM's website. *www.gruppo.bancobpm.it* (*Corporate Governance > Shareholder's Meeting*).
For the election of the Board of Statutory Auditors, together with each List of Shareholders for the Board of Statutory Auditors, the following documents must also be submitted:

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

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

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

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

The Group Corporate Affairs function, as a dedicated unit, will be available to provide shareholders who so request with the documentation and information necessary for the formation and submission of the Shareholders' Lists and the Shareholders-Employees Lists.
As regards the election of the Board of Statutory Auditors, if, by the expiration of the above deadline, only one List of Shareholders for the Board of Statutory Auditors has been submitted, or only Lists of Shareholders for the Board of Statutory Auditors submitted by shareholders who, on the basis of prevailing laws are related to each, Banco BPM will promptly give notice of this using the mechanisms provided by applicable law, and then proceed in accordance with the law.
The lists that have been duly submitted will be made available to the public at least 21 (twenty-one) days before the date of the Shareholders' Meeting (and therefore by **30 March 2023**). The Lists must be made available to the public by the Bank at the Registered Office of Banco BPM, on the Bank's website *www.gruppo.bancobpm.it - Corporate Governance> Shareholders' Meeting* and on the website of the authorised central storage mechanism, "*eMarket Storage*" *www.emarketstorage.com* and with the other methods indicated in this notice of call of the Shareholders' Meeting.

DOCUMENTATION
The Directors' explanatory reports on each of the items on the agenda, including resolution proposals, together with all the other documentation to be published before the Shareholders' Meeting, shall be made available to the public at the registered office of Banco BPM S.p.A. and at Borsa Italiana S.p.A., and also published on the Bank's website (*www.gruppo.bancobpm.it*, *"Corporate Governance – Shareholders' Meeting"* section), as well as on the website of the authorised central storage mechanism *www.emarketstorage.com*, in compliance with the terms and procedures under the law.
Shareholders are entitled to receive a copy of the documentation once it has been duly filed by sending a request to Banco BPM S.p.A. at the certified email address *soci@pec.bancobpmspa.it*.
The Bank has also prepared (i) the Report on corporate governance and ownership structures pursuant to Article 123-bis of Italian Legislative Decree no. 58/1998; (ii) the Consolidated non-financial statement in compliance with Italian Legislative Decree no. 254/2016 and CONSOB Resolution no. 20267 of 18 January 2018. The documents shall be made available to the public at the registered office of Banco BPM S.p.A. and at Borsa Italiana S.p.A., and also published on the Bank's website (*www.gruppo.bancobpm.it*, "*Corporate Governance*" section), as well as on the website of the authorised central storage mechanism *www.emarketstorage.com*, in compliance with the terms and procedures under the law.
This notice of call – prepared inter alia pursuant to Article 84 of the Issuers' Regulation – shall be published in compliance with Articles 125-bis of the TUF and 13.4 of the Articles of Association, in the daily newspapers "Il Sole 24 Ore" and "MF" as well as with the other methods described above.

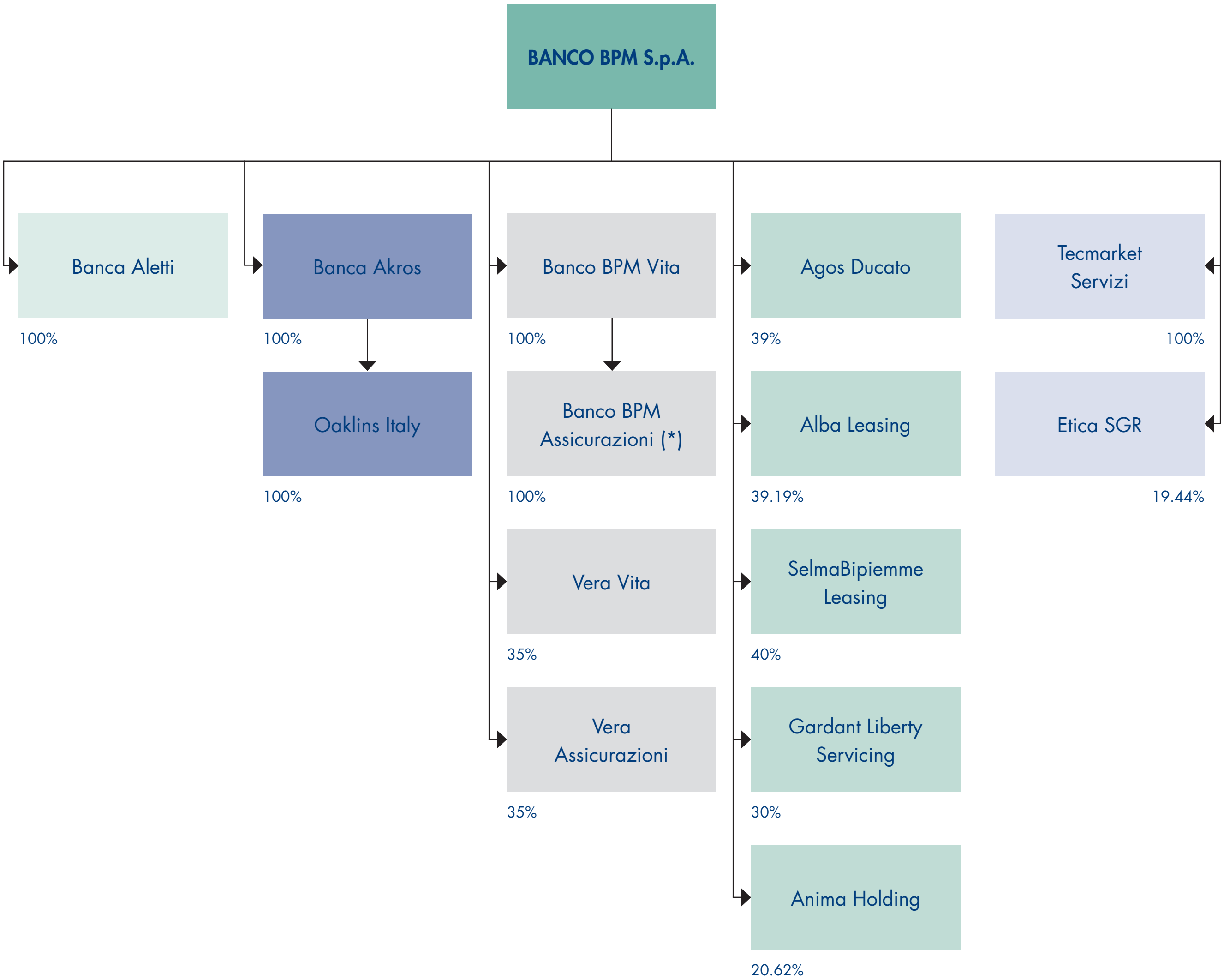
To receive additional information on the procedure to attend the Shareholders' Meeting, please contact Banco BPM S.p.A. (Affari Societari di Gruppo, Piazza Filippo Meda no. 4 – 20121 Milan) by sending a request to the certified email address *soci@pec.bancobpmspa.it*.
In compliance with legislation on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

Milan-Verona, 7 March 2023

On behalf of the BOARD OF DIRECTORS
The Chairman

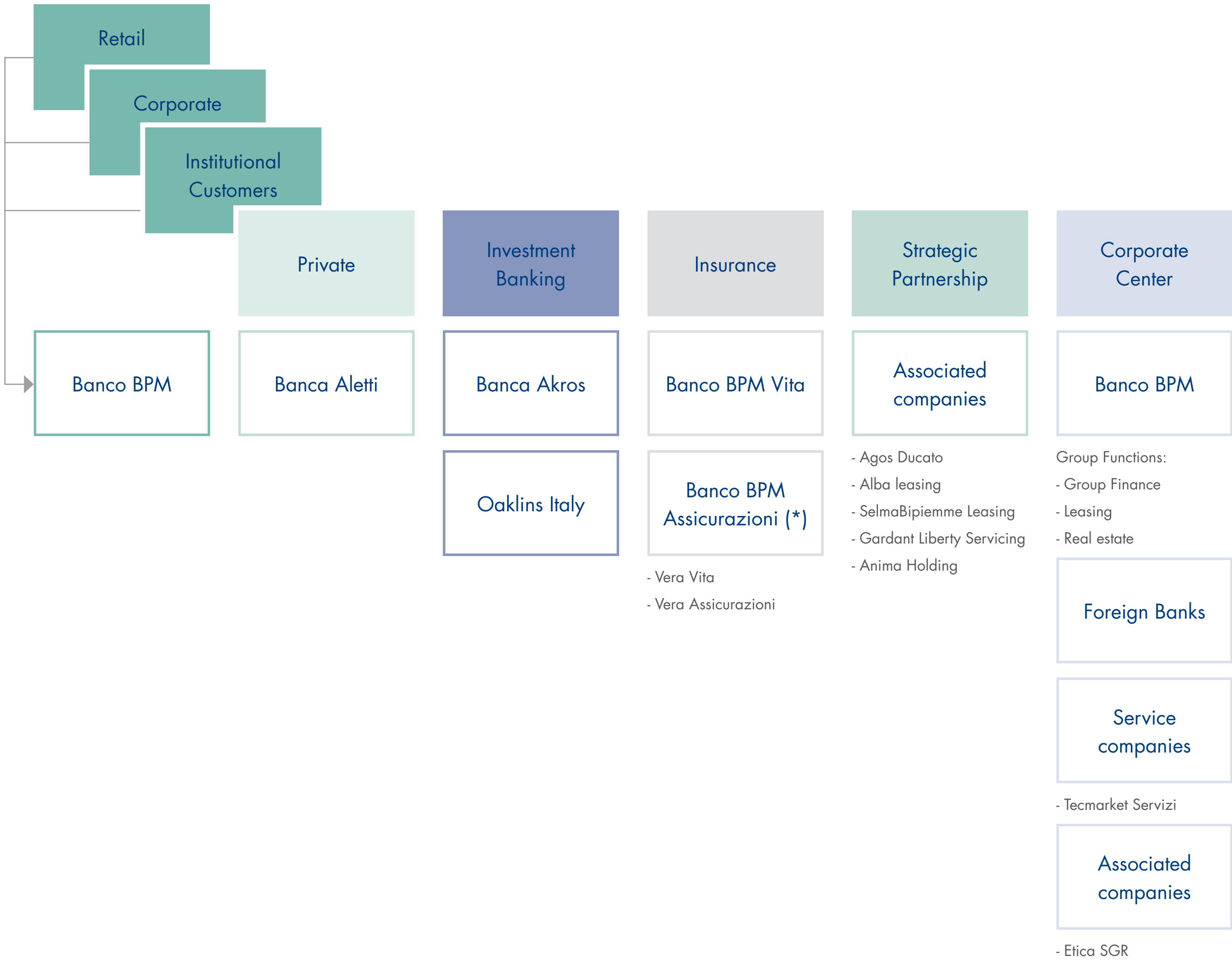
Reports on operations and consolidated financial statements for the year

GROUP STRUCTURE: MAIN COMPANIES



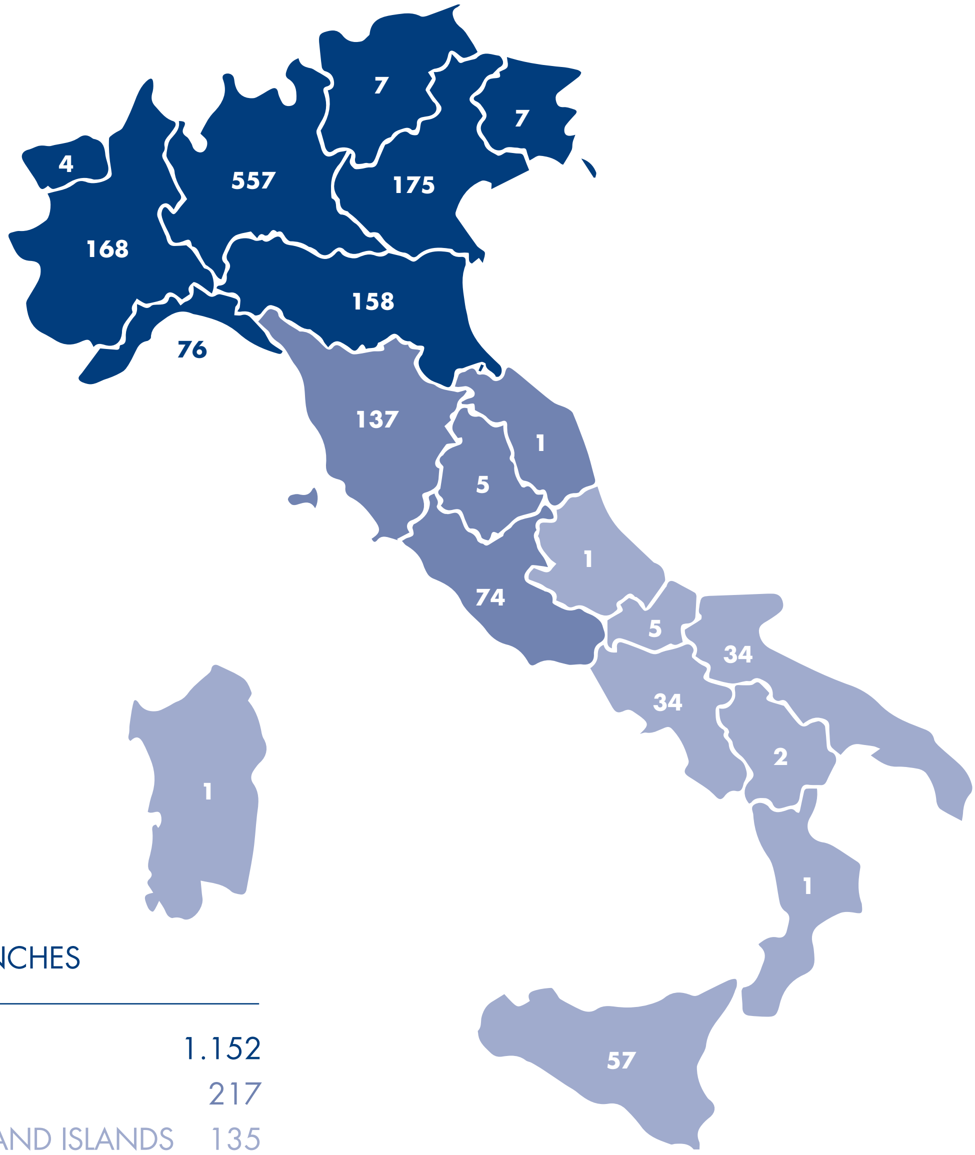
(*) Company held for sale pursuant to IFRS 5.

GROUP STRUCTURE: BUSINESS LINES



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

GROUP TERRITORIAL NETWORK



N° BRANCHES

NORTH	1.152
CENTRE	217
SOUTH AND ISLANDS	135
TOTAL	1.504

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

Presence abroad

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

Group financial highlights and economic ratios

Highlights

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

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

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

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

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

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

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

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

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

Financial and economic ratios and other Group figures

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

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

Group report on operations

ECONOMIC SCENARIO

The international scenario

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

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

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

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

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

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

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

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

The economy in Europe and Italy

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

quarter and to 1.9% yoy, which enabled the year to close with a pre-final increase for 2022 as a whole of +3.5% (+5.3% in 2021).

The annual inflation rate of the Eurozone therefore rose sharply during the year, only to show a slight slowdown in the last quarter. In December, the yoy consumer price rate stood at 9.2%, after the peak reached in October 2022 (10.6%), against 4.9% twelve months earlier. The growth of the core price component stopped at 5.0% (compared to 5.2% in November).

In 2022, the Italian economy suffered, to a relatively greater extent than other economies in the Eurozone, the energy shock linked to the Russian-Ukrainian conflict and the consequences of the sharp rise in the prices of energy raw materials, given the high dependence on gas supplied - up until the crisis - mainly from Russia. The shock, on the supply side, was reflected along the entire production chain, with a marked acceleration in production and consumer prices. Tensions in the economic arena worsened starting from the summer months with the political crisis that led to the early electoral consultation of September 2022, from which a centre-right coalition with a clear parliamentary majority emerged.

After sustained growth in the central quarters of 2022, household consumption decreased in the final part of the year, reflecting the impact of the marked increase in consumer prices on disposable income: in the third quarter, the purchasing power of households increased by 0.3% on a quarterly basis, despite the acceleration of inflation, thanks to government support measures for households and businesses.

The savings rate also fell to 7.1% in the third quarter of 2022, the lowest level since the fourth quarter of 2012 and below the pre-Covid average. Resilient employment figures helped to limit the damage: in November, in a context of economic slowdown, employment confirmed its peak at pre-pandemic levels. The unemployment rate stood at a long-term low of 7.8%. The market was also affected by a relatively modest expansion in labour supply. The high levels of gas storage, which were just below 80% in mid-January, thanks to the unusually mild weather, further reduced the likelihood of energy rationing and limited the extent of possible short-term supply shocks. On the business side, investments in machinery and equipment were held back in the final part of the year by the deterioration of demand prospects and greater uncertainty.

The significant stimulus given by the NRRP interventions and the support measures partially offset the negative factors mentioned above: considering the budget law and the extraordinary mitigation measures launched from the beginning of the year, more than 57 billion was allocated to interventions on energy for the current year. In particular, after the previous three measures, with the Decree Law "Aiuti-quater" (Aid-quater) of 18 November 2022, additional expansionary measures were introduced for an amount equal to 0.5% of GDP, containing the extension until the end of the year of the cut in excise duties on fuels and tax credits for electricity and gas companies. With regard to the NRRP, with the achievement of all the objectives set for the first half of 2022 by the Plan, at the end of September, the European Commission approved the disbursement of the second tranche of funds of the RRF, equal to 21 billion.

In the first half of the year, GDP accelerated: the increase of +0.2% in the first quarter was followed by a marked increase of 1.1% in the second. In fact, in the spring months, the surprising performance of household consumption in many ways, accompanied by good growth in investments - especially in the sector of capital goods and construction - boosted GDP growth, reversing the prevailing negative forecasts.

Growth then continued during the summer. Overall, GDP in the third quarter increased by 0.5% compared to the previous quarter and by 2.6% compared to the same period of 2021. The main contributions to this trend came from domestic final consumption, up by +2.6% yoy, and again from gross fixed investments, up by 9.2%, while net foreign demand made a negative contribution.

Towards the end of the year, the worsening of financial conditions and the increase in financial charges linked to interest rates impacted investment in construction, which also slowed down due to the easing of incentives for the upgrading of building stock. Therefore, the year-end results were substantially stable: -0.1% growth in GDP in the fourth quarter compared to the previous one and +1.7% yoy. The preliminary figure for 2022 as a whole shows a lively increase of 3.9% (+6.7% in 2021).

In terms of prices, in November 2022 those relating to production (industry) increased by 2.6% on a monthly basis and by 29.4% yoy (+27.7% in October and +41.7% in September), mainly reflecting the downsizing of the contribution of the energy component and, more generally, of the prices of various raw materials. Consumer price inflation (IPCA index) literally exploded during the year, reaching a peak of 12.6% in November (+12.3% in December, a fractional decline), for an average annual change of +8.7%, from 1.9% in 2021. On the other hand, the basic component stood at +4.0% (net of energy and fresh food products).

With regard to public finance, on 21 November, the Government presented the draft of the 2023 Budget Plan to Parliament for approval and to the European Commission for evaluation. The Commission's ad hoc forecasts project the budgetary cost of the measures adopted to reduce the economic and social impact of exceptional increases in energy prices to 3.3% of GDP in 2022. Despite the expected increase in debt, the Government expects a budget deficit estimated at 5.6% of GDP in 2022 and a public debt/GDP ratio estimated at 145.7% for the same period.

Monetary policy

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

The financial markets

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

Domestic banking activity

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

the ECB, the percentage fell from 3.1% in December 2021 to 2.6% in September 2022 and from 1.4% to 1.2% respectively. The coverage rate fell slightly in the same period, from 55% to 53.9%.
On the other hand, total direct funding (deposits from resident customers and bonds), recorded a downtrend during the year: in December 2022, -1.2% on an annual basis. After the strong growth recorded in the previous two-year period (+8% in 2020 and +5.6% in 2021), the trend of direct funding showed a moderate inversion, which reflected the changed conditions. Deposits therefore decreased by 24.1 billion compared to the end of 2021 (-1.3% on an annual basis), while medium and long-term deposits, i.e. through bonds, were unchanged compared to the previous year. The reduction in deposits mainly regarded businesses (-33.4 billion between July and November 2022), which used their liquid assets to meet the growing need for working capital.
The official interest rate hike was naturally transmitted to the cost of bank credit during the year. In fact, there was an increase in interest rates both on the amounts of loans and on new loans to households and businesses. In December 2022, the rate on new loans in euro to households for the purchase of homes was 3.09% (1.40% in December 2021). The average rate on new loans in euro to non-financial companies rose to 3.44%, from 1.18% at the end of 2021. The weighted average rate on total loans to households and non-financial companies was 3.22% (2.13% in December 2021).
In addition, in December 2022, according to initial SI-ABI estimates, the average interest rate on total bank funding from customers (sum of deposits, bonds and repurchase agreements in euro to households and non-financial companies) stood at 0.62% (0.44% at the end of 2021). In particular, the deposit rate applied to households and non-financial companies was 0.46% (0.30% in December 2021), while that on bonds was 2.12% (1.76%). The banking spread was 260 bps in December 2022, up significantly compared to 169 bps in December 2021. As a result of the consistent rise in the 3-month Euribor rate, after several years, the mark-down on total funding returned to positive territory and stood at 145 bps at the end of the year (-88 bps in December 2021), while the mark-up on total loans to households and businesses decreased, reaching 115 bps.
Indirect funding grew substantially, approximately 82 billion between July and November 2022, of which 56.7 billion attributable to households, 7 billion to businesses and the remainder to the other sectors (financial companies, insurance, public administration).
From the beginning of 2022, however, the share of these forms of investment decreased in favour of deposits and current accounts, probably due to the influence of the energy crisis and the war on savers, who opted for more liquid forms.
In November 2022, the assets of open-ended Italian and foreign funds rose by 2.2% compared to the previous month, standing at around 1,095 billion (+23.1 billion). Compared to November 2021, assets fell by 12.4% as a result of the decrease of: 73.9 billion in bond funds, 37.2 billion in flexible funds, 27.6 billion in equity funds, 20.3 billion in balanced funds and 354 million in hedge funds, which corresponded to an increase of 4.4 billion in monetary funds.

SIGNIFICANT EVENTS DURING THE YEAR

In 2022, the fragile recovery from the international emergency due to the Coronavirus pandemic was heavily impacted by the conflict in Ukraine which, from the end of February, generated harsh repercussions on the international economic system and on business operations.

In this context, which continues to be characterised by strong elements of uncertainty on the global and Italian economy, the Group's operations focused on the areas of intervention described below.

Integration of the insurance business

During the period, the Group laid the foundations for a complete integration of the insurance business through the acquisition finalised on 22 July 2022, after obtaining the legal authorisations from the competent authorities, of 81% of Bipiemme Vita S.p.A.'s share capital, for a sum of 309.4 million. In turn, Bipiemme Vita holds the entire share capital of Bipiemme Assicurazioni S.p.A., operating in the non-life sector.
In April, the Board of Directors of Banco BPM resolved to exercise the option for the purchase from the partner Covéa Coopération SA of 81% of the share capital of Bipiemme Vita S.p.A., an insurance company operating in the life sector, in which Banco BPM already held a 19% interest.
The two insurance companies, which concurrently 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 from 1 July 2022.
This transaction, concluded before the date of 31 December 2023 set out in the Strategic Plan, also served to obtain recognition of the status of a "financial conglomerate" to access benefits in the prudential treatment of the equity investment deriving from application of the so-called "Danish Compromise"[1]. As illustrated in the section dedicated to significant events after the end of the financial year in the Notes to the consolidated financial statements, on 7 March 2023 the European Central Bank informed Banco BPM Group that it had been acknowledged the status of "financial conglomerate".

With regard to the Non-Life/Protection class, in the second half of the year the Group launched a competitive process to assess any partnership options, in which leading insurance operators competed. Following this, in November, Banco BPM's Board of Directors examined the offers received and resolved to grant Crédit Agricole Assurances SA (hereinafter "CAA") a period of exclusivity.
The aim of this exclusivity agreement was to negotiate and establish the terms and conditions of the potential purchase by CAA of a majority interest in Banco BPM Assicurazioni and, subject to the repurchase by the Bank, of Vera Assicurazioni, which in turn holds, respectively, 100% of Vera Protezione (hereinafter the "Insurance Companies"), with the launch of a potential long-term partnership in the Non-Life/Protection sector.
On 23 December 2022, Banco BPM signed a binding term-sheet with CAA that envisages (i) the acquisition by CAA of the 65% stake in Banco BPM Assicurazioni and, subject to the Bank's repurchase of the interest held by Cattolica Assicurazioni, of 65% of Vera Assicurazioni, which in turn holds 100% of Vera Protezione and (ii) the launch of a 20-year commercial partnership in the Non-Life/Protection sector.
The transaction is based on a valuation of 100% of the Insurance Companies of 400 million; for the sale of 65% of the Insurance Companies, CAA will therefore pay a total of 260 million to Banco BPM. The sale price is subject to adjustment at the end of the due diligence and will be paid in cash at the closing date. The transaction should be completed by the end of 2023, subject to the approval by the competent Supervisory Authorities and the repurchase of the interest in Vera Assicurazioni following the exercise of the call option by Banco BPM with respect to Cattolica Assicurazioni.
Earn-out and claw-back assumptions are also envisaged based on the achievement of the objectives set by the parties and put and call options pertaining to CAA and Banco BPM, respectively, on the equity interests to be sold.
The partnership with CAA will allow Banco BPM to leverage the industrial expertise of the largest European player in the bancassurance field, capitalising on the full potential of the Non-Life/Protection sector.

[1] Banco BPM, pending obtaining the status of financial conglomerate (as defined by Art. 3 of Italian Legislative Decree no. 142 of 30 May 2005), recognised with a communication from the ECB of 7 March 2023, had previously filed a request for the application of Art. 49 (1) of Regulation (EU) no. 575/2013 (CRR). Based on this regulatory provision, Banco BPM expects to obtain authorisation to not have to deduct the book value of the interest in Banco BPM Vita from CET 1 Capital. In this instance, the equity interest not deducted from own funds will be considered an exposure to credit risk to be weighted in compliance with the CRR.

Derisking activities

During the year, the Group continued the derisking process through the implementation of a significant transaction for the large-scale disposal of non-performing positions ("Argo Transaction"), concerning a bad and unlikely to pay loan portfolio for a total gross exposure of approximately 700 million. The transaction, approved in April 2022, was finalised in the form of a securitisation, in which 95% of the Junior and Mezzanine Notes issued by the special purpose entity were subscribed by subsidiaries of Elliott funds.

In addition, as part of the change in the NPL management strategy approved by the Board of Directors in July, it was decided to increase the sale target over the term of the plan to over 500 million, to further reduce the stock of gross non-performing loans and improve credit quality indicators.

The economic impact deriving from the increase in the sale targets of non-performing loans following the change in the NPL management strategy, for a total of 112.7 million was recognised in the income statement for the year.

Significant credit restructuring transaction completed

In December, the Parent Company completed a restructuring of credit exposures attributable to the Statuto real estate group (known as "Project Wolf"), aimed at pursuing the active management of the properties underlying the aforementioned exposures with the support of GWM Group and ARECneprix S.p.A..
The purpose of the transaction was to enhance certain prestigious properties, and was structured through a securitisation whose notes were subscribed by Banco BPM and GWM Group. GWM Group will also provide new funding for the completion of important real estate initiatives in the centre of Milan.
In particular, the transaction envisaged the restructuring of loans with a gross value of 495.8 million, including default interest. As a result of this restructuring, the net book value of these loans came to 219.0 million.

For further details on the above transaction, please refer to Part A - Accounting policies - Other significant aspects relating to Group accounting policies.

Streamlining initiatives for the Group's corporate and organisational structure

Equity interest management transactions

The process of rationalising the portfolio of interests in associates and joint ventures undertaken by the Group in recent years includes the sale to Banca Popolare di Sondrio S.p.A., on 15 March 2022, of the interest held in Factorit S.p.A., previously measured with the equity method, corresponding to 39.5% of share capital. The transaction, completed for a consideration of 75 million, an amount corresponding to the book value of the equity interest in the financial statements as at 31 December 2021, did not entail the recognition of any impact on the income statement for 2022.

Moreover, during the year the mergers by incorporation into the Parent Company of Bipielle Real Estate S.p.A. and Release S.p.A. (already wholly owned by Banco BPM) were 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.
These transactions, which were carried out according to the simplified forms established for wholly-owned companies, pursued the objective of concentrating the management of leasing activity as well as real estate assets directly in the Parent Company, which also includes the complex of organisational units responsible for asset management.

It should also be noted that, in February 2022, the liquidation procedure of the subsidiary BP Trading Immobiliare S.r.l. was completed after it was struck off the competent Companies' Register.

In addition, on 18 May 2022, the shareholders' meeting of Consorzio AT01 (95% interest held by Banco BPM) resolved the early dissolution and the launch of voluntary liquidation with legal effect from 1 June 2022. On 19 October 2022, the shareholders' meeting of the consortium members approved the final liquidation financial

statements as at 30 September 2022; in July, the associated company Bussentina S.c.r.l. also approved the final liquidation financial statements as at 30 June 2022.
As highlighted in the section of the Notes to the consolidated financial statements dedicated to the events after the reporting date, in January 2023 both companies were struck off the competent Companies' Registers.

Lastly, on 16 December 2022, the deed of partial demerger of Tecmarket Sevizi to Banco BPM was signed regarding the assignment of a business unit relating to the activities carried out by the subsidiary on the technology platform for the You Business Web service, intended for entities and companies that are customers of Banco BPM, as well as technological services, functional to specific businesses of Banco BPM for its customers, with the exclusion of activities related to the management of terminals and technical assistance to customers for POS and Mobile POS services, which will be the focus of Tecmarket's future operations.
The partial demerger, carried out with a simplified procedure pursuant to Articles 2505 and 2506-ter of the Italian Civil Code, is effective, also for accounting and tax purposes, from 1 January 2023.

The transactions described above, which pursue the objective of simplifying and rationalising the corporate and operating structure of the Group, did not have any impact on the consolidated financial statements or on the capital ratios.

Definition of the new organisational model

At its meeting of 20 December, Banco BPM's Board of Directors defined the new structure of the Parent Company's General Management and top management. More specifically, the Chief Financial Officer (CFO) Co-General Management was established, the scope of the Chief Business Officer (CBO) Co-General Management was redefined, the new Corporate & Investment Banking (CIB) function was established and the position of Chief Risk Officer (CRO) was established.
The new structure promotes better coordination of the Group's activities with respect to the path outlined in the 2021-2024 Strategic Plan and facilitates the governance of more complex areas in line with the evolution of the external scenario.
The role of Chief Financial Officer (CFO) Co-General Manager, with responsibility for coordinating the administration and preparation of the financial statements, finance, integrated purchasing management, management of equity interests, investor relations, planning and control and capital optimisation, was assigned to the current CFO Edoardo Ginevra.

In order to facilitate the commercial growth path stated in the 2021-2024 Strategic Plan, the Board also resolved to strengthen the supervision and development of the Retail and Corporate business areas.
More specifically, the new scope of the Chief Business Officer Co-General Management in the commercial area was defined, previously under the responsibility of Domenico De Angelis, who will maintain the supervision of the Commercial functions - broken down into Private and Business Customers - Institutional Customers, Entities and Third Sector, Marketing and Omnichannel functions and of the 8 Territorial Departments. The Chief Business Officer (CBO) Co-General Manager is also entrusted with the coordination and supervision of the subsidiary Banca Aletti.
The development of the strategic initiatives envisaged for the Corporate area is instead the responsibility of the new Corporate & Investment Banking function. In addition to the Corporate network, Structured Finance and Global Transaction Banking activities, this unit is responsible for the coordination and supervision of the subsidiary Banca Akros.

Lastly, in line with industry best practices, the risk control function was strengthened through the establishment of the position of CRO (Chief Risk Officer).

As a result of the new organisational structure, which came into force on 1 January 2023, the Co-General Managers, the CLO (Chief Lending Officer), the CRO (Chief Risk Officer), and the Corporate & Investment Banking, Anti-Money Laundering, Compliance, Communication and Sustainability, Legal and Regulatory Affairs, Organisation and Human Resources functions therefore report directly to the Chief Executive Officer.

Other events in the period

Important funding operations completed

During the year, the Group carried out important capital management operations: in January 2022, an issue of Subordinated Tier 2 instruments was finalised for an amount of 400 million, with 10-year maturity, targeted to institutional investors, which is part of the Group's Euro Medium Term Notes Programme.
The security pays a fixed coupon of 3.375% for the first 5 years; the investors who participated in the transaction are mainly asset managers and banks, mostly foreign.

In addition to the above, in April, a perpetual Additional Tier 1 instrument was issued for an amount of 300 million, reserved to institutional investors, which made it possible to achieve the Group's Additional Tier 1 capital target, further strengthening its equity position.
The securities, issued at par, may be called by the issuer from 12 April 2027 and subsequently every 6 months; the fixed six-monthly coupon, non-cumulative, was set at 7% and the payment of the same is fully discretionary and subject to certain limitations.
The investors that participated in the transaction are fund managers, banks and insurance companies, mostly foreign.

In 2022, three issues were also completed as part of the Green, Social and Sustainability Bond Framework:

- in March 2022, the Group's first issue of Green Covered Bonds was completed, targeted to institutional investors, for an amount of 750 million and 5-year maturity.
  The bond, issued as part of the Covered Bond programme, aims to refinance a selected portfolio of "green" residential mortgages disbursed to private customers for the purchase of highly energy efficient homes.
  The stock, listed on the Luxembourg Stock Exchange, has a yield equal to the reference mid-swap rate +23 basis points, a fixed-rate coupon of 0.75% and maturity on 15 March 2027;
- in September instead, a Green Senior Non Preferred issue with a four-year maturity, reserved to institutional investors was completed for an amount of 500 million.
  The income from the placement of the security, issued at a price corresponding to 99.654% with a fixed coupon of 6%, will be used for the financing and/or refinancing of Eligible Green Loans, as defined in the Bank's Green, Social and Sustainability Bond Framework;
- the third transaction of the year was carried out in November 2022 with the Green Senior Non Preferred issue, with a maturity of five years and two months, for an amount of 500 million, with the possibility of early redemption in January 2027 and addressed to institutional investors.
  The security was issued at a price corresponding to 99.623% and pays a fixed coupon of 6%; also in this case, the resulting income is allocated to the financing and/or refinancing of Eligible Green Loans, as defined in the Bank's Green, Social and Sustainability Bond Framework.

A further issue was added to the above transactions, concluded in July and concerning Green Senior Preferred Bonds for a nominal amount of 300 million, which is part of Banco BPM's ESG strategy and represents the effective achievement of the environmental and social sustainability objectives that increasingly guide and characterise the various business areas of the Bank.

Lastly, as illustrated in more detail in the section of the Notes to the consolidated financial statements dedicated to significant events after the end of 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, as part of 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.

Programme to purchase own shares

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

The duration of the programme, which obtained the authorisation of the European Central Bank, was established as the period from 15 February to 28 February 2022. The total maximum counter value was established as 16 million, to support all existing plans both relating to annual incentives (for 2015-2021), and to the 2017/2019 and 2021/2023 long-term incentive plans.

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

It should also be noted that, following 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 share-based compensation plans relating to shares worth a maximum amount of 10 million.
For more details, refer to the section dedicated to events occurring after the end of the year, contained in the Notes to the consolidated financial statements.

Capital requirements for 2023 are notified by the ECB

On 15 December 2022, the European Central Bank (ECB) notified Banco BPM of the SREP decision containing the outcomes of the annual Supervisory Review and Evaluation Process (SREP).
Considering the analyses and evaluations performed by the Supervisory Authority, the ECB determined a consolidated Common Equity Tier 1 ratio requirement for 2023 of 8.70%. This requirement is comprised by the following elements:

- minimum Pillar 1 requirement of 4.5%;
- Pillar 2 capital requirement (P2R) of 1.446% in its CET1 component;
- a capital conservation buffer of 2.50%;
- an O-SII buffer3 which is equal to 0.25% of total risk-weighted exposures;
- a countercyclical capital buffer of 0.003%.

Moreover, as a result of this decision, the additional requirements that Banco BPM is required to comply with are the following:

- 10.68% in terms of Tier 1 ratio;
- 13.32% in terms of Total capital ratio.

Therefore Banco BPM Group’s capital solidity is fully confirmed and, as at 31 December 2022 far exceeds said prudential requirements, both with reference to the effective ratios calculated in accordance with the phased-in criteria in force for 2022, and considering the capital ratios calculated on the basis of the criteria in place when fully phased.

Inclusion of ESG aspects in Group strategy

The consideration of Environmental Social & Governance (ESG) aspects, in particular with regard to climate and environmental issues, represents an important element of attention in the strategy pursued by the Group, which is aware of being able to play a leading role in the action against climate change. In addition to climate and environmental factors, ESG issues include aspects linked to governance and social sustainability, meaning the ability to effectively govern sustainability planning, management and reporting and to integrate components linked to the social sphere such as human rights, gender equality, sustainable supply chain management.
The sustainability objective is one of the pillars of the Group’s 2021-2024 strategic plan, the pursuit of which requires the increasing integration and dissemination of the ESG elements in the Group’s operations. In this perspective, in 2022, a greater awareness of the Group emerged with regard to the impact of ESG issues on the business model, on the competitive arena as well as on its objectives and strategies, in its guiding role for businesses and private customers in the process of transition towards an economy that combines economic sustainability with environmental and social sustainability.
In this regard, the Group’s objective is to assist and support customers in understanding and addressing the challenges related to the transition towards a sustainable economy through dedicated products and services. With particular reference to the world of corporate finance, the Group’s willingness to support green companies or companies engaged in transition projects is represented by the challenging objective of the Plan, which envisages

that at least 65% of new disbursements will be allocated to green sectors or sectors with low transition risk. This strategic vision also envisages that, by 2024, new disbursements in the coal sector will be blocked, with the simultaneous run-off of existing exposures.
In order to achieve these important objectives, the Group is constantly striving to achieve the progressive integration of ESG criteria within the entire lending policy area and to expand the offer of loans for sustainable projects.
With particular reference to lending policies, the main elements under analysis, which are continuously being strengthened, are represented by exposure to transitional climate risks (with a particular focus on emissions) and physical risks, based on the results of the ESG questionnaire submitted to counterparties and the consideration of the possible green purpose of the transaction.
With reference to commercial offers, important initiatives have been launched for companies with a view to financing the transition: the main initiatives for companies include the "2020-2023 Sustainable Investments Ceiling", the "Unsecured Loan with Sustainability Objective", loans backed by the SACE Green Guarantee.
The Group's objective is also to provide consultancy support for corporate customers and SMEs, to help them face competitive challenges in the ESG field, also through workshops and training sessions. In particular, the ESG Factory project has been launched, a project that transforms the bank into a place for meetings and training for companies in order to explore all issues relating to sustainability.
The pursuit of sustainability objectives is also achieved by consciously investing the Group's financial resources, with a commitment to expand the share of ESG Corporate Bonds in the Group's own portfolio.
As part of the asset management business, aware of the importance of creating value for both the investor and the community, the Group seeks to also direct resources towards investments that combine return on capital with the objective of sustainability.
In addition to the continuous expansion of the range of ESG products offered to customers, a process has been launched that aims to progressively integrate the ESG dimension into the provision of investment services. In this regard, note that the measurement of sustainability preferences started through a special section of the MiFID profiling questionnaire.
The Group is also committed to operating in the financial markets to raise resources for sustainable projects, both through the placement of its own ESG bond issues and by providing support to other issuers.

For further details on the ESG commercial initiatives, on the investments made by the Group with ESG characteristics and on raising resources for sustainable projects, please refer to the section dedicated to "Results by business segment" of this Report on Operations, as well as to the Consolidated non-financial statement of the Group.

Climate Risk Stress Test 2022

From January to July 2022, the ECB conducted the first Climate Stress Testing exercise which saw the overall participation of 104 European banks with a different level of involvement based on the principle of proportionality. This test was conceived as a learning exercise, which enabled Banco BPM to further consolidate and test its ESG skills and strategy, thanks to the collection and processing of granular data to measure climate-related risk and the development of specific climate stress testing methods. Considering the national systemic importance of the Group, Banco BPM was called upon to also develop the bottom-up projections expressly described in the third analysis module, thus guaranteeing full participation in all areas of in-depth analysis required. The exercise formally ended on 8 July 2022 with the publication by the ECB of the aggregate results and the valuation methodologies followed. The overall documentation is available for consultation on the Supervisory Authority's website.

In January 2022, the European Central Bank also announced the start of a specific thematic review process of the risk management strategies, governance and frameworks related to the climate and the environment (Thematic Review). This activity is aimed at verifying the level of bank compliance with ECB expectations in the "climate" arena and the progress they have achieved with respect to the self-assessments and operational plans sent last year. Banco BPM sent the requested update by the deadline (18 March 2022), presenting the progress made by the Group with respect to questionnaires A and B completed in 2021, based on the results relating to the overall "ESG Programme" and the specific strategies included in the 2021-2024 Business Plan. The verification activity also envisaged a subsequent phase of discussion with the Supervisory Authority, during which the Bank participated in a series of meetings on various areas of analysis, simultaneously conducting specific case studies aimed at evaluating the impact of climate-related and environmental factors on the Group's credit and operational risks. The final result of the Thematic Review was provided by the ECB in the third quarter of the year and contributed qualitatively to the overall 2022 Supervisory Review and Evaluation Process (SREP), which also included the results of the 2022 Climate Stress Testing exercise.

Please refer to Part E of the Notes to the consolidated financial statements for further details on the methods for managing and mitigating ESG risk factors.

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

In 2022, new claims were limited both in number and in total additional relief (equal to approximately 3.2 million). As at 31 December 2022, due to settlements reached by negotiation or final rulings, claims and disputes for total relief figure of roughly 636.8 million were settled against claims that on the same date amounted to a total of around 718.4 million.
As illustrated in more detail in the section dedicated to significant events after the end of the year, on 16 February 2023 the Verona Public Prosecutor's Office ordered the release from seizure of 80.3 million in favour of the Bank. In this stage, the Public Prosecutor decided to maintain the seizure of an amount of around a residual 3.5 million.

For further details, please refer to section “10. Provisions for risks and charges – Item 100" contained in "Part B – Information on the consolidated balance sheet" of these Notes to the consolidated financial statements.

Inspections and proceedings of the Supervisory Authorities

During its standard business activities, the Group is subject to inspections conducted by the Supervisory Authorities. More specifically, within the European system of banking supervision, (Single Supervisory Mechanism), the Group is subject to the prudential supervision of the European Central Bank (ECB); with regard to specific matters, supervision is the direct responsibility of the Bank of Italy and CONSOB.
Supervisory activities entail making ordinary and recurring inspections at the offices of the Parent Company (“on/off-site inspection”), accompanied by “remote” inspections, conducted through structured and continuous exchanges of information, as opposed to specific requests for documentation and in-depth examination of particular areas.
With regard to the inspections of the Supervisory Authorities, with reference to 2020, 2021 and 2022, the same concerned the following areas: capital adequacy, combating money laundering, transparency in the area of payment services, product governance and adequacy of the transactions ordered by customers, ICAAP process, assessments of internal models used to calculate own funds requirements (credit and market) and lastly, cybersecurity.

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

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

<u>Inspections by the ECB</u>

a) For the assessment of Cybersecurity risk management. The inspection phase started on 30 January 2023 and will be conducted with hybrid methods (on site/off site);
b) on credit and counterparty risk with the aim of assessing the regulatory compliance of the framework for the implementation of IFRS 9 and examining the overall credit risk management methods (policies, methodologies, procedures and governance) with reference to portfolios of assets specifically identified and subject to qualitative review (Credit Quality Review). The inspection phase began on 17 October 2022 and is currently under way;
c) on capital adequacy to assess the ICAAP process. The inspection phase began on 26 September 2022 and ended on 24 November 2022;
d) on internal models used to calculate credit risk requirements for the following exposure classes: Corporate - Other; Corporate - SME; Retail - Other non-SME; Retail - Other SME; Retail - Qualifying revolving; Retail - Secured by real estate non-SME; Retail - Secured by real estate SME. The inspection follows an application made by Banco BPM to the ECB for material changes to the internal models used to calculate capital

requirements for credit risk, made also following the transposition of the EBA Guidelines on the topic, which became effective on 1 January 2022. The off-site inspection phase began on 14 February 2022 and ended on 20 May 2022;

e) to assess the adequacy of the first pillar capital requirement calculation, including all accessory aspects; the on-site phase started on 25 October 2021 and ended on 23 December 2021. In a letter dated 4 August 2022, the ECB sent the final decision and on 30 September 2022 Banco BPM sent the corrective action plan, currently under way;

f) on credit and counterparty risk concerning the asset quality review, with reference to the Commercial Real Estate ("CRE") portfolio, including the review of commercial real estate repossessed by the Group subject to registration ("Foreclosed Assets") and the assessment of the credit risk management procedures and control and governance systems ("Credit and counterparty risk – Credit Quality Review of CRE portfolio and assess selected credit risk processes"). The off-site inspection phase started on 26 April 2021 and its completion was notified on 24 December 2021. The inspection concerned credit risk management methods with reference to the portfolio under investigation, in particular the criteria for granting new credit and forbearance measures to exposures within the scope, the identification of "specialised lending" categories, the quality of appraisals, the process of classifying and evaluating real estate loans and foreclosed assets and the existing regulations in this regard. On 1 August 2022, the Bank received the final report indicating areas for improvement in this regard; on 7 February 2023, the ECB sent the draft decision indicating the proposed recommendations and qualitative requirements, again relating to the portfolio under investigation. The Bank will send its observations on the draft decision in accordance with the law;

g) for the assessment of the request for authorisation to adopt the new definition of default envisaged by Regulation (EU) no. 575/2013 (Article 178) for the classification of debtors for prudential purposes and entailing a substantial amendment of the internal model to estimate credit risk pursuant to Delegated Regulation (EU) no. 529/14 of the Commission. The off-site phase began on 14 September and ended on 13 November 2020. Banco BPM received the final decision on 7 May 2021 and on 15 June 2021 sent the corrective action plan, which is currently under way;

h) for the approval of the substantial amendments to the internal models used to calculate credit risk requirements (Credit Conversion Factor, "CCF"/Exposure at Default, "EAD"; Expected Loss Best Estimate, "ELBE"; Loss Given Default, "LGD" for non-performing assets; Probability of Default, "PD") for the following exposure classes: Corporate - Other; Corporate - Small and Medium Enterprise, "SME"; Retail - Other SME; Retail - Secured by real estate non-SME; Retail - Secured by real estate SME. The on-site phase started on 14 October 2019 and ended - in off-site mode due to the Covid-19 health emergency - on 19 March 2020. In a letter dated 4 March 2021, the ECB sent its final decision concerning that inspection. The measure confirms the authorisation to adopt modifications to the models, establishing several qualitative measures for the most part aimed at regulatory improvements, as well as prudential - concerning the estimate of margins of conservatism and the methods for calculating LGD - in the application of such models, effective for supervisory reporting as of 31 March 2021. The Bank's activity plan to implement the remedial actions is currently under way; the majority of the recommendations will be closed as part of the "model change" activities included in the application for the change to the internal models referred to in the inspection of letter d);

i) for the validation of the Internal model for market risk (Value at Risk, "VaR", Stressed Value at Risk, "sVaR", Incremental Risk Charge, "IRC") for the following risk categories: "debt instruments – specific risk; Forex Risk": the on-site phase ended on 19 July 2019. On 16 November 2020, Banco BPM received the final decision (with the relative authorisation to use the new model, also valid for Banca Akros) and on 16 December 2020 sent the corrective action plan, the activities of which were concluded during the course of the year 2022; the termination of one of the obligations relating to the IRC measure entailed a so-called "material model change" with the consequent need for a prior application to the Supervisory Authority. The request in question was submitted in January 2022 and in September of the same year the relative on-site audit was carried out by the ECB. On 11 January 2023, the Bank received the Final IMI Decision authorising (also for Banca Akros) the requested change, allowing the removal of an add-on on the IRC; the two additional corrective measures requested, of limited scope, are being planned;

j) on the internal models used to calculate credit risk requirements as part of the TRIM (Targeted Review of Internal Models) project launched by the ECB with reference to the "Corporate - Other" and "SME" portfolios: the on-site inspection phase began on 17 September 2018 and ended on 16 November 2018. Banco BPM received the final decision on 7 October 2020, indicating the binding supervisory measures and recommendations; on 5 November 2020, Banco BPM sent the corrective action plan, which is currently under way; the recommendations, which are currently at an advanced stage of completion, will be closed with the application to amend internal models referred to in letter d);

k) on the internal models used to calculate credit risk requirements (PD and LGD) with regard to the "Corporate" and "SME" portfolios: the on-site inspection phase started on 19 February 2018 and ended on 20 April 2018. Banco BPM received the final decision on 25 April 2019. The corresponding corrective action plan, sent on 24 May 2019, has been incorporated into the internal model changes referred to in letter h) above.

Inspections by the Bank of Italy

a) for inspections to verify the compliance of the automatic devices used by cashiers for the recirculation of banknotes at some branches in Sicily. The inspection phase began on 18 October 2022 and ended on 26 October 2022;
b) on the subject of combating money laundering in the Private Banking sector of the subsidiary Banca Aletti, particularly with reference to the services offered to customers with significant assets. The on-site phase began on 28 February 2022 and ended on 13 April 2022. On 14 September 2022, Banca Aletti received the outcome of the audit that did not result in compliance findings. On 14 October 2022, Banca Aletti sent the corrective action plan, limited to the implementation of measures to strengthen the controls, some of which, incidentally, were already in progress at the start date of the inspection;
c) as regards transparency, with a view to assessing fulfilment of the obligations deriving from the implementing provisions of Directive 2014/92/EU, the "Payment Accounts Directive". The off-site inspection started on 11 November 2021, from 22 November 2021 continued on-site at several Bank branches and was completed on 21 January 2022. On 27 June 2022 Banco BPM received the outcome of the inspection which highlighted anomalies that pertain to issues relevant to customer protection and require corrective actions, some of which involve compensation. On 21 October 2022, Banco BPM sent the corrective action plan, which is currently under way;
d) as regards the prevention of money laundering, with a view to ascertaining compliance with the obligations envisaged by Italian Legislative Decree no. 231/2007, with specific reference to the cash operations of cooperative banks, also through an assessment of the legislative, procedural and control structure at the Verona offices: the inspection phase (initially on-site) which started on 4 October 2021, was completed off-site on 21 December 2021, the date on which the conclusion of the proceeding was notified. On 18 August 2022, Banco BPM received the outcome of the inspection, which highlighted some areas of weakness in the area of due diligence and in the process of active collaboration with regard to the management of relations pertaining to the cooperatives under analysis. On 29 December 2022, Banco BPM sent the corrective action plan, currently under way.

Inspections by CONSOB

a) on 20 July 2021, CONSOB initiated a penalty procedure regarding "Charges pursuant to Articles 193-quater and 195 of Italian Legislative Decree 58/1998 for the infringement of Art. 9 of Regulation EU 648/2012 (EMIR) on OTC derivatives, central counterparties and trade repositories" following assessments conducted as part of inspection activities on data quality reported to the Trade Repository relating to derivative contracts; on 30 March 2022, CONSOB notified the Bank of a monetary administrative fine of 70 thousand euro;
b) with regard to product governance and procedures to assess the adequacy of transactions arranged by customers: the inspection started in April 2019 and ended on 3 December 2019. On 30 July 2020, Banco BPM received a technical note in which, without starting any penalty proceeding, the Authority drew the Bank's attention to several aspects. On 16 October 2020, the Bank submitted the relative plan of corrective actions to the Authority, the majority of which have already been implemented.

Impacts deriving from the application of the new international accounting standard IFRS 17

While referring to Part A of the Notes to the consolidated financial statements for a description of the amendments that will be introduced by the new IFRS 17 standard (in force from 1 January 2023), the first estimates of the quantitative impacts deriving from the first-time adoption of the standard in question, with regard to the subsidiary insurance companies (Banco BPM Vita and Banco BPM Assicurazioni) are shown below.
It is important to note that the above-mentioned impact estimates represent the best information available to the Group on the date of approval of this Financial Report. The above-mentioned estimates were also made on the basis of calculations outside the accounting system and must therefore be understood as subject to possible changes in

relation to the completion of the process of first-time adoption of IFRS 17 and the gradual refinement of the new criteria defined and of the envisaged activities of internal and external controls.
That being stated, the effect on the Group's consolidated shareholders' equity as at 1 July 2022 is estimated to be around 20 million, which is not significant in relation to the Group's shareholders' equity (less than 0.2%). This effect is mainly due to the reversal of the intangible assets represented by the VoBA (Value of Business Acquired), for the life and non-life segments, recorded in the consolidated financial statements as part of the Purchase Price Allocation (PPA) process, and to the recognition of the liabilities for the Contractual Service Margin (CSM). As at 1 July 2022, the CSM was estimated as around 70 million.
Although at the date of preparation of this Financial Report, the result of the second half of 2022, relevant for comparative purposes for the corresponding period of 2023, has not yet been determined, it is reasonable to expect that the impacts as at 31 December 2022 will not differ significantly, compared to those determined as at 1 July 2022, as illustrated above.

RESULTS

Reclassified accounting statements

Reclassified consolidated balance sheet

(thousands of euro)	31/12/2022	31/12/2021	Change	
Cash and cash equivalents	13,130,815	29,153,316	(16,022,501)	(55.0%)
Loans measured at AC	113,632,853	121,261,260	(7,628,407)	(6.3%)
- Loans to banks	4,177,893	11,877,878	(7,699,985)	(64.8%)
- Loans to customers (*)	109,454,960	109,383,382	71,578	0.1%
Other financial assets and hedging derivatives	43,093,541	36,326,393	6,767,148	18.6%
- Measured at FVTPL	8,206,881	6,464,186	1,742,695	27.0%
- Measured at FVOCI	9,380,520	10,675,079	(1,294,559)	(12.1%)
- Measured at AC	25,506,140	19,187,128	6,319,012	32.9%
Financial assets pertaining to insurance companies	5,892,769	-	5,892,769	0.0%
Interests in associates and joint ventures	1,453,955	1,794,116	(340,161)	(19.0%)
Property, plant and equipment	3,034,689	3,278,245	(243,556)	(7.4%)
Intangible assets	1,286,734	1,213,722	73,012	6.0%
Tax assets	4,622,827	4,540,229	82,598	1.8%
Non-current assets and disposal groups held for sale	214,737	229,971	(15,234)	(6.6%)
Other assets	3,322,975	2,691,964	631,011	23.4%
Total assets	**189,685,895**	**200,489,216**	**(10,803,321)**	**(5.4%)**
Direct bank funding	120,639,083	120,213,016	426,067	0.4%
- Due to customers	107,679,408	107,120,893	558,515	0.5%
- Securities and financial liabilities designated at FV	12,959,675	13,092,123	(132,448)	(1.0%)
Direct funding from insurance business and technical reserves	5,856,254	-	5,856,254	0.0%
- Financial liabilities pertaining to insurance companies measured at fair value	1,441,830	-	1,441,830	0.0%
- Technical reserves of insurance companies	4,414,424	-	4,414,424	0.0%
Due to banks	32,635,805	45,685,032	(13,049,227)	(28.6%)
Lease payables	627,921	673,872	(45,951)	(6.8%)
Other financial liabilities designated at fair value	13,597,650	15,755,319	(2,157,669)	(13.7%)
Other financial liabilities pertaining to insurance companies	439	-	439	0.0%
Liability provisions	988,852	1,196,946	(208,094)	(17.4%)
Tax liabilities	279,983	302,816	(22,833)	(7.5%)
Liabilities associated with assets classified as held for sale	31,731	-	31,731	0.0%
Other liabilities	2,257,906	3,566,156	(1,308,250)	(36.7%)
Total liabilities	**176,915,624**	**187,393,157**	**(10,477,533)**	**(5.6%)**
Non-controlling interests	720	1,108	(388)	(35.0%)
Group shareholders' equity	12,769,551	13,094,951	(325,400)	(2.5%)
Consolidated shareholders' equity	**12,770,271**	**13,096,059**	**(325,788)**	**(2.5%)**
Total liabilities and shareholders' equity	**189,685,895**	**200,489,216**	**(10,803,321)**	**(5.4%)**

(*) Includes senior securities from sales of non-performing loans.

Reclassified consolidated income statement

(thousands of euro)	2022	2021	Change
Net interest income	2,314,409	2,041,628	13.4%
Gains (losses) on interests in associates and joint ventures carried at equity	157,483	231,940	(32.1%)
Financial margin	**2,471,892**	**2,273,568**	**8.7%**
Net fee and commission income	1,887,322	1,911,203	(1.2%)
Other net operating income	71,602	75,280	(4.9%)
Net financial result	242,983	250,695	(3.1%)
Profit (loss) on insurance business	31,718	-	
Other operating income	**2,233,625**	**2,237,178**	**(0.2%)**
Operating income	**4,705,517**	**4,510,746**	**4.3%**
Personnel expenses	(1,608,901)	(1,667,799)	(3.5%)
Other administrative expenses	(650,380)	(601,151)	8.2%
Net value adjustments to property, plant and equipment and intangible assets	(280,088)	(246,825)	13.5%
Operating expenses	**(2,539,369)**	**(2,515,775)**	**0.9%**
Profit (loss) from operations	**2,166,148**	**1,994,971**	**8.6%**
Net adjustments to loans to customers	(682,281)	(887,199)	(23.1%)
Fair value gains (losses) on property, plant and equipment	(108,347)	(141,633)	(23.5%)
Net adjustments to securities and other financial assets	(9,106)	(328)	0.0%
Net provisions for risks and charges	(57,214)	(26,039)	119.7%
Gains (losses) on interests in associates and joint ventures and other investments	2,258	(18,768)	
Profit (loss) before tax from continuing operations	**1,311,458**	**921,004**	**42.4%**
Taxation charge related to profit or loss from continuing operations	(408,931)	(253,828)	61.1%
Profit (loss) after tax from continuing operations	**902,527**	**667,176**	**35.3%**
Charges related to the banking system, net of taxes	(151,887)	(144,995)	4.8%
Impact of the realignment of tax values to book values	-	81,709	(100.0%)
Goodwill impairment	(8,132)	-	0.0%
Change in own credit risk on Certificates issued by the Group, net of taxes	4,818	4,354	10.7%
Purchase Price Allocation net of taxes	(45,523)	(39,460)	15.4%
Profit (loss) for the year attributable to non-controlling interests	786	284	176.8%
Parent Company's profit (loss) for the year	**702,589**	**569,068**	**23.5%**

Reclassified consolidated income statement – Quarterly changes

(thousands of euro)	Q4 2022	Q3 2022 (*)	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Net interest income	723,957	551,319	527,591	511,542	506,005	516,427	522,367	496,829
Gains (losses) on interests in associates and joint ventures carried at equity	34,803	31,566	41,472	49,642	87,066	46,795	56,535	41,544
Financial margin	**758,760**	**582,885**	**569,063**	**561,184**	**593,071**	**563,222**	**578,902**	**538,373**
Net fee and commission income	447,262	473,197	486,771	480,092	485,821	475,308	478,679	471,395
Other net operating income	19,512	20,397	15,028	16,665	9,066	26,296	21,747	18,171
Net financial result	(8,951)	75,138	48,863	127,933	(1,443)	35,878	116,533	99,727
Profit (loss) on insurance business	40,457	(8,739)	-	-	-	-	-	-
Other operating income	**498,280**	**559,993**	**550,662**	**624,690**	**493,444**	**537,482**	**616,959**	**589,293**
Operating income	**1,257,040**	**1,142,878**	**1,119,725**	**1,185,874**	**1,086,515**	**1,100,704**	**1,195,861**	**1,127,666**
Personnel expenses	(395,165)	(400,532)	(405,342)	(407,862)	(413,937)	(409,823)	(417,135)	(426,904)
Other administrative expenses	(171,476)	(160,701)	(162,650)	(155,553)	(149,106)	(144,012)	(153,903)	(154,130)
Net value adjustments to property, plant and equipment and intangible assets	(84,729)	(70,062)	(64,059)	(61,238)	(61,610)	(61,762)	(60,603)	(62,850)
Operating expenses	**(651,370)**	**(631,295)**	**(632,051)**	**(624,653)**	**(624,653)**	**(615,597)**	**(631,641)**	**(643,884)**
Profit (loss) from operations	**605,670**	**511,583**	**487,674**	**561,221**	**461,862**	**485,107**	**564,220**	**483,782**
Net adjustments to loans to customers	(184,691)	(193,909)	(152,553)	(151,128)	(213,978)	(200,643)	(255,513)	(217,065)
Fair value gains (losses) on property, plant and equipment	(59,992)	(7,510)	(39,609)	(1,236)	(96,927)	(7,817)	(36,964)	75
Net adjustments to securities and other financial assets	(538)	(3,028)	(2,346)	(3,194)	(1,098)	242	939	(411)
Net provisions for risks and charges	(28,220)	(16,260)	(4,608)	(8,126)	2,255	(15,489)	(5,615)	(7,190)
Gains/Losses on interests in associates and joint ventures and other investments	515	277	(60)	1,526	(18,726)	395	(393)	(44)
Profit (loss) before tax from continuing operations	**332,744**	**291,153**	**288,498**	**399,063**	**133,388**	**261,795**	**266,674**	**259,147**
Taxation charge related to profit or loss from continuing operations	(93,435)	(84,477)	(92,599)	(138,420)	(37,228)	(83,274)	(50,628)	(82,698)
Profit (loss) after tax from continuing operations	**239,309**	**206,676**	**195,899**	**260,643**	**96,160**	**178,521**	**216,046**	**176,449**
Charges related to the banking system, net of taxes	(49)	(77,271)	-	(74,567)	(4,792)	(61,650)	(19,309)	(59,244)
Impact of the realignment of tax values to book values	-	-	-	-	2,489	-	79,220	-
Goodwill impairment	-	-	(8,132)	-	-	-	-	-
Impact of the change in own credit risk on the issue of certificates (OCR), net of taxes	(20,513)	(323)	25,478	176	12,320	3,954	(5,105)	(6,815)
Impact of the purchase price allocation (PPA), net of taxes	(9,433)	(20,427)	(7,173)	(8,490)	(9,251)	(10,172)	(9,705)	(10,332)
Profit/Loss attributable to non-controlling interests	628	49	66	43	144	28	78	34
Profit (loss) for the period	**209,942**	**108,704**	**206,138**	**177,805**	**97,070**	**110,681**	**261,225**	**100,092**

(*) The figures referring to the third quarter of 2022 have been restated with respect to those originally approved by the Board of Directors on 8 November 2022, following the completion of the Purchase Price Adoption (PPA) process relating to the acquisition of control of Banco BPM Vita and Banco BPM Assicurazioni.

Note on methodology

The balance sheet and income statement shown above are presented in reclassified format, according to operating criteria, in order to promptly provide information on the general performance of the Group, based on economic-financial data that can be quickly and easily determined.
These statements were prepared on the basis of the financial statements set forth in Bank of Italy Circular no. 262/2005 and subsequent updates, following the same aggregation and classification criteria applied when preparing the consolidated financial statements as at 31 December 2021, with the additions needed to reflect the consolidation of the insurance companies Banco BPM Vita and Banco BPM Assicurazioni, which took place from 1 July 2022, as illustrated below.
In particular, certain items specifically attributable to insurance contracts valued on the basis of accounting standard IFRS 4, as well as portfolios of financial assets and liabilities held by insurance companies valued on the basis of accounting standard IFRS 9, were introduced into the reclassified financial statements.

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

To prepare the consolidated balance sheet, the asset items have been reclassified as follows:

- the aggregate "Loans measured at amortised cost" is represented by item 40 "Financial assets at amortised cost" with the exclusion of debt securities, included in "Other financial assets and hedging derivatives" and of the financial assets at amortised cost pertaining to insurance companies, shown in the aggregate "Financial assets pertaining to insurance companies" of the reclassified balance sheet. In addition, the sub-item "Loans to customers" includes the amount of senior securities deriving from the sale of non-performing loans;
- the aggregate "Other financial assets and hedging derivatives" is made up of items 20, 30 and 50, with the exception of senior securities deriving from the sale of non-performing loans, included in loans to customers, and of financial assets pertaining to insurance companies, also included in the aggregate "Financial assets pertaining to insurance companies" of the reclassified balance sheet; it also includes the amount of debt securities at amortised cost mentioned above;
- the aggregate "Financial assets pertaining to insurance companies" includes the financial assets attributable to insurance operations (asset items: "20. Financial assets at fair value through profit and loss","30. Financial assets measured at fair value through other comprehensive income", "40. Financial assets at amortised cost", "50. Hedging derivatives");
- the aggregate "Other assets" consists of the residual items 60 "Fair value change of financial assets in macro fair value hedge portfolios (+/-)" and 130 "Other assets". Technical reserves of reinsurers are also included (item 80 of balance sheet assets).

The main balance sheet liability items were instead subject to the following reclassifications:

- the aggregate "Direct bank funding" is made up of items 10.b) "Financial liabilities at amortised cost: due to customers", with the exclusion of lease payables due to customers (shown in the item of the same name in the reclassified balance sheet), and of amounts due to customers pertaining to insurance companies (shown in item "Direct funding from insurance business and technical reserves" of the reclassified balance sheet); 10.c) "Financial liabilities at amortised cost: debt securities in issue" and 30 "Financial liabilities designated at fair value", net of protected capital certificates, included in the aggregate "Other financial liabilities designated at fair value" and of financial liabilities designated at fair value of insurance companies, shown in item "Direct funding from insurance business and technical reserves";
- the aggregate "Direct funding from insurance business and technical reserves" includes the liabilities of the insurance companies for policies underwritten by customers. In particular, these are liability items "30. Financial liabilities designated at fair value", for unit-linked policies and "110. Technical reserves", for the remaining insurance products;
- the item "Due to banks" refers to item 10.a) "Financial liabilities at amortised cost: due to banks", with the exception of lease payables due to banks (shown in the item of the same name in the reclassified balance sheet) and of amounts due to banks pertaining to insurance companies (shown in item "Direct funding from insurance business and technical reserves" of the reclassified balance sheet);
- the item "Lease payables" includes the liabilities at amortised cost to banks and customers relating to leasing transactions, as previously described;
- the aggregate "Other financial liabilities designated at fair value" includes items 20. "Financial liabilities held for trading", increased by the amount of the protected capital certificates as described above, and 40. "Hedging derivatives";
- the item "Other financial liabilities pertaining to insurance companies" includes amounts due to banks and to customers of insurance companies, not related to commitments to policyholders, recognised under liability item "10. Financial liabilities at amortised cost";
- the aggregate "Liability provisions" includes items 90. "Provisions for employee severance pay" and 100. "Provisions for risks and charges";
- the aggregate "Other liabilities" consists of the residual items 50 "Fair value change of financial liabilities in macro fair value hedge portfolios (+/-)" and 80 "Other liabilities";
- the aggregate "Group shareholders' equity" is represented by items 120. "Valuation reserves", 140. "Equity instruments", 150. "Reserves", 170. "Share capital", 180. "Own shares (-)" and 200. "Profit/Loss for the year".

Finally, as regards the reclassified income statement, the following main reclassifications were made:

- the portion of the economic results pertaining to investee companies carried at equity (included in item 250) has been stated in a specific item, which represents, together with the "Net interest income", the aggregate defined as the "Financial margin";
- the item "Profit (loss) on insurance business" includes the items specifically attributable to the insurance business represented by net premiums (item 160) and the balance of income and expenses from insurance activities (item 170), which includes the net change in technical reserves, claims for the period, as well as other income and expenses from insurance activities. In addition, this aggregate includes the economic components (interest, dividends, realised gains/losses, gains/losses from valuation) relating to the portfolios of financial assets and liabilities held by insurance companies ("10. Interest income "," 20. Interest expense "," 70. Dividends "," 80. Net trading income", "90. Fair value gains/losses on hedging derivatives", "100. Gains (losses) on disposal or repurchase", "110. Net gains (losses) from other financial assets and liabilities measured at fair value through profit and loss", "130. Net credit impairment losses/recoveries"). It should also be noted that, in the reclassified income statement, placement fees paid by insurance companies to the banking distribution network of Banco BPM, even if consolidated using the line-by-line method, are recognised as open balances. The item "Net fee and commission income" therefore includes fee and commission income received from the distribution network, while the item "Profit (loss) on insurance business" includes fee and commission expense paid by the insurance companies. The aim of this presentation method is to allow the contributions of the various operating segments that generate the economic result to be represented, in line with the requirements of accounting standard IFRS 8;
- dividends on shares classified under financial assets at fair value through profit and loss and measured at fair value through other comprehensive income (included in item 70) were re-attributed to the "Net financial result";
- the income relating to the issue of liabilities held for trading represented by Group certificates, which in the income statement drawn up based on Circular no. 262 is shown in item "80. Net trading income", was partially re-attributed to the reclassified income statement item "Net fee and commission income". In greater detail, with an operating outlook, net fee and commission income includes the portion of product profitability that remunerates the placement activities performed by the Group. Moreover, fee and commission expense relating to placement services carried out by third party networks are included in the net trading income;
- recoveries of taxes and duties and other expenses (included in item 230) were applied as a direct decrease in other administrative expenses, where the related cost is recorded, instead of being indicated in the reclassified aggregate of "Other net operating income";
- gains and losses on disposal of loans, not represented by debt securities (included in item 100) and gains (losses) from contractual modification without derecognition (booked to item 140), were added, together with net credit impairment losses/recoveries, to the item "Net adjustments to loans to customers";
- ordinary and extraordinary charges introduced for banks due to the single and national resolution funds (SRF and NRF) and the deposit guarantee scheme (DGS) were recognised, net of relative tax effects, in a separate item "Charges related to the banking system, net of taxes", rather than in "Other administrative expenses" and "Taxation charge related to profit or loss from continuing operations";
- the impact of exercising the option to realign the tax values to the book values of the Group's real estate for business use, recognised under "Taxation charge related to profit or loss from continuing operations" was re-attributed to a customised item of the reclassified income statement named "Impact of the realignment of tax values to book values";
- the economic impact of a change in own credit risk related to the issue of certificates classified in the portfolio of "Financial liabilities held for trading" is included in the customised item "Change in own credit risk on Certificates issued by the Group, net of taxes". This decision derives from the need to isolate the economic effects of the volatility of said own credit risk, as, with an operating outlook, they are not deemed expressive of actual profitability of the Group;
- the impacts arising from Purchase Price Allocations made following aggregation transactions have been grouped into a single separate item in the reclassified income statement called "Purchase Price Allocation net of taxes". This item groups together the impacts that in the income statement format are recognised in interest income (reversal effect of the fair value measurement of loans), amortisation of intangible assets recognised in item 220 (amortisation of so-called "client relationships") and of the so-called "value of business acquired"), in the gains/losses on interests in associates and joint ventures and other investments

(effect of the remeasurement at fair value of the 19% share held in Banco BPM Vita prior to the acquisition of control) and in the item "Taxation charge related to profit or loss from continuing operations".

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

Non-recurring components of the reclassified consolidated income statement

With Communication no. DEM/6064293 of 28 July 2006, CONSOB asked companies issuing financial instruments listed on Italian regulated markets to provide information on the impact of non-recurring events or operations.
It is noted that the general criterion adopted by the Group requires that the following be classified as non-recurring:

- the results of the sale transactions of all the fixed assets (interests in associates and joint ventures, property, plant and equipment excluding the financial assets in the Hold to Collect ("HtC") portfolio, which can be sold in compliance with the materiality and frequency thresholds set out in IFRS 9);
- gains and losses on non-current assets and asset disposal groups held for sale;
- adjustments/recoveries on receivables (both due to valuation and actual losses) deriving from a change in the NPE Strategy approved during the year by the Board of Directors consisting of an amendment in the objectives and/or type of receivables subject to assignment with respect to those set forth previously;
- the income statement items of significant amounts connected with streamlining, restructuring, etc. (e.g. expenses for use of the redundancy fund, early retirement incentives, merger/integration expenses);
- income statement items of a significant amount which are not destined to reoccur frequently (e.g. penalties, impairments of property, plant and equipment, goodwill and other intangible assets, extraordinary debits/credits by Resolution Funds and the Interbank Deposit Guarantee Fund, effects associated with legislative changes, exceptional results, etc.);
- the economic impacts deriving from the fair value measurement of properties and other tangible assets (works of art);
- tax effects connected with the income statement impacts set out in the previous points.

Conversely, the following are usually considered to be recurring:

- income statement effects deriving from the sale or measurement of all financial assets (other than loans), including those in the HtC portfolio and financial liabilities;
- save for exceptional cases, the income statement impacts deriving from valuation aspects (credit impairment losses and adjustments to other financial assets or provisions for risks and charges);
- the income statement impacts deriving from changes in reference valuation parameters considered by the valuation models applied on an ongoing basis;
- the income statement impacts of insignificant or undeterminable amounts which have the nature of contingent assets and/or liabilities (e.g. costs and revenues and/or adjustments to costs and revenues pertaining to other years);
- tax effects connected with the income statement impacts set out in the previous points.

In light of the criteria set out above, it should be noted that in 2022 the following non-recurring items were recognised:

- the items "Net financial result" and "Net adjustments to loans to customers" include the impacts, respectively equal to 4.7 million and 112.7 million, deriving from the increase in the sale targets of non-performing loans following the amendment of the NPL management strategy approved by the Parent Company's Board of Directors. In particular, it should be noted that the impact recorded in the item "Net financial result" refers to non-performing credit exposures which are mandatorily measured at fair value;
- the item "Personnel expenses" includes expenses relating to extraordinary payments made to employees during the year and the positive impact deriving from the release of excess provisions made in previous years relating to the redundancy fund. The total net effect was +11.9 million;
- "Net value adjustments to property, plant and equipment and intangible assets" include write-downs of 7.1 million relating to impairment of software;
- the item "Fair value gains (losses) on property, plant and equipment", amounting to -108.3 million, represents the negative economic effect deriving from the valuations at 31 December 2022 of the Group's real estate assets, which takes into account both the update of the appraisals, and the presumed sale values inferred from ongoing negotiations;

- "Net provisions for risks and charges" include the estimated costs that are expected to be incurred for the rationalisation of the branch network for 8.5 million as well as the provisions relating to the estimated costs for certain contractual commitments for 18.3 million. The total impact on the item in question therefore amounts to 26.8 million;
- the item "Gains (losses) on interests in associates and joint ventures and other investments" includes the positive impact of +2.3 million, deriving from the sale of property, plant and equipment;
- the item "Goodwill impairment" shows the impact of the impairment test which led to the recognition of value adjustments of 8.1 million on the goodwill allocated to the Bancassurance CGU;
- the "Taxation charge related to profit or loss from continuing operations" includes the tax impacts of the aforementioned non-recurring items amounting to +80.6 million;
- the item "Purchase Price Allocation (PPA), net of taxes" includes the effect of the remeasurement at fair value of the share previously held in Banco BPM Vita, equal to 10.7 million.

Overall, the impact of non-recurring items on the net result for 2022 was negative and equal to -183.7 million.

The following non-recurring components were recognised in the income statement of the previous year:

- "Gains (losses) on interests in associates and joint ventures carried at equity" included the positive impact of 42.1 million, deriving from realignment of the tax value of goodwill recorded by an investee;
- "Personnel expenses" included savings on one-off components of remuneration, constituting an indirect effect of the pandemic, for 14.4 million;
- "Net value adjustments to property, plant and equipment and intangible assets" included write-downs due to impairment of fixed assets for a total of 2.0 million;
- the item "Net adjustments to loans to customers" included the amount relating to losses linked to the sale of loans finalised as part of the "Rockets" project and the additional impact deriving from the increase in the targets for the sale of non-performing loans decided by the Board of Directors, for a total of 194.0 million;
- the item "Fair value gains (losses) on property, plant and equipment" included the negative economic effect of updating the fair value of Group properties for -141.6 million;
- "Gains (losses) on disposal of interests in associates and joint ventures and other investments", non-recurring by nature, included the effect of 18.8 million resulting from the impairment made on an interest;
- the "Taxation charge related to profit or loss from continuing operations" included the tax impacts of the aforementioned non-recurring items amounting to 96.5 million;
- "Charges related to the banking system, net of taxes" included additional contributions paid to the National Resolution Fund amounting to 19.3 million (equal to 28.6 million gross of the related tax effect of 9.3 million);
- the item "Impact of the realignment of tax values to book values" included the income of 81.7 million euro, resulting from the exercise of the right of realignment of the tax values of the Group's operating properties to book values.

Overall, non-recurring components pertaining to 2021 were a negative 141.0 million.

When deemed significant, information about non-recurring events or operations or those which do not occur frequently in the normal execution of the business and the impacts they have on the Group's equity and financial situation, as well as its cash flows is provided in the context of specific sections in the Notes which illustrate trends in equity items.

The main balance sheet and income statement items as at 31 December 2022 are illustrated below.

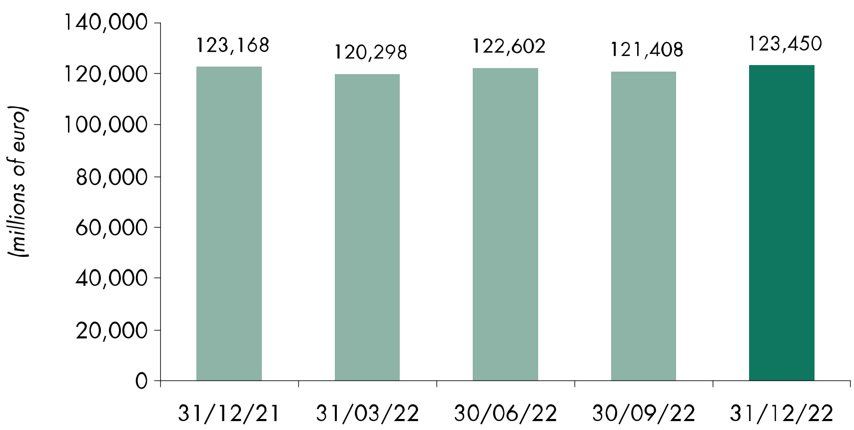
Consolidated balance sheet figures

Loan brokering activities

Direct funding

(thousands of euro)	31/12/2022	% impact	31/12/2021	% impact	Abs. Change	% Change
Current accounts and deposits	**103,699,276**	**86.0%**	**105,028,846**	**87.4%**	**(1,329,570)**	**(1.3%)**
- current accounts and demand deposits	103,410,941	85.7%	104,038,158	86.5%	(627,217)	(0.6%)
- fixed-term deposits and other restricted current accounts	288,335	0.2%	990,688	0.8%	(702,353)	(70.9%)
Securities	**12,941,380**	**10.7%**	**13,092,123**	**10.9%**	**(150,743)**	**(1.2%)**
- bonds and liabilities at fair value	12,933,380	10.7%	13,071,312	10.9%	(137,932)	(1.1%)
- certificates of deposit and other securities	8,000	0.0%	20,811	0.0%	(12,811)	(61.6%)
Repurchase agreements	**1,460,568**	**1.2%**	**627,845**	**0.5%**	**832,723**	**132.6%**
Loans and other payables	**2,537,859**	**2.1%**	**1,464,202**	**1.2%**	**1,073,657**	**73.3%**
Direct funding	**120,639,083**	**100.0%**	**120,213,016**	**100.0%**	**426,067**	**0.4%**
Direct funding without repurchase agreements	**119,178,515**		**119,585,171**		**(406,656)**	**(0.3%)**
Other funding (Protected capital certificates)	**4,270,993**		**3,582,874**		**688,119**	**19.2%**
Total direct funding without repurchase agreements with certificates	**123,449,508**		**123,168,045**		**281,463**	**0.2%**

Direct funding

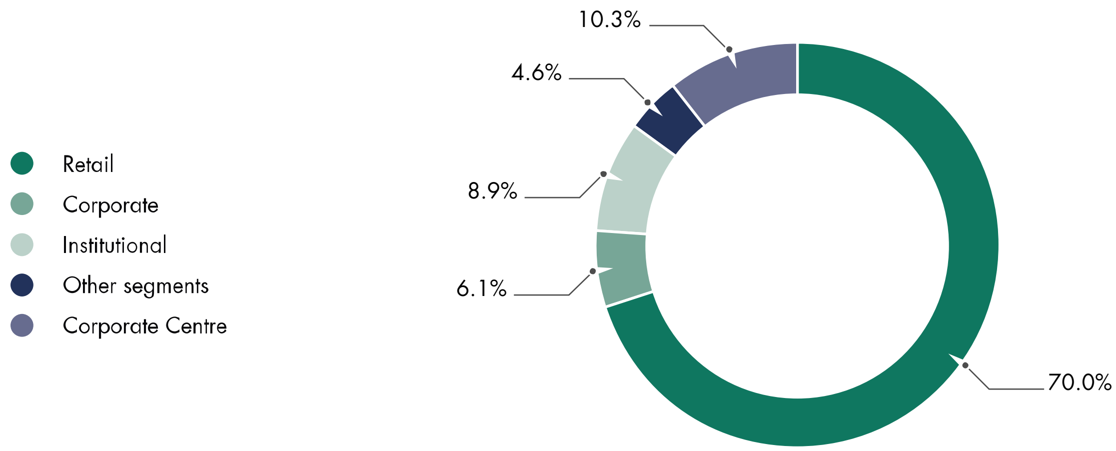


As at 31 December 2022, **direct bank funding**[1] totalled 123.4 billion, showing an increase compared to 31 December 2021 (+0.2%).
In more detail, during the year there was a decrease of 0.6 billion in the component represented by current accounts and demand deposits of the commercial network (-0.6%); in comparison with the third quarter of 2022, the aggregate in question instead showed an increase of 0.6%. As regards bonds issued, the stock as at 31 December came to 12.9 billion, down (-1.2%) compared to 31 December 2021.
Funding guaranteed by the stock of certificates with unconditional capital protection as at 31 December 2022 was 4.3 billion, compared to 3.6 billion as at 31 December 2021.

[1] For the sake of consistency with the criteria used to represent operating results, the aggregate of direct funding is represented by the sum of term and demand deposits and current accounts, bonds issued, certificates of deposit and other securities, loans and other payables, and protected capital certificates. Repurchase agreements are not included.

(thousands of euro)	31/12/2022	% impact	31/12/2021 restated (*)	% impact	31/12/2021	Abs. change on restated balances	% Change
Retail	86,389,032	70.0%	84,262,888	68.4%	84,398,631	2,126,145	2.5%
Corporate	7,516,615	6.1%	10,223,578	8.3%	10,136,351	(2,706,963)	(26.5%)
Institutional	11,047,043	8.9%	10,966,219	8.9%	10,926,181	80,824	0.7%
Private	2,871,378	2.3%	2,948,662	2.4%	2,935,264	(77,284)	(2.6%)
Investment Banking	2,858,602	2.3%	2,663,969	2.2%	2,663,969	194,633	7.3%
Leases	-	0.0%	-	0.0%	4,507	-	0.0%
Corporate Centre	12,766,837	10.3%	12,102,729	9.8%	12,103,142	664,108	5.5%
Total direct funding	**123,449,508**	**100.0%**	**123,168,045**	**100.0%**	**123,168,045**	**281,463**	**0.2%**

(*) Keeping the total of the item unchanged, the figures relating to the previous year were restated to reflect the changes introduced to the breakdown of operating segments and to guarantee a like-for-like comparison with the profiling criteria used for 2022. For more details on the methods for restating the balances of the previous year, please refer to the next section "Results by business segment" of this Report on operations.

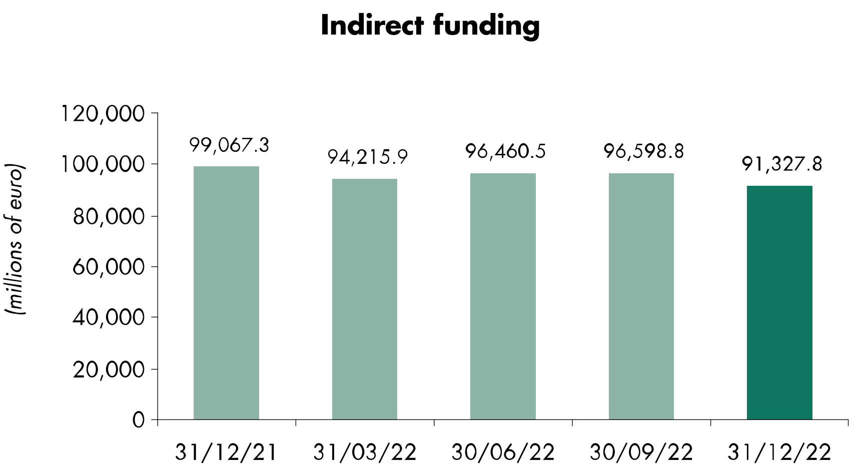


Overall, the Group's direct funding remained substantially in line with that of the previous year, standing at 123.4 billion. In detail, funding relating to the Commercial Network (Retail, Corporate, Institutional and Private) fell by 0.6 billion, although for the whole of 2022, it was on average higher than that of the previous year. Against a significant reduction in the stock of bonds placed by the Network (-753.8 million) and in the restricted component of direct funding (-728.0 million), there was a considerable increase in the Retail sector, of the non-restricted component of deposits, particularly the technical form of current accounts. This positive trend, which is just over 2 billion, only partially reflects the sharp decline in the Corporate segment, whose direct funding fell from 10.1 to 7.5 billion.
The direct funding of the Corporate Centre increased by 0.7 billion, in particular due to the return to issues in the institutional market, also to cover the early repayment of a 12.5 billion portion of TLTRO III.

The item **direct funding from insurance business and technical reserves** includes the aggregate comprised by insurance technical reserves, of 5.9 billion, represented by the mathematical reserves of 4.4 billion and financial liabilities pertaining to insurance companies measured at fair value of 1.4 billion.

Indirect funding

(thousands of euro)	31/12/2022	% impact	31/12/2021	% impact	Abs. Change	% Change
Managed assets	**59,408,707**	**62.5%**	**65,347,877**	**63.9%**	**(5,939,170)**	**(9.1%)**
mutual funds and SICAVs	39,916,578	42.0%	45,762,839	44.8%	(5,846,261)	(12.8%)
securities and fund management	3,969,419	4.2%	4,135,099	4.0%	(165,680)	(4.0%)
insurance policies	15,522,710	16.3%	15,449,939	15.1%	72,771	0.5%
Administered assets	**35,620,438**	**37.5%**	**36,840,066**	**36.1%**	**(1,219,628)**	**(3.3%)**
Total indirect funding	**95,029,145**	**100.0%**	**102,187,943**	**100.0%**	**(7,158,798)**	**(7.0%)**
Underlying funding for protected capital certificates	3,701,323		3,120,665		580,658	18.6%
Total indirect funding without certificates	**91,327,822**		**99,067,278**		**(7,739,456)**	**(7.8%)**



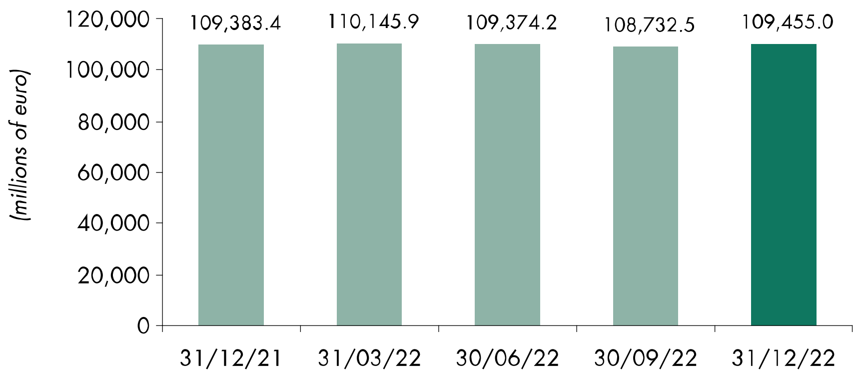
Indirect funding, net of protected capital certificates, and including insurance policies[1], was 91.3 billion, down 7.8% on an annual basis. This trend is exclusively attributable to the drop in the prices of financial assets.
The negative trend on the markets reflected both on the component of managed assets, which amounted to 59.4 billion, down compared to the figure of 65.3 billion as at 31 December 2021, and on administered assets, which stood at 31.9 billion, with a decrease of 1.8 billion (-5.3%) compared to the end of 2021.

[1] For consistency with the criteria for the representation of operating results, the aggregate of indirect funding is represented net of the underlying funding for protected capital certificates.

Loans to customers

(thousands of euro)	31/12/2022	% impact	31/12/2021	% impact	Abs. Change	% Change
Mortgage loans	82,019,769	74.9%	79,285,841	72.5%	2,733,928	3.4%
Current accounts	8,571,864	7.8%	8,542,637	7.8%	29,227	0.3%
Repurchase agreements	1,883,322	1.7%	3,658,922	3.3%	(1,775,600)	(48.5%)
Finance leases	780,186	0.7%	1,222,730	1.1%	(442,544)	(36.2%)
Credit cards, personal loans and salary-backed loans	967,941	0.9%	1,350,550	1.2%	(382,609)	(28.3%)
Other transactions	13,298,151	12.1%	13,025,142	11.9%	273,009	2.1%
Senior securities from sales of non-performing loans	1,933,727	1.8%	2,297,560	2.1%	(363,833)	(15.8%)
Total net loans to customers	**109,454,960**	**100.0%**	**109,383,382**	**100.0%**	**71,578**	**0.1%**

Net loans to customers



Net loans to customers[1] amounted to 109.5 billion as at 31 December 2022, stable with respect to the figure as at 31 December 2021, but with an increase of 1.0 billion in performing exposures (+0.9%), also thanks to a volume of new loans to households and businesses equal to 26.5 billion in the year. Non-performing loans recorded a decrease of 0.9 billion compared to the end of 2021 (-27.8%).

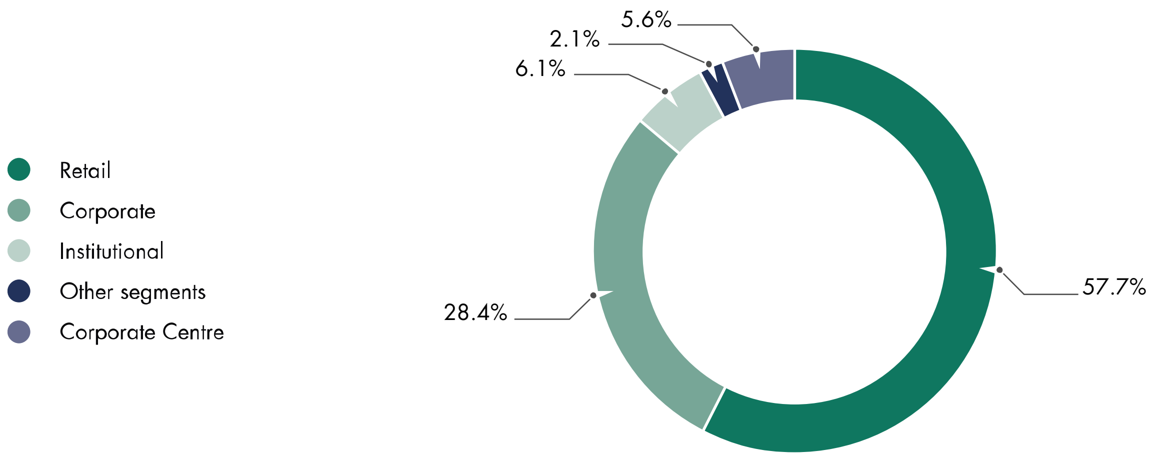
Information on direct risks with customers residing in Russia and the Ukraine or those indirectly related to Russian counterparties is provided in Part A - Accounting policies, Section 5 - Other aspects, Most significant aspects for 2022 financial statement valuations: Russia-Ukraine conflict, to which reference is made for further details.

Lastly, as regards the support measures implemented by the Group with regard to customers affected by the crisis following the Covid-19 pandemic, please refer to Part A - Accounting policies, Section 5 - Other aspects, Most significant aspects for 2022 financial statement valuations: Other aspects - summary of moratorium measures and other support measures granted in the context of the Covid-19 pandemic.

[1] The aggregate does not include loans to customers which, following the application of IFRS 9, are mandatorily measured at fair value. Those loans, amounting to 0.5 billion, are included under financial assets at fair value.

(thousands of euro)	31/12/2022	% impact	31/12/2021 restated (*)	% impact	31/12/2021	Abs. change on restated balances	% Change
Retail	63,164,637	57.7%	61,518,164	56.2%	61,625,508	1,646,473	2.7%
Corporate	31,092,530	28.4%	30,040,220	27.5%	29,936,846	1,052,310	3.5%
Institutional	6,704,832	6.1%	6,364,241	5.8%	6,488,818	340,591	5.4%
Private	542,448	0.5%	428,992	0.4%	428,751	113,456	26.4%
Investment Banking	1,773,022	1.6%	1,963,699	1.8%	1,963,699	(190,677)	(9.7%)
Leases	-	0.0%	-	0.0%	1,367,926	-	0.0%
Corporate Centre	6,177,491	5.6%	9,068,066	8.3%	7,571,834	(2,890,575)	0.0%
Total net loans	**109,454,960**	**100.0%**	**109,383,382**	**100.0%**	**109,383,382**	**71,578**	**0.1%**

(*) Keeping the total of the item unchanged, the figures relating to the previous year were restated to reflect the changes introduced to the breakdown of operating segments and to guarantee a like-for-like comparison with the profiling criteria used for 2022. For more details on the methods for restating the balances of the previous year, please refer to the next section "Results by business segment" of this Report on operations.



The Group's loans amounted to 109.5 billion, stable compared to the previous year. In particular, the Corporate Centre recorded a decline, both due to the effect of the run-off of leasing and consumer credit loans (of the subsidiary ProFamily, merged into the Parent Company in 2021), and, above all, due to the decrease in the component of repurchase agreements with institutional counterparties. On the contrary, the Commercial Network grew considerably, reaching 101.5 billion (+3.2 billion). In detail, the Retail segment, which rose to 63.2 billion, increased by 1 billion due to short-term loans, while the Corporate segment, which stood at 31.1 billion, saw an increase of approximately 1.5 billion in the medium-long term component of loans to businesses.

Credit quality

Loans to customers at amortised cost

(thousands of euro)	31/12/2022		31/12/2021		Abs. Change	% Change
	Net exposure	% impact	Net exposure	% impact		
Bad loans	720,582	0.7%	906,482	0.8%	(185,900)	(20.5%)
Unlikely to pay	1,574,841	1.4%	2,309,437	2.1%	(734,596)	(31.8%)
Non-performing past-due exposures	60,084	0.1%	44,610	0.0%	15,474	34.7%
Non-performing loans	**2,355,507**	**2.2%**	**3,260,529**	**3.0%**	**(905,022)**	**(27.8%)**
Performing loans	105,165,726	96.1%	103,825,293	94.9%	1,340,433	1.3%
Senior securities from sales of non-performing loans	1,933,727	1.8%	2,297,560	2.1%	(363,833)	(15.8%)
Performing exposures	**107,099,453**	**97.8%**	**106,122,853**	**97.0%**	**976,600**	**0.9%**
Total loans to customers	**109,454,960**	**100.0%**	**109,383,382**	**100.0%**	**71,578**	**0.1%**

(thousands of euro)	31/12/2022				31/12/2021			
	Gross exposure	Total value adjustments	Net exposure	Coverage	Gross exposure	Total value adjustments	Net exposure	Coverage
Bad loans	2,047,001	(1,326,419)	720,582	64.8%	2,190,338	(1,283,856)	906,482	58.6%
Unlikely to pay	2,639,481	(1,064,640)	1,574,841	40.3%	4,126,107	(1,816,670)	2,309,437	44.0%
Non-performing past-due exposures	82,190	(22,106)	60,084	26.9%	59,733	(15,123)	44,610	25.3%
Non-performing loans	**4,768,672**	**(2,413,165)**	**2,355,507**	**50.6%**	**6,376,178**	**(3,115,649)**	**3,260,529**	**48.9%**
of which: forborne	***2,082,727***	***(885,947)***	***1,196,780***	***42.5%***	***3,346,651***	***(1,524,087)***	***1,822,564***	***45.5%***
Performing loans (*)	**107,520,221**	**(420,768)**	**107,099,453**	**0.39%**	**106,577,184**	**(454,331)**	**106,122,853**	**0.43%**
of which: Stage 1	*96,657,964*	*(153,013)*	*96,504,951*	*0.2%*	*94,887,670*	*(124,343)*	***94,763,327***	*0.1%*
of which: Stage 2	*10,862,257*	*(267,755)*	*10,594,502*	*2.5%*	*11,689,514*	*(329,988)*	***11,359,526***	*2.8%*
of which: forborne	***2,803,391***	***(95,342)***	***2,708,049***	***3.4%***	***3,224,400***	***(105,711)***	***3,118,689***	***3.3%***
Total loans to customers	**112,288,893**	**(2,833,933)**	**109,454,960**	**2.5%**	**112,953,362**	**(3,569,980)**	**109,383,382**	**3.2%**

(*) Includes senior securities from sales of non-performing loans for an amount of 1,933.7 million (of which 1,937.8 million in gross exposure and 4.1 million in value adjustments).

The figures in the above table correspond to "Loans to customers" in the reclassified balance sheet and, as indicated above, also include the senior securities subscribed by Banco BPM deriving from sales of non-performing loans.
Without considering this reclassification, the net amount indicated corresponds to the item "Loans" reported in table 4.2 of the Explanatory Notes - Part B - Information on the consolidated balance sheet, "Financial assets at amortised cost: breakdown by product for loans to customers".

As illustrated in more detail in the paragraph entitled "Most significant aspects for 2022 financial statement valuations" in "Section 5 - Other aspects" of Part A and in paragraph "2.3 Measurement methods for expected losses" in Part E of the Notes to the consolidated financial statements, in 2022, the Group continued with the process of revising and fine-tuning the current models, with a view to more accurately reflecting the expected losses of performing exposures, also as a consequence of the economic disruption caused by the Covid-19 crisis, the situation of international political instability and the energy crisis. This process moreover envisaged a series of post model managerial adjustments, in order to factor in certain measurement elements not adequately intercepted by current models.
Furthermore, some changes were made to the criteria used to assess any Significant Increase in Credit Risk (SICR).
Following the above-cited changes, the gross exposures in the portfolio represented by loans to customers as at 31 December 2022, classified as Stage 2 amounted to 10.9 billion (10.1% of total performing exposures), down by 0.8 billion compared to the start of the year (when they totalled 11.0% of all performing exposures). In detail, the average coverage of Stage 2 exposures was 2.5%, compared to 2.8% as at 31 December 2021.

Net non-performing loans (bad loans, unlikely to pay and non-performing past due and/or overdue) amounted to 2.4 billion as at 31 December 2022.
An analysis of the individual items shows the following dynamics:

- net bad loans of 0.7 billion, with a decrease of 20.5% compared to 31 December 2021;
- net unlikely to pay loans of 1.6 billion, down by 31.8% compared the start of the year;
- net past due exposures amounting to 60 million (45 million as at 31 December 2021).

The percentage of non-performing exposures out of total loans, gross of value adjustments came to 4.2% compared to 5.6% at the start of the year.

The coverage rate for the entire non-performing loans aggregate was 50.6% (48.9% as at 31 December 2021).
More specifically, as at 31 December 2022, the coverage ratio was as follows:

- bad loans 64.8% (58.6% as at 31 December 2021);
- unlikely to pay loans 40.3% (44.0% as at 31 December 2021);
- past due exposures 26.9% (25.3% as at 31 December 2021).

The coverage ratio of performing loans came out at 0.39%, compared to 0.43% as at 31 December 2021.

Financial assets

(thousands of euro)	31/12/2022	% impact	31/12/2021	% impact	Abs. Change	% Change
Debt securities (*)	34,940,905	81.1%	30,671,735	84.4%	4,269,170	13.9%
Equity instruments	1,821,452	4.2%	1,927,416	5.3%	(105,964)	(5.5%)
UCIT units	1,220,222	2.8%	1,091,564	3.0%	128,658	11.8%
Total securities portfolio	**37,982,579**	**88.1%**	**33,690,715**	**92.7%**	**4,291,864**	**12.7%**
Derivative trading and hedging instruments	4,441,214	10.3%	2,122,530	5.8%	2,318,684	109.2%
Loans	669,748	1.6%	513,148	1.4%	156,600	30.5%
Total financial assets	**43,093,541**	**100.0%**	**36,326,393**	**100.0%**	**6,767,148**	**18.6%**

(*) Excludes senior securities from sales of non-performing loans.

Bank **financial assets** were equal to 43.1 billion, up by 18.6% compared to 36.3 billion as at 31 December 2021. The increase was mainly concentrated in debt securities (+4.3 billion) and, in particular, in the segment of securities at amortised cost. As at 31 December 2022, the aggregate in question consisted of debt securities for 34.9 billion, equity instruments and UCIT units for 3.0 billion and derivative instruments and other loans for 5.1 billion.

The table below provides the details of the financial assets of the banking segment by type and specific portfolio:

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

(thousands of euro)	31/12/2022	% impact	31/12/2021	% impact	Abs. Change	% Change
Debt securities	340,093	4.1%	1,148,885	17.8%	(808,792)	(70.4%)
Equity instruments	1,535,604	18.7%	1,588,059	24.6%	(52,455)	(3.3%)
UCIT units	1,220,222	14.9%	1,091,564	16.9%	128,658	11.8%
Total securities portfolio	**3,095,919**	**37.7%**	**3,828,508**	**59.2%**	**(732,589)**	**(19.1%)**
Financial and credit derivatives	4,441,214	54.1%	2,122,530	32.8%	2,318,684	109.2%
Loans	669,748	8.2%	513,148	7.9%	156,600	30.5%
Overall total	**8,206,881**	**100.0%**	**6,464,186**	**100.0%**	**1,742,695**	**27.0%**

Financial assets measured at fair value through other comprehensive income

(thousands of euro)	31/12/2022	% impact	31/12/2021	% impact	Abs. Change	% Change
Debt securities	9,094,672	97.0%	10,335,722	96.8%	(1,241,050)	(12.0%)
Equity instruments	285,848	3.0%	339,357	3.2%	(53,509)	(15.8%)
Total	**9,380,520**	**100.0%**	**10,675,079**	**100.0%**	**(1,294,559)**	**(12.1%)**

Financial assets at amortised cost

(thousands of euro)	31/12/2022	% impact	31/12/2021	% impact	Abs. Change	% Change
Debt securities (*)	25,506,140	100.0%	19,187,128	100.0%	6,319,012	32.9%
Total	**25,506,140**	**100.0%**	**19,187,128**	**100.0%**	**6,319,012**	**32.9%**

(*) Excludes senior securities from sales of non-performing loans.

Exposure to sovereign risk

The table below provides details of the total exposure in sovereign debt securities as at 31 December 2022, relating to the banking segment, broken down by country (amounts in thousands of euro):

Countries	Financial assets at fair value through profit and loss	Financial assets measured at fair value through other comprehensive income	Financial assets at amortised cost	Total debt securities	of which: Parent Company
Italy	20,871	1,728,801	9,177,677	10,927,349	10,624,510
Spain	-	985,887	3,695,515	4,681,402	4,681,402
Germany	1	824,977	2,362,036	3,187,014	3,187,013
France	-	1,373,067	5,025,799	6,398,866	6,398,866
Austria	-	-	273,445	273,445	273,445
Ireland	3	-	19,732	19,735	19,733
Other EU countries	9	104,230	218,629	322,868	322,858
Total EU countries	**20,884**	**5,016,962**	**20,772,833**	**25,810,679**	**25,507,827**
USA	1	1,548,919	2,231,314	3,780,234	3,780,234
Chile	-	12,133	2,048	14,181	14,181
China	-	54,402	39,838	94,240	94,240
Mexico	-	4,530	17,601	22,131	22,131
Hong Kong	-	20,191	-	20,191	20,191
Other countries	17	65,333	4,282	69,632	69,632
Total other countries	**18**	**1,705,508**	**2,295,083**	**4,000,609**	**4,000,609**
Total	**20,902**	**6,722,470**	**23,067,916**	**29,811,288**	**29,508,436**

Exposure is mainly concentrated within the Parent Company Banco BPM, which as at 31 December held a total of 29,508.4 million, of which 10,624.5 million relates to Italian government bonds.

Investments in sovereign debt securities are classified at 77.4% in the portfolio of financial assets at amortised cost, 22.6% in the portfolio of financial assets measured at fair value through other comprehensive income and 0.1% in the portfolio of financial assets at fair value through profit and loss as they are held for trading.
Out of this exposure, about 87% refers to securities issued by member states of the European Union; notably about 37% by Italy.
The Group has no exposures to debt securities of Russian or Ukrainian issuers.

The tables below provide, for securities issued by EU countries, more detailed information about the breakdown by accounting portfolio, residual life brackets and fair value hierarchy.

Financial assets at fair value through profit and loss

Status	Maturing by 2023	Maturing between 2024 to 2028	Maturing between 2029 to 2033	Maturing beyond 2033	Total fair value as at 31/12/2022	Total fair value by hierarchy		
						LEVEL 1	LEVEL 2	LEVEL 3
Italy	197	19,416	275	983	20,871	20,871	-	-
Other EU countries	1	8	2	3	13	13	-	-
Total	**198**	**19,424**	**277**	**986**	**744,392**	**20,884**	**-**	**-**
of which Parent Company	24	6	4	-	34	34	-	-

Financial assets measured at fair value through other comprehensive income

Status	Maturing by 2023	Maturing between 2024 and 2028	Maturity between 2029 and 2033	Maturing beyond 2033	Total fair value as at 31/12/2022	Net reserve at FVTOCI	Value adjustments	Total fair value by hierarchy		
								LEVEL 1	LEVEL 2	LEVEL 3
Italy	172,397	521,523	754,677	280,204	1,728,801	(96,618)	-	1,728,801	-	-
Spain	49,521	409,369	526,997	-	985,887	(69,026)	-	985,887	-	-
France	-	-	1,373,067	-	1,373,067	(154,191)	-	1,373,067	-	-
Germany	-	-	824,977	-	824,977	(110,495)	-	824,977	-	-
Other EU countries	-	56,380	47,850	-	104,230	(1,210)	-	104,230	-	-
Total	**221,918**	**987,273**	**3,527,568**	**280,204**	**5,016,962**	**(431,540)**	**-**	**5,016,962**	**-**	**-**
of which Parent Company	221,918	705,273	3,527,568	280,204	4,734,962	(424,111)		4,734,962		

Financial assets at amortised cost

Status	Maturing by 2023	Maturing between 2024 to 2028	Maturing between 2029 to 2033	Maturing beyond 2033	Total book value as at 31/12/2022	Total fair value	Total fair value by hierarchy		
							LEVEL 1	LEVEL 2	LEVEL 3
Italy	2,600,992	5,240,634	1,157,976	178,075	9,177,677	8,956,135	8,956,135	-	-
Spain	189,104	1,717,406	1,789,006	-	3,695,515	3,553,867	3,553,867	-	-
France	590,827	2,660,470	1,774,503	-	5,025,799	4,831,605	4,831,605	-	-
Ireland	-	19,732	-	-	19,732	19,145	19,145	-	-
Germany	-	983,408	1,378,628	-	2,362,036	2,228,234	2,228,234		
Other EU countries	-	294,561	197,513	-	492,074	458,044	458,044	-	-
Total	**3,380,923**	**10,916,210**	**6,297,626**	**178,075**	**20,772,833**	**20,047,029**	**20,047,029**	**-**	**-**
of which Parent Company	3,380,923	10,916,209	6,297,624	178,075	20,772,831	20,047,026	20,047,026		

Financial assets pertaining to insurance companies amounted to 5.9 billion and included financial assets mandatorily measured at fair value for 2.4 billion, mainly represented by UCIT units for 2.3 billion, and financial assets measured at fair value through other comprehensive income of 3.4 billion.

Net interbank position

Loans to banks

(thousands of euro)	31/12/2022	% impact	31/12/2021	% impact	Abs. Change	% Change
Loans to central banks	**1,297,716**	**31.1%**	**10,036,899**	**84.5%**	**(8,739,183)**	**(87.1%)**
Loans to other banks	**2,880,177**	68.9%	**1,840,979**	15.5%	**1,039,198**	**56.4%**
Fixed-term deposits	113,414	2.7%	154,496	1.3%	(41,082)	(26.6%)
Repurchase agreements	792,744	19.0%	293,490	2.5%	499,254	170.1%
Other loans	1,974,019	47.2%	1,392,993	11.7%	581,026	41.7%
Total loans (A)	**4,177,893**	**100.0%**	**11,877,878**	**100.0%**	**(7,699,985)**	**(64.8%)**

Due to banks

(thousands of euro)	31/12/2022	% impact	31/12/2021	% impact	Abs. Change	% Change
Due to central banks	**26,332,411**	**80.7%**	**39,041,403**	**85.5%**	**(12,708,992)**	**(32.6%)**
Refinancing operations	26,332,411	80.7%	38,756,200	84.8%	(12,423,789)	(32.1%)
Other payables	-	0.0%	285,203	0.6%	(285,203)	
Due to other banks	**6,303,394**	**19.3%**	**6,643,629**	**14.5%**	**(340,235)**	**(5.1%)**
Current accounts and demand deposits	250,742	0.8%	421,964	0.9%	(171,222)	(40.6%)
Fixed-term deposits	279,818	0.9%	398,035	0.9%	(118,217)	(29.7%)
Repurchase agreements	4,526,453	13.9%	5,062,398	11.1%	(535,945)	(10.6%)
Other payables	1,246,381	3.8%	761,232	1.7%	485,149	63.7%
Total payables (B)	**32,635,805**	**100.0%**	**45,685,032**	**100.0%**	**(13,049,227)**	**(28.6%)**
Mismatch loans/payables (A) - (B)	**(28,457,912)**		**(33,807,154)**		**5,349,242**	**(15.8%)**
Due to central banks: refinancing operations	**(26,332,411)**		**(38,756,200)**		**12,423,789**	**(32.1%)**
Interbank balance (excl. refinancing operations)	**(2,125,501)**		**4,949,046**		**(7,074,547)**	
Mismatch towards central banks (excl. refinancing operations)	**1,297,716**		**9,751,696**		**(8,453,980)**	**(86.7%)**
Interbank balance towards other banks	**(3,423,217)**		**(4,802,650)**		**1,379,433**	**(28.7%)**

Net interbank exposure as at 31 December 2022 amounted to -28,457.9 million, compared to the balance of -33,807.2 million at the end of last year.
Amounts due to central banks came to 26,332.4 million, and refer to TLTRO III long-term refinancing operations with the European Central Bank.
If net exposures towards central banks are not considered (in reality linked to the minimum reserve), the net interbank balance towards other banks is negative, and amounts to -3,423.2 million (-4,802.6 million as at 31 December of last year).

Interests in associates and joint ventures

Interests in companies subject to significant influence as at 31 December 2022 amounted to 1,453.9 million, compared with 1,794.1 million as at 31 December 2021.

The decrease recorded in the year of -340.2 million, included the effects resulting from the measurement at equity of interests in associated companies; in detail it encompassed:
- the portions pertaining to the results recorded by investee companies during the year totalling +157.5 million;
- the effects of the reduction in the equity, following the distribution of dividends of Agos Ducato (-85.4 million), Anima Holding (-20.0 million), Vera Assicurazioni (-10.5 million), Banco BPM Vita (-5.0 million), Gardant Liberty Servicing (-1.8 million), Etica SGR (-1.5 million) and Selmabipiemme (-1.3 million);
- the net changes pertaining to the Group of valuation reserves and other reserves of associates (-210.2 million);

- the transfer of the investee Banco BPM Vita, consolidated on a line-by-line basis as from 1 July 2022 (-87.6 million).

In addition, 35% of the company Factorit (-75 million) was sold in March.

Property, plant and equipment

(thousands of euro)	31/12/2022	31/12/2021	Abs. Change	% Change
Property, plant and equipment used in operations	**2,079,406**	**2,172,466**	**(93,060)**	**(4.3%)**
- at cost	714,887	795,374	(80,487)	(10.1%)
- at fair value	1,364,519	1,377,092	(12,573)	(0.9%)
Property, plant and equipment held for investment purposes	**955,283**	**1,105,779**	**(150,496)**	**(13.6%)**
- at fair value	955,283	1,105,779	(150,496)	(13.6%)
Total property, plant and equipment (item 90)	**3,034,689**	**3,278,245**	**(243,556)**	**(7.4%)**
Property, plant and equipment held for sale (item 120)	**132,993**	**106,028**	**26,965**	**25.4%**
Total property, plant and equipment	**3,167,682**	**3,384,273**	**(216,591)**	**(6.4%)**

The breakdown of property, plant and equipment used in operations is shown in the table below:

Property, plant and equipment used in operations *(thousands of euro)*	At cost	At fair value	31/12/2022	31/12/2021
Owned assets	**74,386**	**1,364,519**	**1,438,905**	**1,464,093**
- land	-	994,246	994,246	1,004,302
- buildings	-	317,304	317,304	322,690
- other	74,386	52,969	127,355	137,101
Rights of use acquired through leases	**640,501**	**-**	**640,501**	**708,373**
- buildings	605,978	-	605,978	698,160
- other	34,523	-	34,523	10,213
Total	**714,887**	**1,364,519**	**2,079,406**	**2,172,466**

The breakdown of property, plant and equipment held for investment purposes is shown in the table below:

Property, plant and equipment held for investment purposes *(thousands of euro)*	At cost	At fair value	31/12/2022	31/12/2021
Owned assets	**-**	**955,283**	**955,283**	**1,105,779**
- land	-	670,863	670,863	791,671
- buildings	-	284,420	284,420	314,108
Total	**-**	**955,283**	**955,283**	**1,105,779**

As at 31 December 2022, the total property, plant and equipment held by the Group amounted to 3,167.7 million (3,384.3 million last 31 December) and included assets held for sale of 133.0 million (106.0 million as at 31 December 2021), referring to properties for which sales agreements were defined.
The fair value measurement of properties as at 31 December 2022 led to the recognition of capital losses of 108.3 million. These adjustments are attributable to the valuation process carried out annually on properties and mainly refer to properties held for investment purposes.

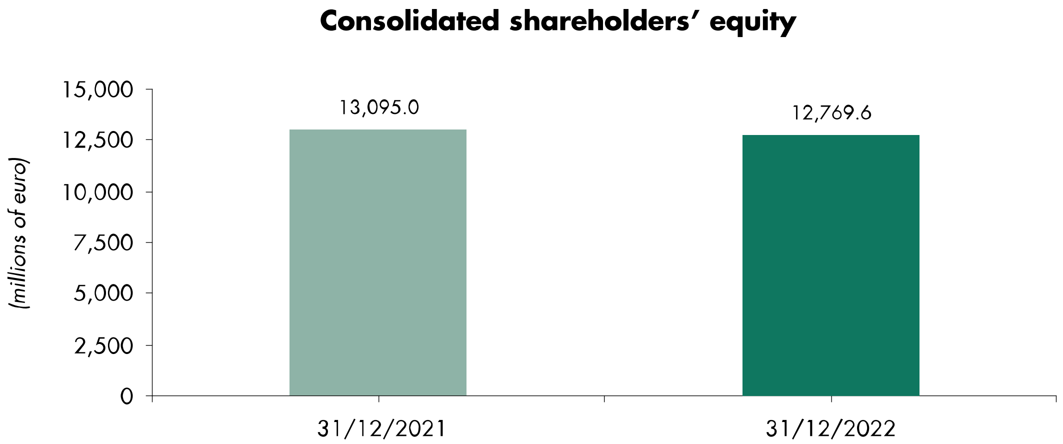
Liability provisions

As at 31 December, liability provisions amounted to 988.9 million (1,196.9 million last 31 December) and included the provisions for employee severance pay of 258.5 million (320.3 million at the end of last year), pension funds of 99.3 million (124.9 million as at 31 December 2021), allocations against commitments and guarantees given of 144.2 million (131.1 million at the end of the previous year) and other provisions of 486.9 million (620.7 million at the end of 2021).

The latter included provisions for personnel expenses of 263.5 million (382.6 million as at 31 December 2021), mainly related to the charges envisaged for the use of the extraordinary provisions of the Solidarity Fund and for early retirement incentives, and provisions for legal and tax disputes of 83.7 million (99.4 million at the end of last year).

In the Notes to the consolidated financial statements, Part B - Liabilities, Section 10 - Provisions for risks and charges, details are given with regard to the main pending legal proceedings, as well as disputes with the Tax Authorities and disputes and complaints involving customers.

Shareholders' equity and solvency ratios



The Group's consolidated shareholders' equity as at 31 December 2022, including equity instruments, valuation reserves and profit for the year, amounted to 12,769.6 million, compared to the figure at the end of 2021 of 13,095.0 million.
The change, negative by 325.4 million, derives, for -288.3 million, from the allocation of the result for 2021 approved by the Shareholders' Meeting of 7 April 2022, for -63.3 million from the payment of coupons on Additional Tier 1 instruments and, for -16.0 million, from the purchase of own shares by the Parent Company in connection with employee incentive plans. In April the issue of a nominal 300 million in Additional Tier 1 instruments was also concluded, recognised in the financial statements for an amount of 297.0 million (equal to the consideration received less transaction costs) under item "140. Equity instruments". Finally, other negative changes were recorded for a total of -254.8 million mainly referring to the contribution of the comprehensive income recorded in the year. The latter was negative by 247.7 million due to a net profit for the year of 702.6 million and a negative change in valuation reserves of -950.3 million, the latter mainly generated by the significant reduction in the fair value measurements of securities classified as financial assets measured at fair value through other comprehensive income.

The following table shows the breakdown of valuation reserves:

(thousands of euro)	31/12/2022	31/12/2021
Financial assets measured at fair value through other comprehensive income	(712,267)	66,536
Property, plant and equipment	375,712	375,335
Foreign investment hedges	(1,475)	(603)
Cash flow hedges	(27,655)	(16,416)
Exchange rate differences	16,369	13,998
Financial liabilities designated at fair value through profit and loss (changes to its own credit risk)	(13,977)	(5,609)
Actuarial gains/(losses) on defined benefit pension plans	(60,315)	(100,693)
Share of valuation reserves related to interests in associates and joint ventures carried at equity	(200,403)	6,498
Special revaluation laws	-	2,314
Total	**(624,011)**	**341,360**

Valuation reserves as at 31 December 2022 were negative and amounted to -624.0 million, compared with the positive figure of 341.4 million as at 31 December 2021. The most significant change was seen in the reserves on Financial assets measured at fair value through other comprehensive income, which recorded a decrease of 778.8 million referring mainly to reserves on Italian and foreign government securities of 670.7 million and in the reserve relating to interests in associates and joint ventures carried at equity, which recorded a decrease of 206.9 million against 2021. These changes are mainly justified by the reduction in the fair value of the securities following the significant increase in interest rates.

For further details, please refer to the statement of changes in consolidated shareholders' equity contained in the consolidated financial statements.

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

(thousands of euro)	Shareholders' equity	Net profit (loss) for the year
Balance as at 31/12/2022 as per the Parent Company's financial statements	**12,576,376**	**523,604**
Impact of the valuation at equity of associated companies	204,596	157,483
Cancellation of dividends received during the year by associated companies	-	(125,530)
Other consolidation adjustments	(11,420)	147,032
Balance as at 31/12/2022 as per the consolidated financial statements	**12,769,551**	**702,589**

Solvency ratios - reference legislation and standards to follow

With its communication of 22 November 2022, the Bank of Italy confirmed Banco BPM Banking Group as an Other Systemically Important Institution (O-SII) for 2022. The O-SII reserve, which for 2021 was equal to 0.19%, amounts to 0.25% starting from 1 January 2022.

With its communication of 30 September 2022, the Bank of Italy has confirmed the Countercyclical Capital Buffer ratio for exposures to Italian counterparties at zero per cent also for the fourth quarter of 2022.

On 15 December 2022, the European Central Bank (ECB) communicated to Banco BPM the SREP decision for the year 2023, bringing the Pillar 2 capital requirement (P2R) to 2.57%, essentially unchanged compared to that of the previous year net of the effects of the release of the deduction calculated pursuant to Art. 3 of the CRR (EU Regulation 575/2013), whose positive effects on the capital ratios and on the MDA buffer were calculated starting from the situation as at 31 December 2022.
Therefore, also considering the countercyclical capital buffer established by the competent national authorities for exposures to the countries in which the Group operates, (equal to 0.011%), the minimum requirements that Banco BPM is required to meet for 2023 until further notice, are as follows:

- CET 1 ratio: 8.71%;
- Tier 1 ratio: 10.69%;
- Total Capital ratio: 13.33%.

Transitional arrangements

Banco BPM exercised the option for the full application of the transitional arrangements envisaged by Article 473 bis of Regulation (EU) 575/2013, which mitigates over time the impact on own funds resulting from the application of the new impairment model introduced by accounting standard IFRS 9. The above-cited transitional arrangements envisage the option of including a positive transitional component in Common Equity Tier 1 equivalent to a percentage of the increase made in provisions for expected credit losses as a result of applying IFRS 9. Said percentage share decreases over time over a timeframe of five years, running from 2018 to 2022. The percentage share applicable to the period from 1 January 2022 until 31 December 2022 stands at 25% and will decline to zero as of 1 January 2023.

From 1 January 2023 the impact from the first-time adoption of IFRS 9 will therefore be fully recognised in the calculation of own funds. Without prejudice to the impacts expected from the transitional regime mentioned above, Banco BPM does not benefit from any impact on Common Equity Tier 1 capital due to the new transitional regime set out by the amendments made by Regulation no. 873/2020 to Article 473 bis in relation to increased provisions allocated for losses on performing loans in relation to the amount of the same as at 1 January 2020.

On 20 June 2022, Banco BPM communicated to the ECB, pursuant to Art. 1 paragraph 6 of Regulation no. 873/2020, its intention to make use of the temporary treatment, applicable in the period from 1 January 2020 to 31 December 2022, governed by Article 468 of the Regulation (EU) no. 575/2013 (CRR)[1]. By virtue of this temporary derogation, it is permitted to remove from CET 1 items part of the unrealised gains and losses accumulated starting from 31 December 2019, recognised as changes in the fair value reserves of the exposures to debt instruments issued by central governments, regional governments or local authorities referred to in Article 115 (2) of the CRR and public sector entities referred to in Article 116 (4), provided that such exposures are not classified as impaired financial assets. For the period from 1 January 2022 to 31 December 2022, the portion of unrealised gains and losses that can be excluded is 40% and amounts, as at 31 December 2022, to 237.3 million net of tax effects.

Group capital ratios

Banco BPM Group's capital solidity is fully confirmed as at 31 December 2022, as it far exceeds said prudential requirements, both with reference to the effective ratios calculated in accordance with the phased-in criteria in force for 2022, and considering the capital ratios calculated on the basis of the criteria in place when fully phased.

The phased-in Common Equity Tier 1 ratio is 14.3%, the phased-in Tier 1 ratio is 16.6%, while the Total Capital ratio is 19.6%.

Excluding the impacts of transitional rules, the Group's fully phased capital ratios as at 31 December 2022 were as follows:
- CET 1 ratio 12.8%;
- Tier 1 ratio 15.2%;
- Total Capital ratio 18.1%.

The capital ratios as at 31 December 2022 shown above were calculated by including the net economic result achieved by Banco BPM Group as at 31 December 2022, net of the proposed dividends and other allocations of profit.

As regards the consolidation of the insurance companies following the acquisition of Banco BPM Vita, note that, under the premise that Banco BPM Group will be recognised as a financial conglomerate (as defined by Art. 3 of Legislative Decree no. 142 of 30 May 2005), acknowledged in the ECB letter dated 7 March 2023, Banco BPM had already submitted a petition for the application of Art. 49 (1) of Regulation (EU) no. 575/2013 (CRR). Based on this regulatory provision, Banco BPM expects to obtain authorisation to not have to deduct the book value of the interest in Banco BPM Vita from CET 1 Capital. In this instance, the equity interest not deducted from own funds will be considered an exposure to credit risk to be weighted in compliance with the CRR (so-called Danish Compromise).

[1] Article amended by Regulation (EU) no. 2020/873 (CRR "Quick fix").

Including the positive effect of the application of the above-cited Art. 49 (1) of Regulation (EU) no. 575/2013 (CRR)[1], the fully-phased Common Equity Tier 1 ratio of the Group as at 31 December 2022 would be 13.3%.

Liquidity position and leverage

On 1 October 2015, Delegated Regulation (EU) no. 61/2015 entered into force, which requires that banks maintain a specific level of liquidity measured with regard to a short-term time horizon (Liquidity Coverage Ratio, "LCR"). As at 31 December 2022, Banco BPM Group had a consolidated LCR of 191% with respect to the regulatory limit of 100%.

Effective from 30 June 2021, the NSFR, the regulatory structural liquidity indicator, which measures the ratio of stable sources of funding and stable financing requirements, constitutes a regulatory requirement with a minimum of 100%. As at 31 December 2022, Banco BPM Group had a NSFR index of 131%.

Lastly, as regards the leverage ratio, the value as at 31 December 2022 was 5.21% calculated with the temporary definition of CET 1. The ratio calculated on the basis of the fully-phased rules is equal to 4.76%.

Consolidated income statement figures

The main income statement items for 2022 are illustrated below.

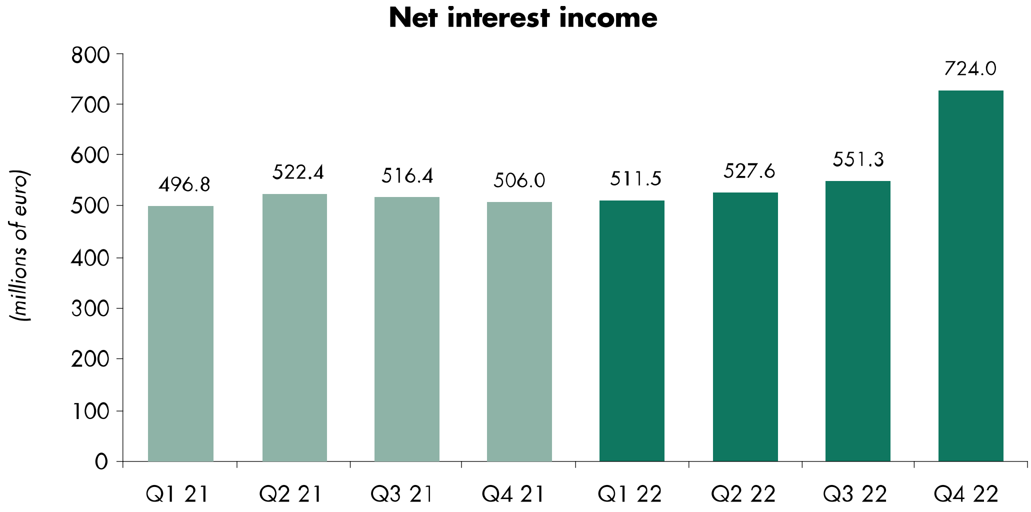
[1] This regulatory provision is also known as "Danish compromise".

Operating income

Net interest income

(thousands of euro)	2022	2021	Abs. Change	% Change
Financial assets (securities)	413,529	413,712	(183)	0.0%
Net interest due to customers	1,939,065	1,686,905	252,160	14.9%
Net interest due to banks	58,548	(4,735)	63,283	
Securities issued and other financial liabilities at fair value	(253,759)	(251,662)	(2,097)	0.8%
Hedging derivatives (net balance) (*)	1,715	(97,077)	98,792	
Net interest on other assets/liabilities	155,311	294,485	(139,174)	(47.3%)
Total	**2,314,409**	**2,041,628**	**272,781**	**13.4%**

(*) The item includes the spreads pertaining to the year on derivative contracts hedging financial assets (securities held) and financial liabilities issued.

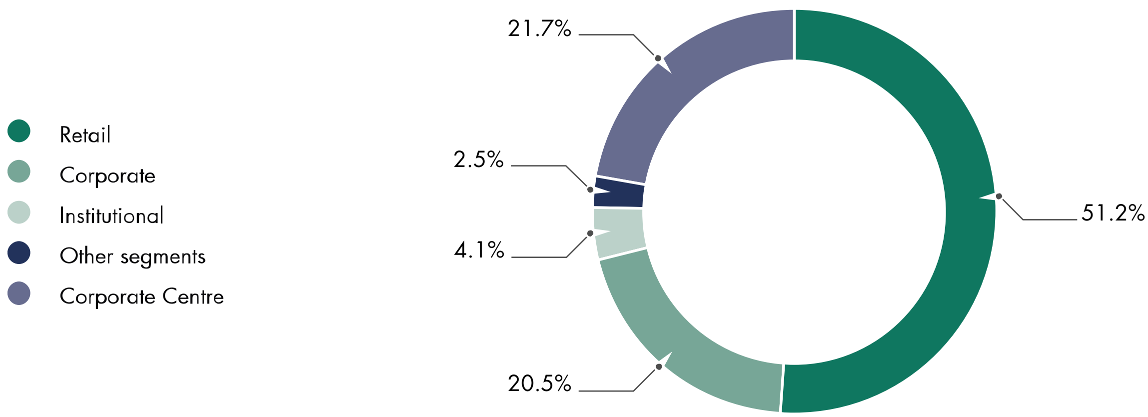


Net interest income amounted to 2,314.4 million, up by 13.4% compared to the 2021 figure (equal to 2,041.6 million), mainly thanks to the increase in the commercial spread following the rise in market rates. In the first half of the year, net interest income also benefited from the contribution made by TLTRO III financing operations which, in consideration of the net lending objectives reached by the Group, envisaged, starting from 23 June 2022, the payment of special interest, equal to -0.50%, in addition to the rate applicable for the entire duration of the loan[1]. In the second half of the year, on the other hand, there was a lower contribution due to the elimination of the favourable remuneration mechanisms illustrated above and the increase in interest rates. For further details, please see the paragraph "Other significant aspects relating to Group accounting policies" in "Section 5 - Other aspects" in Part A.

[1] The amount of eligible loans was significantly higher than the target levels set out in the regulations. This result guaranteed the application to the TLTRO III refinancing operations for the period from 24 June 2020 to 23 June 2022 ("special interest period") of a special interest rate equal to -0.50% in addition to the average rate applicable to deposit facilities (-0.50%).

(thousands of euro)	2022	2021 restated (*)	2021	Reclassifica-tions	Abs. change on restated balances	% Change
Retail	1,183,947	1,037,171	1,041,503	(4,332)	146,776	14.2%
Corporate	474,250	472,695	472,599	96	1,555	0.3%
Institutional	94,552	51,165	51,219	(54)	43,387	84.8%
Private	4,091	(2,417)	(2,557)	140	6,508	
Investment Banking	56,509	53,830	53,830	-	2,679	5.0%
Insurance	(39)	(1,352)	-	(1,352)	1,313	(97.1%)
Strategic Partnerships	(1,961)	(3,185)	(4,919)	1,734	1,224	(38.4%)
Leases	-	-	22,228	(22,228)	-	0.0%
Corporate Centre	503,060	433,721	407,725	25,996	69,339	16.0%
Total	**2,314,409**	**2,041,628**	**2,041,628**	**-**	**272,781**	**13.4%**

(*) Keeping the total of the item unchanged, the figures relating to the previous year were restated to guarantee a like-for-like comparison with the profiling criteria used for 2022. For more details on the methods for restating the balances of the previous year, please refer to the next section "Results by business segment" of this Report on operations.



The positive net interest income trend is largely attributable to the business lines relating to the Commercial Network, where the Retail segment recorded growth of 146.8 million compared to 2021. In detail, the positive trend in question was significantly impacted by the growth in net loans of the Commercial Network (+1.6 billion Retail and +1.1 billion Corporate), also in relation to direct funding, which has always been at significantly higher levels than those recorded in the previous year, decreasing only in the last quarter, bringing volumes down by around 0.6 billion, especially due to the effect of the non-restricted funding of the Corporate segment (-2.7 billion). The recovery in interest rates considerably influenced the trend of all the business lines of the Commercial Network, with the repricing of loans that more than offset the higher cost of funding. Lastly, note the lower contribution made by the allocation of a part of the benefit deriving from TLTRO III (-84.1 million) to the Network following the end of the so-called "special interest period".

The Investment Banking margin (56.5 million), represented by Banca Akros, did not show particular differences compared to the previous year, up by 2.7 million.

With reference to the Corporate Centre, despite an increase in its contribution to the Group's net interest income, the securities portfolio showed a decline, if considered together with the cost of funding to finance it, especially in the dollar component. In fact, the gradual increase in interest rates also had an impact on the higher cost of institutional bond issues, also due to a massive return of the Group on the bond market, with issues totalling 5 billion.

This last aspect must be considered together with the decision to repay the 12.5 billion of TLTRO III in advance in December 2022. In particular, the decisions made by the ECB, both to increase rates and to change the mechanism for calculating the rate applied to the TLTRO, generated an increase in interest expense of 170.8 million, only partially offset by the re-use of liquidity in the Deposit Facility.

However, overall, the Corporate Centre recorded an increase of 69.3 million, both as a result of higher loans with institutional counterparties and following the non-retrocession to the Commercial Network of the benefit deriving from the special interest period of TLTRO III.

Gains (losses) on interests in associates and joint ventures carried at equity

(thousands of euro)	2022	2021	Abs. Change	% Change
Agos Ducato	104,754	156,033	(51,279)	(32.9%)
Anima Holding	35,192	43,226	(8,034)	(18.6%)
Vera Vita	(2,210)	9,207	(11,417)	
Vera Assicurazioni	6,381	2,684	3,697	137.7%
Bipiemme Vita	1,227	7,430	(6,203)	(83.5%)
Factorit	-	6,386	(6,386)	
Other investee companies	12,139	6,974	5,165	74.1%
Total	**157,483**	**231,940**	**(74,457)**	**(32.1%)**

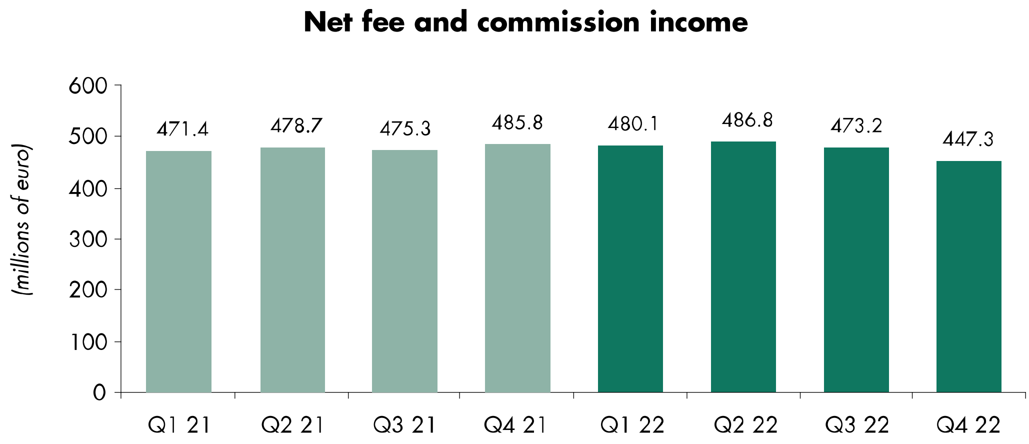
The **gains on interests in associates and joint ventures carried at equity** amounted to 157.5 million, compared to the figure for the previous year (equal to 231.9 million), which included a non-recurring positive component relating to an investee (42.1 million), the contribution of Factorit (sold in 2022) and the contribution of Banco BPM Vita for the first half of 2022 (fully consolidated from 1 July 2022).
The main contribution to the item in question was provided by consumer credit channelled from the equity interest held in Agos Ducato, amounting to 104.8 million, as well as the contribution of the associated company Anima Holding [1], amounting to 35.2 million.

In terms of business segment, the decrease in the item in question is essentially due to the Strategic Partnerships business line, where Agos Ducato decreased from 156.0 million in 2021 (which included the extraordinary contribution deriving from the exercise by the associate of the option to realign the tax value of goodwill) to 104.8 million in 2022, Anima Holding decreased by 8.0 million and Factorit no longer makes a contributions, as it was sold in the first quarter of the year.
The contribution of the Insurance business line was also down, which, in this item, was affected by the contribution of Banco BPM Vita and Banco BPM Assicurazioni only for the first six months of the year.
The contribution of the other interests in associates and joint ventures that are part of the Corporate Centre was substantially stable.

Net fee and commission income

(thousands of euro)	2022	2021	Abs. Change	% Change
Management, brokerage and advisory services	892,743	939,038	(46,295)	(4.9%)
Savings products and policies	703,170	781,911	(78,741)	(10.1%)
- Placement of financial instruments	37,026	19,849	17,177	86.5%
- Distribution and portfolio management	528,825	624,866	(96,041)	(15.4%)
- Bancassurance	137,319	137,196	123	0.1%
Consumer credit	48,965	34,672	14,293	41.2%
Credit cards	69,697	48,354	21,343	44.1%
Trading of securities and currencies and order collection	60,905	65,822	(4,917)	(7.5%)
Other	10,006	8,279	1,727	20.9%
Keeping and management of current accounts and loans	656,161	644,419	11,742	1.8%
Collection and payment services	183,644	169,206	14,438	8.5%
Guarantees given and received	49,642	69,343	(19,701)	(28.4%)
Other services	105,132	89,197	15,935	17.9%
Total	**1,887,322**	**1,911,203**	**(23,881)**	**(1.2%)**

[1] The contribution to the consolidated income statement for 2022 also includes the profit resulting from the investee in the final quarter of 2021, equal to 11.8 million pro-rata. 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 on 1 March 2022 and therefore subsequent to Banco BPM.

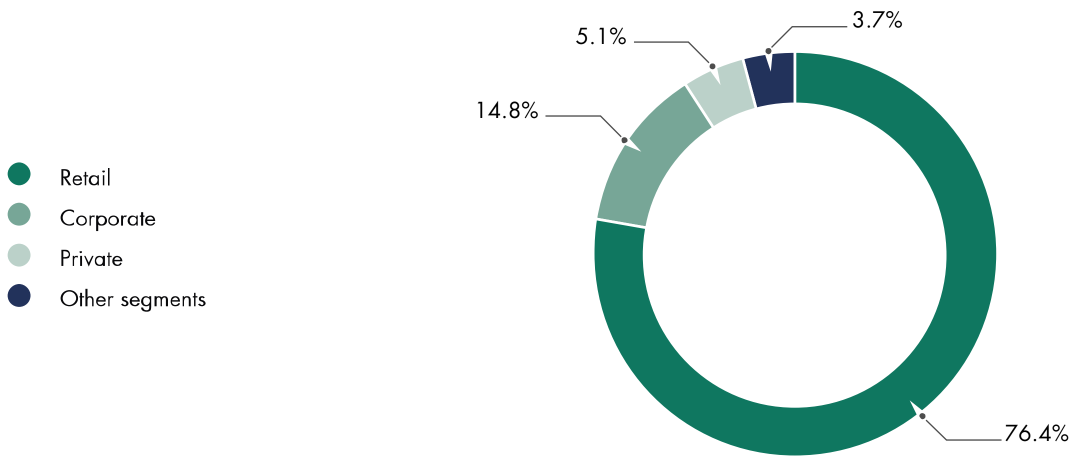


Net fee and commission income in 2022 totalled 1,887.3 million, down by 1.2% compared to the previous year.

This trend is attributable to the decrease in the contribution of management, brokerage and advisory services (-4.9% compared to 31 December 2021), while the contribution of the commercial banking services sector and that of collection and payment services show growth by 1.8% and 8.5% respectively compared to 31 December 2021.

(thousands of euro)	2022	2021 restated (*)	2021	Reclassifica-tions	Abs. change on restated balances	% Change
Retail	1,442,055	1,474,605	1,475,885	(1,280)	(32,550)	(2.2%)
Corporate	278,601	245,198	243,007	2,191	33,403	13.6%
Institutional	50,118	42,596	42,585	11	7,522	17.7%
Private	97,177	100,748	100,394	354	(3,571)	(3.5%)
Investment Banking	50,237	43,424	43,424	-	6,813	15.7%
Leases			(362)	362	-	0.0%
Corporate Centre	(30,866)	4,632	6,270	(1,638)	(35,498)	
Total	**1,887,322**	**1,911,203**	**1,911,203**	**-**	**(23,881)**	**(1.2%)**

(*) Keeping the total of the item unchanged, the figures relating to the previous year were restated to reflect the changes introduced to the breakdown of operating segments and to guarantee a like-for-like comparison with the profiling criteria used for 2022. For more details on the methods for restating the balances of the previous year, please refer to the next section "Results by business segment" of this Report on operations.

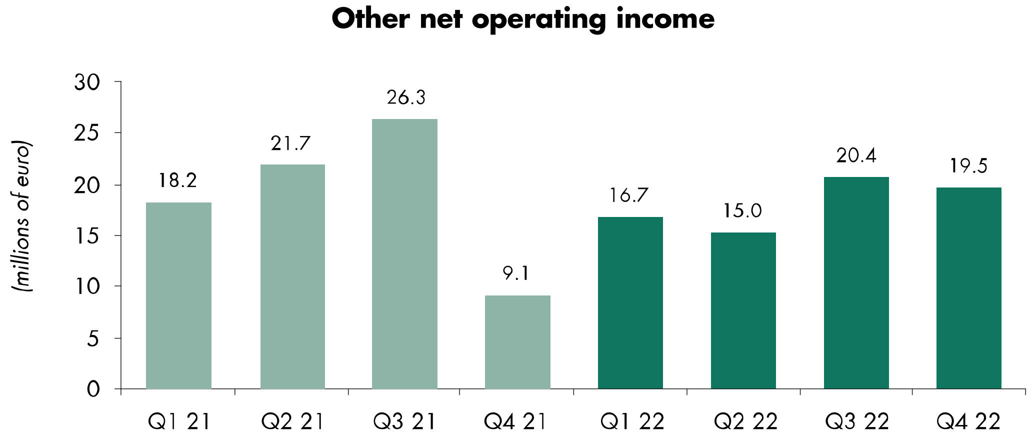


The decrease recorded in net fee and commission income (-23.9 million), compared to the previous year, is largely due to the Corporate Centre, where the new synthetic securitisation transactions, given the benefit of a reduction in risks for the Group, impacted the item in question by approximately 25.0 million, compared to 4.3 million in 2021.

The Investment Banking business line grew (+6.8 million), thanks to the structuring of the certificates issued by the Group.
With reference to the Commercial Network, the Retail segment was negatively affected by the trend in fee and commission income from assets under management (-87.1 million), not entirely absorbed by the growth in those on transactional banking services (+33.1 million), consumer credit (+14.3 million) and those related to foreign transactions (+9.2 million). Significant performances were recorded by the Corporate (+33.4 million) and Institutional (+7.5 million) business lines, due to higher loans granted to businesses.

Other net operating income

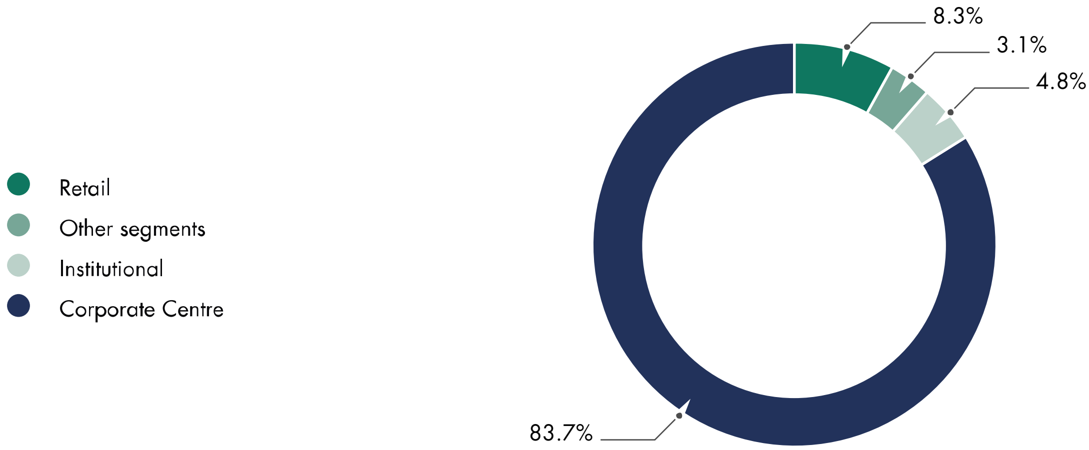
(thousands of euro)	2022	2021	Abs. Change	% Change
Income on current accounts and loans	6,398	5,309	1,089	20.5%
Rental income	36,878	33,885	2,993	8.8%
Expenses on leased assets	(14,343)	(26,173)	11,830	(45.2%)
Other income and charges	42,669	62,259	(19,590)	(31.5%)
Total	**71,602**	**75,280**	**(3,678)**	**(4.9%)**



Other net operating income totalled 71.6 million, compared to 75.3 million in 2021.

(thousands of euro)	2022	2021 restated (*)	2021	Reclassifica-tions	Abs. change on restated balances	% Change
Retail	5,965	5,166	5,167	(1)	799	15.5%
Corporate	58	62	61	1	(4)	(6.5%)
Institutional	3,470	3,504	3,504	-	(34)	(1.0%)
Private	5	5	5	-	-	0.0%
Investment Banking	962	1,126	1,126	-	(164)	(14.6%)
Insurance	1,219	-		-	1,219	
Leases		-	(15,985)	15,985	-	0.0%
Corporate Centre	59,923	65,417	81,402	(15,985)	(5,494)	(8.4%)
Total	**71,602**	**75,280**	**75,280**	**-**	**(3,678)**	**(4.9%)**

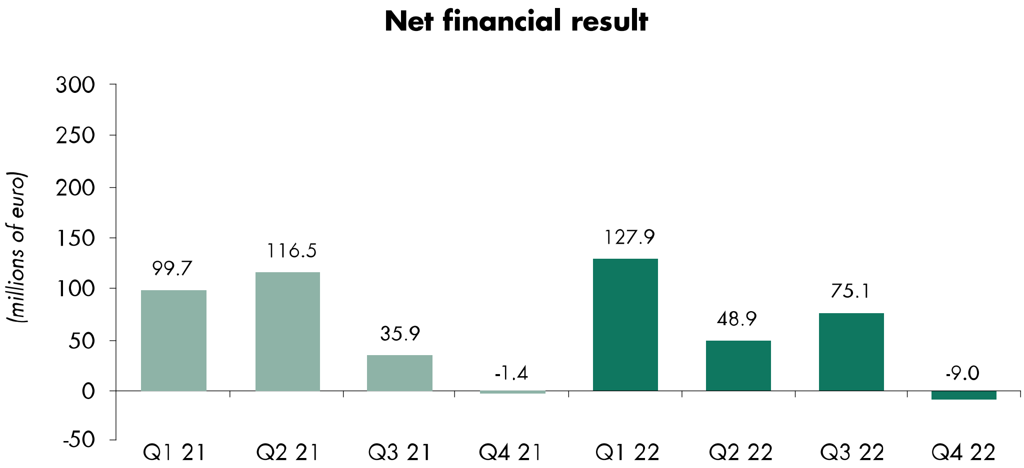
(*) Keeping the total of the item unchanged, the figures relating to the previous year were restated to reflect the changes introduced to the breakdown of operating segments and to guarantee a like-for-like comparison with the profiling criteria used for 2022. For more details on the methods for restating the balances of the previous year, please refer to the next section "Results by business segment" of this Report on operations.



Other net operating income amounted to 71.6 million, with a slight decrease compared to the previous year. In fact, given the absence of a number of extraordinary positive components from the previous year, the Corporate Centre benefited from lower charges for the relocation of leased assets (+11.8 million) and higher income linked to the activities of the subsidiary Tecmarket (+4.9 million).

Net financial result

(thousands of euro)	2022	2021	Abs. Change	% Change
Net trading income	202,342	111,728	90,614	81.1%
Gains/losses on disposal of financial assets	47,790	119,046	(71,256)	(59.9%)
Dividends and similar income on financial assets	21,101	13,091	8,010	61.2%
Gains/losses on repurchase of financial liabilities	(3,343)	(74)	(3,269)	not indicated
Fair value gains/losses on hedging derivatives	1,402	(848)	2,250	0.0%
Result of assets and liabilities at fair value	(26,309)	7,752	(34,061)	0.0%
Total	**242,983**	**250,695**	**(7,712)**	**(3.1%)**



The **net financial result**[1] for 2022 was equal to 243.0 million substantially in line with the figure of 250.7 million recorded as at 31 December 2021.
The result in 2022 comprises +202.3 million from trading activities (+111.7 million as at 31 December 2021), -26.3 million from changes recorded in the measurement of assets and liabilities at fair value (+7.8 million as at 31

[1] The item does not include the accounting effect, shown in a separate item of the reclassified income statement, of the change in the credit risk of the Group in regard to the fair value measurement of its own certificate issues, which led to the recognition of 7.2 million in income for the year (+6.5 million as at 31 December 2021).

December 2021) and +47.8 million from sales of financial assets (+119.0 million in 2021). Specifically, the figure as at 31 December 2022 is influenced by the fair value measurement of the equity interest in Nexi of -84.0 million (-25.8 million as at 31 December 2021).

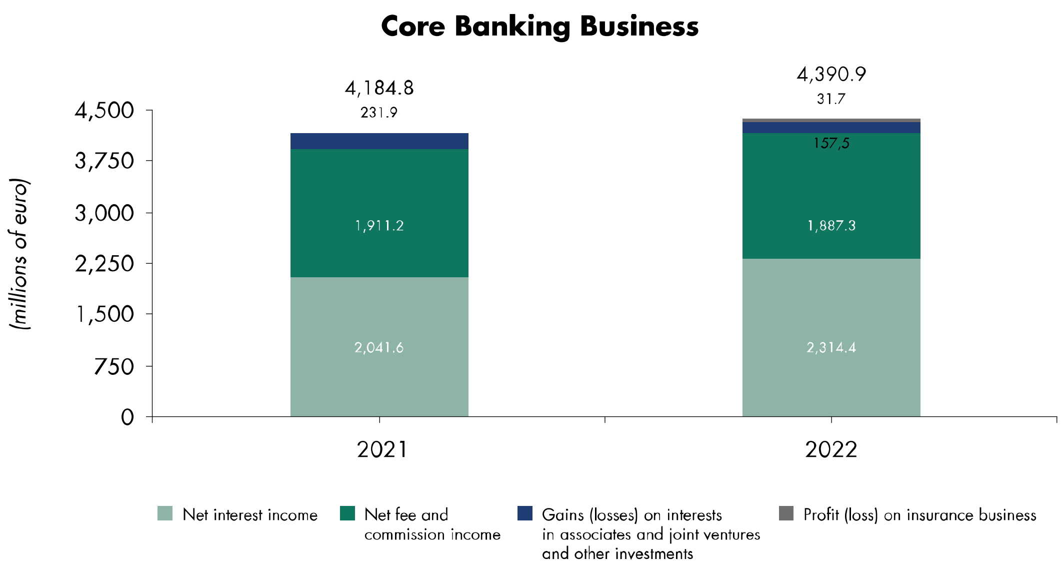
(thousands of euro)	2022	2021 restated (*)	2021	Reclassifications	Abs. change on restated balances	% Change
Retail	(7,529)	2,978	4,010	(1,032)	(10,507)	
Corporate	(18,338)	21,920	22,373	(453)	(40,258)	
Institutional	(466)	(455)	(420)	(35)	(11)	11.0%
Private	(429)	(289)	(283)	(6)	(140)	51.6%
Investment Banking	13,278	13,414	13,414	-	(136)	(1.0%)
Corporate Centre	256,467	213,127	211,601	1,526	43,340	21.2%
Total	**242,983**	**250,695**	**250,695**	**-**	**(7,712)**	**(3.1%)**

(*) Keeping the total of the item unchanged, the figures relating to the previous year were restated to reflect the changes introduced to the breakdown of operating segments and to guarantee a like-for-like comparison with the profiling criteria used for 2022. For more details on the methods for restating the balances of the previous year, please refer to the next section "Results by business segment" of this Report on operations.

In terms of business segment, the Corporate Centre recorded an increase of +43.3 million, benefiting from capital gains deriving from the sale of a portion of the securities portfolio and from higher trading profits. The latter more than offset the negative impact of the valuation of some securities held by the Group, in particular the Nexi share, down by 84.0 million compared to the previous year.
The contribution of the Commercial Network was also down, in particular the Corporate segment (-40.3 million), both in the component of hedging derivatives entered into with companies and, above all, following the valuation of loans that do not exceed the so-called "SPPI test" and which are therefore measured at fair value through profit and loss. The Retail business line was also down, particularly due to the placement of certificates.

The **profit on insurance business** was 31.7 million. That item comprises the contribution for the second half of 2022 of the insurance companies Banco BPM Vita and Banco BPM Assicurazioni, following the acquisition of control over them.

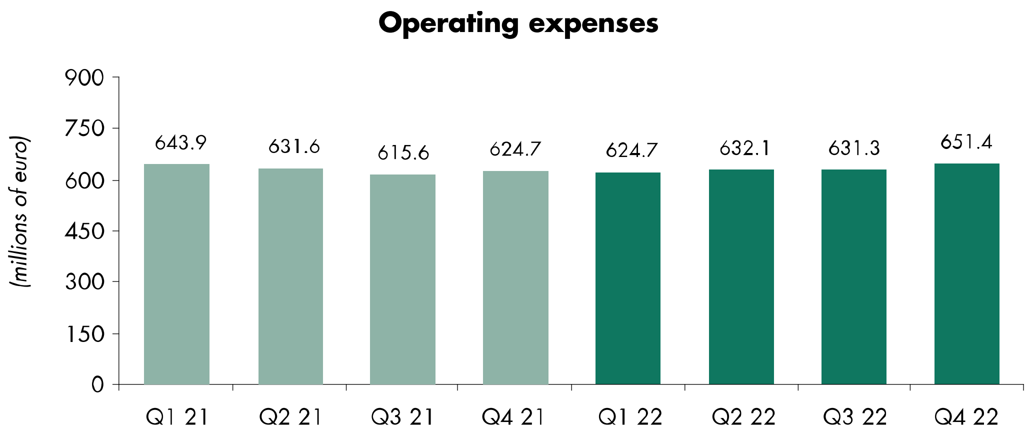
As a result of the trends described, the total **operating income** therefore amounted to 4,705.5 million, up compared to the 4,510.7 million recorded last year (+4.3%).



Taking only revenues from the core business into account, represented by the sum of the aggregates relating to net interest income, net fee and commission income, gains (losses) on interests in associates and joint ventures carried at equity and profit (loss) on insurance business, the 2022 figure reached 4,390.9 million, up 4.9% compared to the figure for the previous year.

Operating expenses

(thousands of euro)	2022	2021	Abs. Change	% Change
Personnel expenses	**(1,608,901)**	**(1,667,799)**	**58,898**	**(3.5%)**
Other administrative expenses	**(650,380)**	**(601,151)**	**(49,229)**	**8.2%**
- Taxes and duties	(313,178)	(320,133)	6,955	(2.2%)
- Services and consulting	(301,483)	(289,066)	(12,417)	4.3%
- Property	(85,453)	(66,155)	(19,298)	29.2%
- Postal, telephone and stationery	(21,076)	(22,773)	1,697	(7.5%)
- Maintenance and fees for furniture, machines and systems	(95,273)	(86,709)	(8,564)	9.9%
- Advertising and entertainment	(13,453)	(9,501)	(3,952)	41.6%
- Other administrative expenses	(91,028)	(89,333)	(1,695)	1.9%
- Expense recoveries	270,564	282,519	(11,955)	(4.2%)
Value adjustments to property, plant and equipment and intangible assets	**(280,088)**	**(246,825)**	**(33,263)**	**13.5%**
- Value adjustments to property, plant and equipment	(180,771)	(165,990)	(14,781)	8.9%
- Value adjustments to intangible assets	(92,265)	(78,825)	(13,440)	17.1%
- Net write-downs for impairment	(7,052)	(2,010)	(5,042)	250.8%
Total	**(2,539,369)**	**(2,515,775)**	**(23,594)**	**0.9%**



Personnel expenses, equal to 1,608.9 million, decreased by 3.5% compared to 1,667.8 million in 2021. The figures are not immediately comparable as both 2022 and 2021 include positive non-recurring components (equal to +11.9 million in 2022 and +14.4 million in 2021); in addition, the figure as at 31 December 2022 includes the charges (relating to the second half of 2022) of the insurance companies Banco BPM Vita and Banco BPM Assicurazioni amounting to 7.9 million. On a like-for-like basis (excluding insurance company expenses and one-off components), personnel expenses amounted to 1,612.8 million, down 4.1% year-on-year. This performance reflects the savings deriving from the reduction in the workforce implemented from last year, as part of the programme that envisaged the use of the Solidarity Fund for the industry. The total number of employees was 20,157 as at 31 December 2022 (of which 143 pertaining to the insurance companies), compared to 21,663 at the start of 2021.

Other administrative expenses[1], at 650.4 million, grew by 8.2% compared to 2021, when they totalled 601.2 million. Also in this case, the item includes the charges relating to the insurance business, which amounted to 6.4 million. Net of that component, the aggregate in question grew by 7.1%, also due to the inflationary trends under way, which specifically impacted energy consumption.

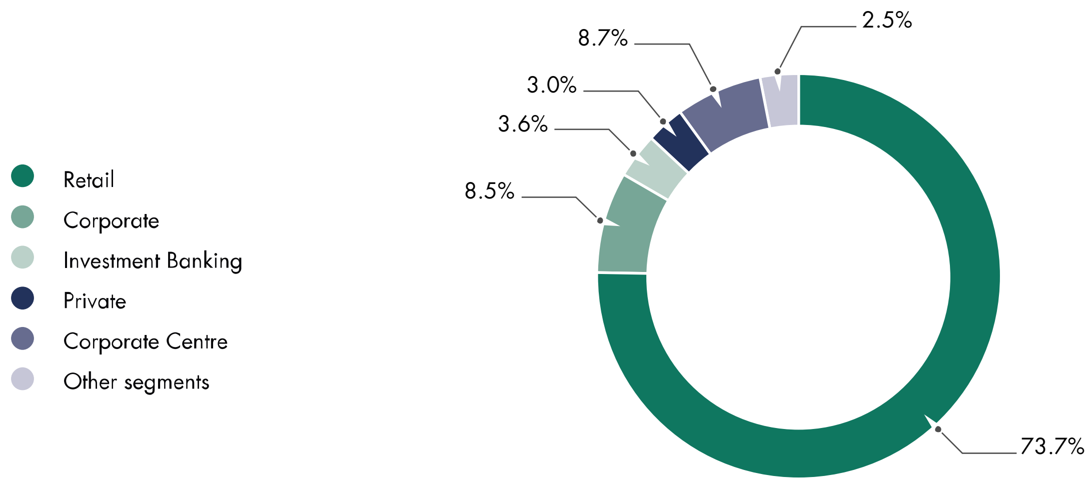
[1] The aggregate does not include the "banking industry charges", represented by the contributions to the Resolution Funds and the Interbank Deposit Guarantee Fund, reported in a separate item of the reclassified income statement, net of the relative tax.

Net value adjustments to property, plant and equipment and intangible assets totalled 280.1 million (of which 0.9 million referring to the insurance business), compared to the figure of 246.8 million as at 31 December 2021. The item includes adjustments of 7.1 million relating mainly to write-downs of software.

Total **operating expenses** therefore amounted to 2,539.4 million, up by 0.9% compared to 2,515.8 million in the previous year. Excluding the effects relating to the insurance companies Banco BPM Vita and Banco BPM Assicurazioni, totalling 15.3 million, as well as the impact of non-recurring items, the aggregate was substantially in line with the previous year.
The cost/income ratio for the year was 54.0%, an improvement compared to 55.8% in 2021.

(thousands of euro)	2022	2021 restated (*)	2021	Reclassifica-tions	Abs. change on restated balances	% Change
Retail	(1,872,511)	(1,901,966)	(1,901,966)	-	29,455	(1.5%)
Corporate	(215,750)	(199,363)	(199,363)	-	(16,387)	8.2%
Institutional	(45,604)	(41,907)	(41,907)	-	(3,697)	8.8%
Private	(75,919)	(75,285)	(75,285)	-	(634)	0.8%
Investment Banking	(90,438)	(91,922)	(91,922)	-	1,484	(1.6%)
Insurance	(15,559)	(212)	-	(212)	(15,347)	0.0%
Strategic Partnerships	(2,400)	(2,434)	(2,646)	212	34	(1.4%)
Leases	-	-	(31,817)	31,817	-	0.0%
Corporate Centre	(221,188)	(202,686)	(170,869)	(31,817)	(18,502)	9.1%
Total	**(2,539,369)**	**(2,515,775)**	**(2,515,775)**	**-**	**(23,594)**	**0.9%**

(*) Keeping the total of the item unchanged, the figures relating to the previous year were restated to reflect the changes introduced to the breakdown of operating segments and to guarantee a like-for-like comparison with the profiling criteria used for 2022. For more details on the methods for restating the balances of the previous year, please refer to the next section "Results by business segment" of this Report on operations.



In terms of business segment, it should be noted that the aggregate of operating expenses, which amounted to 2,539.4 million, is not fully comparable with that of the previous year, where the contribution of Banco BPM Vita and Banco BPM Assicurazioni, consolidated at equity, was absent.
Considering all the above, there was a significant decrease in personnel expenses (-58.9 million), thanks to the savings resulting from the reduction of the workforce. In particular, the Corporate Centre recorded a decrease of 42.3 million and the Retail segment of 23.5 million.
On the other hand, the trend of other administrative expenses and amortisation/depreciation worsened, up by 49.2 million and 33.3 million respectively, due to the increases in energy costs and the higher investments made.

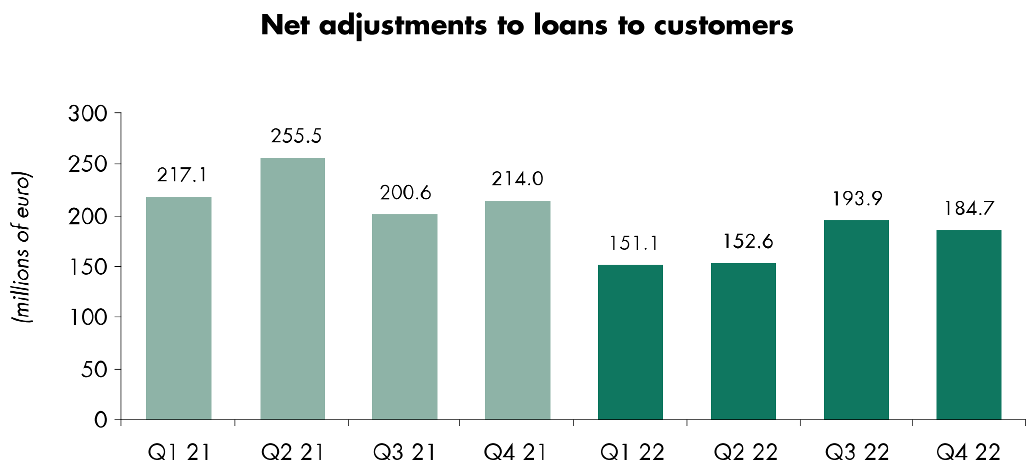
Profit (loss) from operations

The **profit from operations** as at 31 December 2022 stood at 2,166.1 million, up (+8.6%) compared to € 1,995.0 million in the previous year.

Adjustments and provisions

(thousands of euro)	2022	2021 (*)	Abs. Change	% Change
Net adjustments to loans at AC to customers	**(473,692)**	**(630,626)**	**156,934**	**(24.9%)**
Stage 3	(446,088)	(584,983)	138,895	(23.7%)
Stage 2	43,130	(29,613)	72,743	
Stage 1	(32,768)	33,064	(65,832)	
Acquired or originated impaired	(37,966)	(49,094)	11,128	(22.7%)
Gains (losses) on disposal of loans	**(210,302)**	**(248,052)**	**37,750**	**(15.2%)**
Gains (losses) from contractual modification without derecognition	**1,713**	**(8,521)**	**10,234**	
Total	**(682,281)**	**(887,199)**	**204,918**	**(23.1%)**

(*) Keeping the total of the item unchanged, the figures relating to the previous year were restated to guarantee a like-for-like comparison with the reporting criteria used as at 31 December 2022.



Net adjustments to loans to customers as at 31 December 2022, at 682.3 million, showed a 23.1% decrease compared to the previous year. Net adjustments in 2022 included the impact deriving from the increase in the targets for the sale of non-performing loans following the change in the non-performing loan management strategy, for a total of 112.7 million; as at 31 December 2021, the equivalent impact came to 194.0 million.
As at 31 December 2022, the cost of credit, measured by the ratio of net value adjustments on loans to net loans, was 62 bps. Excluding the extraordinary impacts due to the increase in the sale targets of non-performing loans approved by the Group, the cost of risk would come to 52 bps as at 31 December 2022.

The result of **fair value gains (losses) on property, plant and equipment** as at 31 December 2022 reported losses of -108.3 million compared to -141.6 million last year. These adjustments are attributable to the valuation process carried out annually on properties and mainly refer to properties held for investment purposes.

The item **net adjustments to securities and other financial assets** includes net losses of -9.1 million (-0.3 million as at 31 December 2021).

Net provisions for risks and charges in the year amounted to -57.2 million (-26.0 million as at 31 December 2021). The item includes the estimated costs that are expected to be incurred for the rationalisation of the branch network for 8.5 million as well as the provisions relating to the estimated costs for certain contractual commitments for 18.3 million.

As at 31 December 2022, **gains on disposal of interests in associates and joint ventures and other investments** amounted to 2.3 million, referring to sales of properties. In 2021, the item in question, amounting to -18.8 million, included the effect deriving from the impairment recognised on a shareholding.

Due to the trends described, the **profit before tax from continuing operations** was equal to 1,311.5 million compared to 921.0 million in 2021, marking an increase of 42.4%.

Other revenue and cost items

The **taxation charge related to profit or loss from continuing operations** was -408.9 million (-253.8 million as at 31 December 2021).

Profit after tax from continuing operations was therefore equal to 902.5 million, an increase of 35.3% compared to 667.2 million in the previous year.

Charges related to the banking system, net of taxes were also charged to the income statement for the year, amounting to 151.9 million (145.0 million in 2021) relating to the ordinary contribution to the Single Resolution Fund (110.5 million before tax, compared to 87.8 million as at 31 December 2021) and the Interbank Deposit Protection Fund (114.6 million before tax compared to 98.4 million as at 31 December 2021). In the previous year, additional contributions were also charged, paid to the National Resolution Fund for 28.6 million, gross.

The comparison with the recoverable value of intangible assets led to the recognition of **goodwill impairment** of 8.1 million.

In the year, the **change in own credit risk on Certificates issued by the Group, net of taxes**, generated income of 4.8 million (7.2 million before taxes). In 2021, income of 4.4 million (6.5 million before tax effects) was recorded.

The **Purchase Price Allocation net of taxes** represents the overall economic impact, net of the relative tax effect, of the reversal effects deriving from the allocation of the prices paid as part of the business combination between Banco Popolare Group and Banca Popolare di Milano Group finalised in 2017 and between Banco Popolare di Verona e Novara Group and Banca Popolare Italiana Group in 2007. In addition, starting from the second half of 2022, the effects relating to the business combination of Banco BPM Vita and Banco BPM Assicurazioni were also recognised, including the remeasurement at fair value of the interest held previously on the basis of the provisions of IFRS 3 for the aggregations carried out in several phases (so-called step acquisition).
In greater detail, the impact on the consolidated income statement for 2022 was -13.7 million on net interest income (in connection with the evolution of the different valuations of the loans purchased), and -38.1 million on other net operating income (due to the amortisation of the intangibles recognised in the PPA); in addition, the impact of -10.7 million resulting from the remeasurement at fair value of the 19% share previously held in Banco BPM Vita has to be considered. Net of the related tax effects, the overall impact recognised in the item "Purchase Price Allocation net of taxes" in the reclassified income statement for 2022 amounted to -45.5 million (the figure for 2021 was -39.5 million).

Considering the share of profit attributable to non-controlling interests, 2022 closed with **net profit** equal to 702.6 million (569.1 million as at 31 December 2021).

The figure net of non-recurring items was 886.3 million, up on the previous year (710.1; +24.8).

RESULTS BY BUSINESS SEGMENT

Introduction

According to IFRS 8, companies must provide information enabling users of financial statements to assess the nature and the effects on the financial statements of their business activities and the economic contexts in which they operate.
Therefore, it is necessary to highlight the contribution of the various "operating segments" to the formation of the Group's income.
The identification of the "operating segments" of this Section is consistent with the procedures adopted by Company Management to make operating decisions and is based on internal reporting, used for allocating resources to the various segments and analysing their performance. In that view, also to improve the representation of the Group's profitability, operating segments that are below the quantitative thresholds put forward in paragraph 13 of IFRS 8 are also highlighted.
Accordingly, also with a view to improving how the Group's profitability is represented, the Segment Reporting structure was revised, effective from 31 December 2022, to emphasise the process of internalising the bancassurance business, undertaken by the Group during the current year. In addition, the Leases segment, now a residual activity in terms of the Group's operations, was transferred to the Corporate Centre.

Therefore, for 2022, the operating segments taken as a reference to provide the disclosure in question are as follows:

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

A brief illustration of the breakdown of the various segments is provided below:

- the "Retail" segment includes the management and marketing of banking and financial products/services and loan brokering, which are mainly aimed at private customers and small businesses. These activities are for the most part carried out by the Parent Company's Commercial Network;
- the "Corporate" segment includes the management and marketing of banking and financial products/services and loan brokering, which are mainly aimed at medium and large-sized companies. These activities are for the most part carried out by the Parent Company's Commercial Network;
- the "Institutional" segment includes the management and marketing of banking and financial products/services and loan brokering, which are mainly aimed at bodies and institutions (UCITs, SICAVs, insurance companies, pension funds and banking foundations). Those activities are conducted in an equal amount by the Commercial Network of the Parent Company, for "local institutional" counterparties, and by specialised branches, for "systemically-important institutional" counterparties;
- the "Private" segment includes the management and marketing of banking and financial products/services and loan brokering, which are mainly aimed at private customers with assets that, individually and/or within their business, amount to at least 1 million euro. These activities are carried out by the subsidiary Banca Aletti;
- the "Investment Banking" segment includes the structuring of financial products, access to regulated markets, support and development of specialised financial services. These activities are carried out by Banca Akros and by Oaklins Italy;
- the "Insurance" segment includes the contribution of the interests held in Vera Vita, Vera Assicurazioni, Banco BPM Vita and Banco BPM Assicurazioni;
- the "Strategic Partnerships" segment includes the contribution of the interests held in Agos Ducato, Alba Leasing, SelmaBipiemme Leasing, Gardant Liberty Servicing and Anima Holding;
- the "Corporate Centre" segment, in addition to governance and support functions, includes the portfolio of owned securities, the treasury and the Group's Asset and Liability Management, the stock of bond issues

placed on institutional markets, the activities relating to the Group's leasing business, equity interests not classified as "Strategic Partnerships" and companies operating in the real estate sector. Lastly, all the consolidation entries are included in this residual segment.

The table below provides the key income statement and balance sheet figures, broken down by segment, referring to 2022 compared with those as at 31 December 2021.

Note that, to permit a like-for-like comparison, the figures of the previous year have been restated as compared to those published in the 2021 Annual Report, to take into account the amendments made to the Segment Reporting structure, mentioned above. More specifically:

- the contribution referring to the insurance companies Banco BPM Vita, Vera Vita and Vera Assicurazioni, measured with the equity method, was separated from the "Strategic Partnerships" segment and shown in the new "Insurance" segment;
- the contribution referring to the leasing business of the Group was attributed to the "Corporate Centre" segment.

Lastly, the figures relating to 2021 have been restated as a result of the reallocation of several customers among the various business lines, made on the basis of sales logic to achieve profiling that better reflects the characteristics of customers.

	Group	Retail	Corporate	Institutional	Private	Investment Banking	Insurance	Strategic Partnerships	Corporate Centre
Operating income									
2022	**4,705,517**	2,624,438	734,571	147,674	100,844	120,986	38,297	148,260	790,447
2021 (*)	**4,510,746**	2,519,920	739,875	96,810	98,047	111,794	17,969	207,101	719,230
Operating expenses									
2022	**(2,539,369)**	(1,872,511)	(215,750)	(45,604)	(75,919)	(90,438)	(15,559)	(2,400)	(221,188)
2021 (*)	**(2,515,775)**	(1,901,966)	(199,363)	(41,907)	(75,285)	(91,922)	(212)	(2,434)	(202,686)
Profit (loss) from operations									
2022	**2,166,148**	751,927	518,821	102,070	24,925	30,548	22,738	145,860	569,259
2021 (*)	**1,994,971**	617,954	540,512	54,903	22,762	19,872	17,757	204,667	516,544
Profit (loss) for the year									
2022	**702,589**	65,789	195,347	53,127	10,108	18,725	16,835	147,289	195,369
2021 (*)	**569,068**	12,876	87,212	21,982	11,595	10,654	18,273	187,839	218,637
Net loans (including senior securities from sales of non-performing loans)									
2022	**109,454,960**	63,164,637	31,092,530	6,704,832	542,448	1,773,022	-	-	6,177,491
2021 (*)	**109,383,382**	61,518,164	30,040,220	6,364,241	428,992	1,963,699	-	-	9,068,066
Direct funding (without repurchase agreements with certificates)									
2022	**123,449,508**	86,389,032	7,516,615	11,047,043	2,871,378	2,858,602	-	-	12,766,837
2021 (*)	**123,168,045**	84,262,888	10,223,578	10,966,219	2,948,662	2,663,969	-	-	12,102,729

(*) Keeping the total of the item unchanged, the figures relating to the previous year were restated to reflect the changes introduced to the breakdown of operating segments and to guarantee a like-for-like comparison with the profiling criteria used for 2022.

To guarantee a more immediate comparison with the figures presented in Part L – Segment reporting in the Notes to the consolidated financial statements, the table below shows a comparison with the figures presented in the Annual Financial Report of the previous year.

	Group	Retail	Corporate	Institutional	Private	Investment Banking	Insurance	Strategic Partnerships	Leases	Corporate Centre
Operating income										
2022	**4,705,517**	2,624,438	734,571	147,674	100,844	120,986	38,297	148,260	N/A	790,447
2021	**4,510,746**	2,526,565	738,040	96,888	97,559	111,794	N/A	224,689	5,881	709,330
Operating expenses										
2022	**(2,539,369)**	(1,872,511)	(215,750)	(45,604)	(75,919)	(90,438)	(15,559)	(2,400)	N/A	(221,188)
2021	**(2,515,775)**	(1,901,966)	(199,363)	(41,907)	(75,285)	(91,922)	N/A	(2,646)	(31,817)	(170,869)
Profit (loss) from operations										
2022	**2,166,148**	751,927	518,821	102,070	24,925	30,548	22,738	145,860	N/A	569,259
2021	**1,994,971**	624,599	538,677	54,981	22,274	19,872	N/A	222,043	(25,936)	538,461
Profit (loss) for the year										
2022	**702,589**	65,789	195,347	53,127	10,108	18,725	16,835	147,289	N/A	195,369
2021	**569,068**	18,178	85,743	21,417	11,268	10,654	N/A	205,857	(125,982)	341,933
Net loans (including senior securities from sales of non-performing loans)										
2022	**109,454,960**	63,164,637	31,092,530	6,704,832	542,448	1,773,022	-	-	N/A	6,177,491
2021	**109,383,382**	61,625,508	29,936,846	6,488,818	428,751	1,963,699	N/A	-	1,367,926	7,571,834
Direct funding (without repurchase agreements with certificates)										
2022	**123,449,508**	86,389,032	7,516,615	11,047,043	2,871,378	2,858,602	-	-	N/A	12,766,837
2021	**123,168,045**	84,398,631	10,136,351	10,926,181	2,935,264	2,663,969	N/A	-	4,507	12,103,142

A description of the individual segments is given below, focusing first on the performance of the income statement and then providing a more detailed analysis of the main activities conducted, both commercial and otherwise, divided in a manner that is in line with the internal organisation of the segment in question.

Retail

	2022	2021 (*)	absolute change	% change
Net interest income	1,183,947	1,037,171	146,776	14.2%
Financial margin	**1,183,947**	**1,037,171**	**146,776**	**14.2%**
Net fee and commission income	1,442,055	1,474,605	(32,550)	(2.2%)
Other net operating income	5,965	5,166	799	15.5%
Net financial result	(7,529)	2,978	(10,507)	
Other operating income	**1,440,491**	**1,482,749**	**(42,258)**	**(2.8%)**
Operating income	**2,624,438**	**2,519,920**	**104,518**	**4.1%**
Personnel expenses	(1,046,107)	(1,069,629)	23,522	(2.2%)
Other administrative expenses	(718,958)	(722,089)	3,131	(0.4%)
Net value adjustments to property, plant and equipment and intangible assets	(107,446)	(110,248)	2,802	(2.5%)
Operating expenses	**(1,872,511)**	**(1,901,966)**	**29,455**	**(1.5%)**
Profit (loss) from operations	**751,927**	**617,954**	**133,973**	**21.7%**
Net adjustments to loans to customers	(410,028)	(439,632)	29,604	(6.7%)
Net provisions for risks and charges	(33,761)	(15,212)	(18,549)	121.9%
Profit (loss) before tax from continuing operations	**308,138**	**163,110**	**145,028**	**88.9%**
Taxation charge related to profit or loss from continuing operations	(108,011)	(59,110)	(48,901)	82.7%
Profit (loss) after tax from continuing operations	**200,127**	**104,000**	**96,127**	**92.4%**
Charges related to the banking system, net of taxes	(110,412)	(92,946)	(17,466)	18.8%
Impact of the realignment of tax values to book values	-	29,929	(29,929)	
Purchase Price Allocation net of taxes	(23,926)	(28,107)	4,181	(14.9%)
Parent Company's profit (loss) for the year	**65,789**	**12,876**	**52,913**	**410.9%**

(*) Keeping the total of the item unchanged, the figures relating to the previous year were restated to guarantee a like-for-like comparison with the profiling criteria used for 2022.

Economic performance of the segment

Total operating income amounted to 2,624.4 million, up by 4.1% on the previous year. Within this aggregate, net interest income improved by 146.8 million, due to the increase in the reference interest rates, which more than offset the lower contribution of interest on TLTRO loans. In particular, the growth is largely attributable to the different speed of deposit repricing, slower than that of loans in adapting to the trend in market rates.
Net fee and commission income, amounting to 1,442.1 million, recorded a decrease of 32.6 million, mainly due to a reduction of the investment products component (-70 million), partly mitigated by the rise in Transactional Bank services, which recorded an increase of 33.1 million.
Other net operating income showed a slight improvement; instead, the net financial result decreased, relating to hedge products placed and to the issue of Certificates.
Operating expenses, amounting to 1,872.5 million, decreased by 29.5 million, mainly due to personnel costs (-23.5 million).
Net adjustments to loans to customers were down, and amounted to 410.0 million (compared to 439.6 million in 2021), benefiting from an improvement in the risk level of the portfolio largely attributable to derisking actions and to hedging policies completed in recent years.
Provisions for risks and charges amounted to 33.8 million compared to 15.2 million recorded last year; the increase was mainly linked to the allocation for commitments undertaken (13.6 million) and to the charges to be incurred for the implementation of the branch closure plan (8.5 million).
Net banking industry charges amounted to 110.4 million (compared to 92.9 million in the previous year) , in line with the increase of the Target defined by the Single Resolution Fund.
Instead, the contribution of the PPA (Price Purchase Allocation) of -23.9 million, was negative due to the lack of positive reversals on non-performing loans.
Due to the above, the Retail segment closed 2022 with a profit of 65.8 million.
As illustrated in the introduction, the "Retail" segment includes the management and marketing of banking and financial products/services and loan brokering, which are mainly aimed at private customers and small businesses.

More information on the activities managed by the business segment in question are provided below.

Private Customers

Introduction

In 2022, interaction between bank and customer through the omnichannel continued to be enhanced through two main drivers: digital identity and online services. In particular, online transactions were extended beyond the financial sphere also to bancassurance, e-money and Agos personal loans.
Thanks to an intensive adoption campaign towards customers, subscriptions to the digital identity service rose; more and more customers are now able to digitally sign contracts, in total security, simply and independently.
2022 was also characterised by further implementations of Banco BPM and Webank digital platforms (public sites, internet banking and mobile apps), both for private and business customers, thanks to which remote operations and the range of services offered have been improved.

Private Customers

"Private" customers of Banco BPM include all private parties - natural persons, with the exception of Private Banking customers, who are divided into "Personal" and "Universal" customers.

In December 2022, Private customers broke down as follows:

Segment	no. of customers with current account	% of customers with current account
Universal	2,641,855	80.4%
Personal	597,390	18.2%
Other Retail segments	48,018	1.4%
Total Retail customers with a current account (including card accounts)	**3,287,326**	**100.0%**

Products, services and loans for private Retail customers

Current accounts
During 2022, Banco BPM renewed the range of current accounts offered to the consumer target through the marketing of the new Webank account.
Again with the aim of improving the user experience, speeding up the account-opening process, the remote customer identification through SPID function was released in August.
These initiatives are in line with the market trend that envisages paperless onboarding processes and are part of the initiatives of the .DOT programme.
Starting from May, a promotion on the Webank account fee was launched: this was a particularly competitive proposal, one of the best on the market, thanks to the specific characteristics of the offer and the promotion on the fee. The initiative made a significant contribution to acquiring new consumer customers.
In October, a promotion was also launched on the You account, targeting consumers who subscribe to the account through the digital onboarding process, available on the Bank's commercial website. The initiative is a commercial acquisition opportunity and seeks to increase the customer base. At the same time, the new online recognition method through SPID was also released for the online opening of the single account-holder You account.
Another offer that updated the product catalogue was the marketing of the new 4YOU account from June. The offer is reserved to private customers with an employment contract with companies, entities, large associations affiliated with Banco BPM. This activity is part of the process of streamlining the product catalogue.
Other initiatives included the marketing at the beginning of the year of an account to support subsidised loans under the NRRP - National Recovery and Resilience Plan, as well as updates on ordinary consumer and non-consumer current accounts, and on the account reserved to condominiums.

New Public Websites

The development and management of the contents of the www.bancobpm.it website continued, with a particular focus on topics related to financial education, enhanced with more than 100 articles. The usage figures for the public websites (www.bancobpm.it and www.gruppo.bancobpm.it) recorded an increase in visitors of 40% compared to last year. At the end of the year, the overhaul of the mortgage simulator was completed and the application was created and released that allows an appointment to be made directly at the local branch from the public websites.

As regards Banca Akros, in 2022, the public website saw the release of a new search and profiling engine for the "Certificates" section, which allows investors to quickly and intuitively consult products of interest.

Transfer of tax credit originating from building bonus schemes - private customers

In 2022, the Bank continues to purchase tax credits resulting from work to improve the energy efficiency of buildings or other subsidised building work carried out by private customers as part of the agreements entered into with Cherry Bank S.p.A.. During 2022, the applications submitted were worth around 195 million in terms of credit value (of which 68% Superbonus loans and 32% other tax bonuses).

Omnichannel services

In 2022, activities related to the development of the new omnichannel and full digital service model continued.

Access to the online service through the "Signature Room", already available on the web, was extended to the app; in addition to the provision of enabling tools ("Digital Identity" and "Signature Room"), efforts focused on the progressive enrichment of the catalogue of products and services available in SELF mode and Online (e.g. Nexi Card, Prepaid Card, Agos Loans, MP5 Policy).

During the year, the new remote identification method was introduced through SPID (Public Digital Identity System): since the introduction of SPID, as many as 64% of the You accounts opened refer to customers recognised with this method and more than two out of three Webank accounts are opened in this way.

ATM

At the end of 2022, all Banco BPM ATMs were enabled for PagoPA payments (the payment system for public administrations and public service providers in Italy), addressing the need to create value in terms of profitability, efficiency of the ATM channel and customer service.

Token

Also in 2022, the transfer of expiring physical tokens to software tokens continued, in order to reduce the environmental impact and increase the user experience, reaching a conversion rate of more than 80% of the customers involved in the campaign.

Accessibility

In 2022, the Accessibility project was launched to meet the need to comply with the new legislation of Decree Law 76/2020, which extended the provisions of Law no. 4 of 09/01/2004 (Stanca Law). The need to "provide services and provide usable information, without discrimination, even by those who, due to disabilities, require assistive technologies or special configurations" applies to private parties that offer services to the public, through websites or mobile applications.

The process launched by Banco BPM envisaged an initial phase of checks on the accessibility of priority digital assets and is continuing with work to adapt and create new projects that aim to ensure compliance with the guidelines dictated by the regulations.

Mobile banking developments and investments: private customers

Banco BPM has made the new Personal Financial Manager (PFM) and Insight Platform services available to all private customers subscribed to the online channel with access to the YouApp or Webank App. This initiative is part of Banco BPM's new digital offering and allows private customers to optimise their financial management, through the introduction of new functions that allow them to set spending and savings targets, plan recurring transactions and analyse their expenses broken down by category and brand.

The PFM allows Banco BPM to send personalised suggestions to users on different categories of movements: products, expenses, list of transactions and recurring transactions, customised according to the customer's spending behaviour.

The online channel was enhanced by two important e-money releases: Nexi credit cards, available for online sales from May 2022 for the branch network and from June 2022 for the Digital Branch, and at the end of the year, the Debit Business product, Banco BPM's corporate debit card.
The "self-service" channel also saw an expansion of the range of products that can be purchased online: in particular, in the second half of the year, Nexi credit card sale functions were released on both the Banco BPM and Webank platforms. The sale of Banco BPM's Prepaid card was also extended to both platforms.
In line with the development of the digital service model defined in the Business Plan, in 2023, the online and self-service channel will be progressively extended, offering an increasingly higher number of products and services.

As regards the online trading sector, despite the complex geopolitical and economic scenario in 2022, online trading and investments recorded over 3.2 million transactions during the year, up 2% compared to the previous year.
The overall result is due to the steady growth of transactions in derivative instruments by Webank customers (+47% yoy) compared to a reduction of -15% on the cash component, in line with that recorded by the main global stock markets for this type of instrument.
The growing trend of Webank transactions was also made possible by the successful completion, in June 2022, of the migration of the order routing service on derivative markets from Banca Intesa to Banca Akros.
App transactions continued to grow: in 2022, more than one customer out of two used this tool to manage stock market transactions, while transactions on mobile channels accounted for more than 20% of total orders.
With the aim of recovering and supporting cash market transactions, a number of initiatives have been launched, the first positive results of which are expected in 2023. These include the use of new providers for time series and technical analysis tools and the expansion of functions linked to the securities alert system.

With regard to business customers, the main projects undertaken in 2022 are illustrated below:

- development of the YouBusiness app: the new functions implemented were identified on the basis of the main needs expressed by customers. Therefore, the following new services were released: payment of bills by QrCode, car tax, bank receipts, telephone top-ups, creation of the "Online documents" section and of the token app, thus optimising the customer "user experience", reducing operating costs and helping to improve the Bank's ESG rate.
  Over the next few months, the App will be enriched with new functions to offer additional mobile operations, accelerating the use of the channel by customers from a mobile first approach, expanding the availability of products and services on digital channels;
- improvement of the YouBusinessWeb platform: at the end of 2022, the BFM (Business Financial Management) service was released, which enables customers to access important new functions such as the categorisation of transactions, the automatic reconciliation of invoices, the management of recurrent transactions and of the budget allocated to company projects also through simulations (via graphs) forecasting future income and expenditure. Through the BFM service, businesses, particularly small ones, can manage company cash flows independently.

The table below outlines the trend for customers with multi-channel services:

Product/Service	**End of 2022 figures**	**End of 2021 figures**	**% Change**
No. of customers with the Home Banking service	2,095,461	2,032,457	3.1%
No. of customers with Digital Identity	876,329	386,659	126.6%
No. of pure digital customers (WeBank)	266,374	250,886	6.2%

% customers making transactions	**End of 2022 figures**	**End of 2021 figures**	**% Change**
% customers making online transactions against total customers making transactions	56.0%	52.6%	+6.5%
% customers making mobile transactions against total customers making online transactions	73.4%	68.0%	+7.9%

Customer Support and Development (CSD)

In line with the objectives of the 2021/2024 Business Plan, efforts to support cross-selling in the various business areas were significantly boosted and 62 new resources were added to the unit, which led to the exponential growth of the proactive contacts managed.
In 2022, collaboration with the Network channel focused mainly on the following areas:

- the online offer, through the digital branch, of products relating to Nexi credit cards, Agos loans and multi-risk policies of Banco BPM Assicurazioni, working alongside the branch manager in customer relations, with a view to continuously boosting cross-selling and internal skills, by activating a new sales channel;
- proactive contact with private customers and potential customers in the business world. In 2022, the percentage of Retail and Private customers contacted by the unit for commercial and caring purposes exceeded 14%, over double the figure recorded in 2021;
- enhancing the use of digital identity;
- management of the customer assistance service and customer relations as regards the Super Bonus.

Within the scope of providing customer support, this was actively managed both through traditional telephone channels (toll-free numbers with operator and Interactive Voice Response - IVR, call-back service available in the App and website for a customer bracket) and written channels (email messages) as well as through a virtual assistant (web and mobile) and social media channels; the main areas of operations, in addition to the Superbonus 110, were as follows, in continuity with 2021:

- assistance and navigation support to customers using home banking services, both for private Banco BPM customers and WeBank digital customers and companies using remote banking services (YouBusinessWeb);
- management of telephone banking services (direct banking and trading operations) both for private Banco BPM customers and WeBank digital customers;
- customer support during the before- and after-sales steps of the Webank online service, for all the products and services offered, in partnership with the virtual branch (representing the only communication channel between the Bank and the customer);
- support to private WeBank and Banco BPM customers on topics relating to cards.

Operator assistance activities, in terms of quantity, decreased in line with the objectives of the Business Plan, also thanks to inbound optimisation initiatives linked to prevention and the automation of contacts developed as part of the .DOT programme. Customer requests for self-service assistance increased, mainly due to the growth of the Virtual Assistant channel, which also saw the implementation of new customised functions and integration with the voice commands of the APP.

E-Money - Payment cards

In 2022, the process of digitalisation of Banco BPM e-money products continued. The introduction of digital identity and the signature room facilitated the preparation of new processes for the sale of Banco BPM products, also online, both through the online channel handled by the branch manager or the digital branch, and through the self-service channel, which allows customers to be completely independent in the purchase of a product online, from the selection of the product to the signing of contracts up to the receipt of the same at their home.
From the second half of 2022, the network of Banco BPM branches and the digital branch have been able to offer Nexi credit cards for sale online.
To facilitate the signing of documentation, the "signature train" function was also introduced for the sale of Nexi credit cards: thanks to this option, the sale process is quick and simple.
The online offer of a product addressed to business customers was developed: the Debit Business card.
The self-service channel also saw an expansion of e-money products that can be subscribed directly online. In particular, as of this year, customers subscribed to the Bank's online services can purchase both the Nexi credit card and the Prepaid card independently and with a "full digital" process. These products can be purchased by Banco BPM and Webank customers both through dedicated Apps and online by accessing Internet banking.
In 2023, new products are expected to be released on online channels (e.g. debit cards), in line with Banco BPM's omnichannel development process and with a view to completing the range of products that can be subscribed online.

Over the course of 2022, Banco BPM continued along the path of Digital Innovation, digitalising the Individual Cartimpronta Credit Card and making Apple Pay available for all types of payment cards addressed to consumer customers.
Also this year, customers showed significant interest in digital tools and the use of mobile payments, with an increase from 21,000 digitalised cards in 2021 to 196,000 cards in 2022, and with mobile wallet spending rising from a value of 11 million in 2021 to 186 million in 2022.
The activation of Apple Pay was fundamental to this growth: in 2022, 67% of Banco BPM's digitalised cards were used through this wallet.
In 2023, Banco BPM will continue along the path of digital innovation, extending the authorisation to the main OTTs (Apple and Google) for payment cards on the national circuit (currently only possible with Samsung Pay) and will enable company cards licensed by the Bank to all the main mobile wallets.

Private mortgage loans

In 2022, despite the increase in interest rates in the second part of the year, disbursements of mortgage loans to individuals were slightly below the result obtained in the previous year, which closed with a significant growth in volumes.
The commercial offer of mortgage loans to individuals in 2022 confirmed Banco BPM as one of the key players in the domestic competitive arena.
To further expand the offer reserved to its customers, Banco BPM has included the "Mutuo Promo a tasso variabile con Cap Green" (Promo Mortgage loan with a variable interest rate and Green Cap), characterised by the presence of a maximum rate (CAP), in the catalogue of mortgage loans to private customers.
The new product has an interest rate that changes on the basis of the performance of the benchmark without, however, ever exceeding the contractually established threshold.
Of the products offered, we draw attention to the considerable attention and appreciation by young customers of the "Mutuo You Giovani" (You Mortgage Loan for Young People), assisted by the presence of the Fondo Garanzia Prima Casa CONSAP.

In 2022, the Bank promptly implemented all legal incentives to support households and businesses affected by natural disasters; in addition, internal moratorium activities continued in favour of households that found themselves in temporary difficulty: in 2022, 645 suspensions were granted to private customers for a total of 5,731 suspended instalments corresponding to approximately 4.5 million in suspended capital.

Consumer credit

In 2022, new personal loans disbursed reached a value of 1,233 million, up 27% compared to the previous year.
Almost all of the personal loans were disbursed by Agos Ducato, a consumer credit company, whose products are distributed exclusively by Banco BPM; in the latter part of the year, new loans were also sustained by the online offer of Agos Personal Loans.
During 2022, Banco BPM continued to pursue its objective of making a concrete contribution to increasing the green awareness of its current account holders by reserving a special offer to the same: the "Green" offer by Agos, through which approximately 3,000 Banco BPM account holders were able to finance eco-sustainable expenditure, both in the field of green transport and energy upgrading.
Lastly, to show that it understands the needs of households, in 2022, Banco BPM sponsored schemes relating to Agos personal loans, thanks to which the customers interested were able to benefit from advantageous conditions.

Advances on severance pay for employees of the Public Administration

Banco BPM continues to focus on the issue of advances on severance pay for Public Administration employees: in fact, the agreements signed with the country's leading professional Institutions and Associations have been confirmed and further agreements are under negotiation.
In total, 1,480 advances were granted in 2022 for a total of 156 million in credit facilities granted with drawdowns of 133 million. The total stock of advances amounted to 4,610 transactions with drawdowns of 345 million.

Investment products

In 2022, funding volumes on assets under management were mainly concentrated on flexible and bond products characterised by asset diversification and partnerships with the most prestigious investment houses continued: Anima SGR continues to be one of the main partners of the Group; particular attention was paid to ESG criteria in the selection and distribution of products in line with the provisions of Article 8 of the EU Sustainability and Finance Regulation.
The asset management product catalogue was expanded with the proposal of dedicated flexible thematic funds, including Anima funds: Investimento Cyber Security & Big Data 2027, Investimento Smart City 2027, Investimento Smart Industry 2027, Investimento Globale & Infrastrutture 2027, Investimento Globale & Lusso 2027, Investimento Globale & Longevity 2028. These funds allowed customers to diversify their portfolios by investing in the sector linked to the relative issues and to have the opportunity of receiving an annual coupon flow. The catalogue also included new Flexible Bond funds.

In 2022, the Group continued to distribute insurance products through its joint ventures with Vera Vita, Vera Financial and Banco BPM Vita S.p.A. In this regard, customers showed a preference for Multi-segment products, which enable them to combine savings protection solutions with solutions able to grasp the best yield opportunities offered by the markets.
As part of insurance investment products, unit-linked policies and ESG-oriented policies were also offered.
With regard to Supplementary Pensions, the Group has constantly promoted the awareness and dissemination of dedicated products. Lastly, the Group continued to issue certificates and, in keeping with customer preferences, the products maintained a financial structure that protects capital (Equity Protection).

Bancassurance Protection

In 2022, with the aim of pursuing a multi-channel offering also for non-life policies, the Bank further increased its distribution channels.
The online offer of Banco BPM Assicurazioni's Home policy, available in 2021 only for branches, has also been offered since November 2022 through the digital branch.
In addition, since December 2023, the estimates saved online by the branches (network or digital) can be purchased through YouApp.
Since September 2022, the Home Risk policies of Banco BPM Assicurazioni and the fire policies of Vera Assicurazioni have also been available in combination with the mortgage loan offer.
Since June 2022, the Multiprotection Business policy of Banco BPM Assicurazioni has been in the catalogue for small economic operators and small business customers.

Listening to customers

Also in 2022, great importance was given to listening to customers and monitoring experience levels, activities aimed at improving the service provided.
In 2022, the relational Customer Experience, or Customer Satisfaction survey was conducted, involving over 210 thousand retail customers, Private customers and SMEs, of which 20% provided via web questionnaire and the remaining 80% by means of a telephone interview.
Satisfaction is measured using TRI*M, a numeric score ranging from 0 to 100 provided by the assessments that customers provide regarding overall satisfaction, level of recommendation, likelihood of repurchase and economic convenience of Banco BPM. Another indicator used to measure satisfaction is the Net Promoter Score (NPS), which monitors how likely a Customer is to recommend Banco BPM. The Customer Satisfaction surveys also investigate satisfaction with the products, reputation, branch services, web channels and any problems encountered. In 2022, all of the satisfaction indicators measured recorded an improvement over the previous year. Banco BPM's TRI*M index is 71 (+3 points compared to 2021), while the NPS index is 24 (+1 compared to 2021). To monitor the quality provided, over 2,000 visits were made to Group branches, using the "Mystery shopping" technique. The visits confirmed a good level of service at branches, with particular regard to the relational aspect.

In 2022, the process of developing the tools available to actively listen and oversee the customer experience as a whole made considerable progress. In fact, Banco BPM has further expanded the use of the Customer Feedback Management (CFM) platform, a tool able to easily manage the various surveys addressed to customers and collect instant feedback. Introduced in 2020, to date the CFM platform has collected approximately 310 thousand

feedbacks (130 thousand at the end of November 2022), overseeing all levels of Customer Experience listening, from relational aspects to those concerning digital interactions and the purchase of products and services.
The great potential offered by the CFM platform, combined with continuous internal communication activities and the involvement of most of the Bank's departments (Marketing and Sales in particular), have also made it possible to gradually spread a culture of continuous improvement also with a view to sustainable processes.
In this regard, the front-lines (primarily Customer Centre and Commercial Network) were strengthened, to re-contact customers following negative feedback and for the proactive resolution of problems that have arisen. In addition, the availability of artificial intelligence tools, used to process high volumes of feedback, made it possible to organise inter-functional work groups with the aim of providing a solution to the requests made by customers. The areas of intervention mentioned above are part of the "Close the loop" initiatives launched by the Group.

Research

To complement the previously mentioned customer experience monitoring, in 2022, 13 customised research projects were conducted, with a view to addressing topics which, during the year, needed to be examined in more depth.
More specifically, numerous surveys were conducted on ESG topics to support Group departments, on brand perception and positioning, on the development of new products and services and on the improvement of existing ones.
Research was also carried out for the collection of Voice of the Employee suggestions to fine-tune new online offer processes and to improve existing products and services and commercial initiatives.
In 2022, as well as involving specific targets, these surveys also made use of the Customer Feedback Management (CFM) platform and the "Insquadra" (Inteam) Community Panel, which has represented another channel to encourage listening to customers since 2019, with the involvement of around 2,000 private customers and 500 business customers.
Customers that participate in Banco BPM research activities contribute to the Group's decision-making process, by providing ideas and sharing experiences and impressions. In addition to the above, whenever Business customers participate in a survey, they contribute to the donations made to the AIRC Foundation (Foundation for Cancer Research), therefore supporting the partnership between the Group and AIRC.

Business Customers

There were approximately 470 thousand business customers with a current account as at 31 December 2022, of which:

Segment	no. customers with current account	% compared to total businesses
Small Business Operators	154,955	33.1%
Businesses	139,087	29.7%
Companies	42,242	9.0%
Condominium Associations	86,242	18.4%
Other businesses	43,944	9.5%
Public Sector and Third Sector	1,545	0.3%
Total	**468,015**	**100.0%**

The distribution of customers (unique customers with current accounts) by turnover level confirms the significant concentration in the class of up to 25 million (approximately 99%) already recorded in previous years, attesting to the vocation of Banco BPM Group in its relations with medium-sized companies.

Regarding the breakdown of customers by production sector, commercial and manufacturing activities continued to represent the most significant area, followed by those related to construction and property, catering and the agricultural sphere, as can be seen in the table below:

Production sectors	no. customers with current account	% compared to total businesses
Real estate activities	110,794	23.7%
Wholesale and retail trade, motor vehicle repair	78,546	16.8%
Manufacturing	50,708	10.8%
Construction	45,242	9.7%
Other service activities	30,430	6.5%
Accommodation and food service activities	28,323	6.1%
Agriculture, forestry and fishing	22,303	4.8%
Professional, scientific and technical activities	22,100	4.7%
Transport and storage	14,815	3.2%
Rental, travel agencies, business support services	11,846	2.5%
Arts, sports and entertainment	11,787	2.5%
Other segments	41,121	8.7%
Total	**468,015**	**100.0%**

As mentioned above, the distribution of Business customers includes a significant proportion of small and medium enterprises, for which the Group further strengthened its activities in 2022, thereby confirming its role as the Bank of reference and support for the entrepreneurial fabric in the main areas served.
More specifically, this entailed the offer of dedicated products and services, illustrated below.

Collection and payment services

Significant growth trends were also confirmed for this year in the field of transactional services: in particular for transactions referring to payments through the "PagoPA" circuit and to payments by bank transfer in all its forms (especially if urgent and immediate).
These results were also achieved through promotional training sessions regarding Webank customers. In particular, the campaign was limited to customers who had never made a fast payment, with a view to encouraging them to understand and appreciate this tool.
During the year, Banco BPM guaranteed its contribution to the working group which, within the ABI and under the direction of the ECB, is analysing the possible adoption of the euro in digital format and the various implications of the same, from both an operational and regulatory perspective.

E-money - POS

The number of POS transactions with debit, credit and prepaid cards grew by 30% in 2022 compared to the previous year.
In this regard, Banco BPM reached and exceeded the target of 140,000 POS terminals installed in commercial and service activities, Entities and the Public Administration.
In 2022, the Innovative Digital Omnichannel Sales process led to the modernisation of the product catalogue with the launch of the new Mobile POS terminal model, intended primarily for small businesses and freelance professionals.
During the year, the full development of targeted sales promotions was confirmed with recurring offers for the period and the profiling of vertical proposals by customer segment, also making the sales process more efficient and less costly.
During the last quarter, a campaign was also launched to expand the acceptance of the American Express circuit with "small business" operators.
Lastly, for the whole of 2022, in support of the widespread acceptance of low-value transactions, Banco BPM maintained zero commission on transactions with PagoBANCOMAT cards for amounts of less than 5 euro for all of its merchants, which has been in place since 1 January 2021.

Looking forward, again as regards Digital Omnichannel Sales projects, the analysis and development phases of the SMART POS range have been completed and the launch and release of the online offer channel for the entire POS product catalogue is now imminent in 2023.

Loans and lending

The lending products that comprise the various catalogues seek to meet their main and most frequent requirements: investment, working capital, liquidity, expansion, advances, cash flexibility, unsecured loans.
Also in 2022, work continued to improve and update the types of loans, with a view to guaranteeing a catalogue of products that is always able to meet market needs and at the same time can be successfully distributed by the Commercial Network.
2022 was characterised by a boost in the development of products to support companies in the transition towards a sustainable economy as regards ESG.
In this regard, lending products with a "Sustainability Objective" were made available to customers, with a view to accommodating businesses that want to embark on a virtuous path towards sustainability, with less impact on the environment (Environmental), inclusion policies and supporting the local community (Social) and organisational enhancement (Governance).
The new financing solution called “Unsecured Business Loan with Sustainability Objective” makes it possible to enhance the virtuous path undertaken in the ESG area by companies, whose added value is given by the possibility of connecting an ESG covenant to the loan, with a rewarding effect on the spread if the objectives agreed at the time the loan is stipulated are achieved.
Activities also continued to pursue financial solutions to support SMEs in their energy transition and investments in renewable energy plants; with regard to these, the Bank offers dedicated funding solutions to companies that invest in RES plants (the acronym includes forms of energy whose exploitation does not imply an impoverishment of the original source) also in line with NRRP objectives.

Specifically, in addition to offering specialist support in the form of Specialised Lending and Project Finance, Banco BPM has defined an ad hoc methodology for the preliminary and finalisation phases of this type of loan, with the aim of improving the ability to analyse these interventions, envisaging the following steps:

- definition of the best solution in terms of financing based on the type of transaction set in place by the customer;
- technical analysis of the plant conducted by technicians that meet the professional standards established by the Bank and, where possible, the measurement of the CO2 avoided;
- specific guarantees and safeguards to finance RES plants.

As part of the “Sustainable Investments 2020-2023” programme, an agreement was signed in 2022 with Cassa Depositi e Prestiti, called “CDP Investimenti Sostenibili”, aimed at creating and selling loans to be allocated within a specific ceiling of 300 million addressed to SMEs and Mid-Caps focused on energy efficiency, green financing and sustainable investments

Banco BPM, as part of the product initiatives launched with the NRRP programme:

- joined the Ministry of Tourism, Italian Banking Association and CDP Convention related to the “Fondo Rotativo Imprese (FRI) to support businesses and investments in development (FRI Fund)”. The product consists of a medium/long-term co-financing with Bank and Cassa Depositi e Prestiti funding at a subsidised rate and the disbursement of a non-repayable plant grant on the resources allocated, with a mandate granted to it by CDP to assess the creditworthiness of the company;
- the agreement of the Ministry of Tourism for the management of financial resources within the scope of the NRRP was implemented, activating the Special Tourism Section of the SME Guarantee Fund to facilitate access to credit by hotels that are involved in agritourism. In particular, Banco BPM made the Unsecured Loan and the Mortgage Loan with SMEGF guarantee - Special Tourism Section available to its customers;
- has developed products and sales initiatives to support customers in the application and assignment phases of incentives through participation in tenders, also as regards measures for the digitalisation of the Public Administration, Agri-Solar Farms and Agri-Food Logistics.

In addition, with regard to tax receivables, collaboration with Cherry Bank S.p.A. continued, confirming the offer of specific products to support the financial cycle of the renovation/energy efficiency work for residential buildings by private customers, condominiums and businesses, such as:

- Anticipo Superbonus Consumatori (Advance of Superbonus to Consumers) designed to provide financial coverage for the time between the start of works on site and their completion (at progress of work or overall) with the consequent monetisation of the tax credit transferred;

- unsecured loans to condominiums (Credito Condominio (Condominium Credit), Credito Condominio Energy Efficiency Italia (Condominium Credit Energy Efficiency Italy)), to fund building upgrade and energy efficiency costs, also for the part of the works paid for by using the consideration resulting from the transfer of said tax credit to Cherry Bank, alongside the existing opportunity to fund the cost of the works up to 100%, including VAT, net of the tax credit sold to the enterprise through discount on invoice;
- Anticipo Contratti Riqualificazione Edifici (Advances on Building Upgrade Contracts), addressed to businesses, to obtain financial coverage for the time between the start of works on site and their completion (at progress of work or overall) with the consequent monetisation of the tax credit transferred to the intermediary, the Bank's commercial partner.

Smart Lending

In 2022, through the online channel, customers continued to be offered short-term loans to be paid in instalments to support business liquidity or to facilitate the payment of taxes/wages.
An offer was activated that envisages the possibility of signing the transaction online by having customers sign loan agreements directly through their YouBusinessWeb workstation using the "signature room" function.
With this offer, the digitalisation of the loan instalment application and granting process was completed, and can now be carried out entirely online.

Invoice Financing

To improve access to financial services by businesses, an activity plan is at an advanced stage, with a view to extending the type of receivables transactions that may be requested through the YouBusinessWeb channel.
During the year, the release of new functions related to advances on Italian invoices without the transfer of receivables, to the management of the invoice schedule and the related advances, and to the request for an extension of a document and related advance was completed.
The development of the project will continue with the release of the advance function for other types of products (advances on Italian contracts and subsidies on documents and invoices) through the digital channel, as well as the possibility for the customer to attach supporting documentation for the relative request.

Other activities to support and increase business loans

The Bank continued its commitment to measures to support businesses, both in the emergency period resulting from the Covid-19 pandemic, and especially afterwards, in compliance with the measures established to combat the effects of the conflict in Ukraine.
The schemes implemented in 2022 in this regard mostly entailed arrangements required to promptly implement the support measures and subsidies dictated by a series of laws, such as Decree Laws and ABI Agreements.
Specifically, the following were gradually updated and made available:
- loans secured by the Guarantee Fund for Small and Medium Enterprises (pursuant to the Liquidity Decree Law, as amended, 2022 Budget Law, Aid Decree Law, as amended);
- unsecured agricultural loans backed by the ISMEA 100% direct guarantee pursuant to Article 20 of Italian Decree Law no. 50 of 17 May 2022 (Aid Ter DL).

Agrifood

The traditional and consolidated focus on businesses in the agrifood sector continued successfully through the synergistic presence of Agricultural Sales Specialists in all Territorial Departments, to support the network in the phases of contact and visits to businesses in this sector.
Activity in the primary sector in 2022 (still affected by Covid but above all by the Ukraine crisis) saw a considerable increase in the prices of raw materials (fertilisers, feed and fuel).
To meet the liquidity needs of businesses in the segment, the Bank made loans with a 100% ISMEA guarantee (pursuant to Art. 20 of the Aid Decree Law).
With regard to Rural Development Programmes (RDP), business opportunities continued to receive support from the "RDP we are with you 100%" initiative which, through a modular mix of products from the "Semina Catalogue", is able to meet and sustain investment needs also in view of the CAP (Common Agricultural Policy) reform planned for 2023.

Lastly, based on the experience gained in relation to the Supply Chain and District Projects with CDP-MIPAAF funds (IV Tender), Banco BPM participated, again as the lender bank, in the V Tender, which entails the commitment of significant resources from the NRRP.
Lastly, in 2022, in line with the Bank's lending policies, the use and implementation of the credit assessment procedure for agricultural businesses to support applications was consolidated.
These transactions, together with the presence of specialised professionals and the whole range of "Semina" lending products, make Banco BPM one of the Italian banks with the highest focus on the monitoring and development of the agrifood segment.

Subsidised Financing and Guarantee Bodies

In 2022, Banco BPM continued to disburse subsidised loans to businesses and households, with a view to facilitating access to credit and reducing its cost.
These loans feature public guarantees (e.g. Guarantee Fund for SMEs, ISMEA Guarantee Funds, European Investment Fund-EIF, SACE, Guarantee Fund for the First Home, etc.), or are granted by the Bank using funds obtained at advantageous conditions (e.g. funds of the European Investment Bank or of the Cassa Depositi e Prestiti (state-controlled fund and deposit institution)).

During the year, the most significant initiatives were as follows:
- loans to SMEs, to be allocated to the EIB "Synthetic Securitisation" ceiling, amounting to approximately 900 million, made available on the basis of the agreements with the EIB concluded at the end of 2021;
- use of the SACE guarantee lines to support SMEs and Mid-Caps for both liquidity and investment needs directed towards research and development and/or technological innovation;
- extension of the SMEGF guarantee to new short-term loans and unsecured loans, actually implementing a legislative provision already covered for some time by the Operating Provisions of the SMEGF and allowing a more extended use of risk mitigation tools, such as the direct SMEGF guarantee.

Guarantee instruments for enterprises

Considering the importance of guarantees in facilitating access to credit, the utmost impetus was given to guarantee operations, which are ancillary to the disbursement of credit, by subscribing/adhering to specific agreements and contracts with the managers and providers of guarantees.
Banco BPM is also active in the main national subsidised guarantee instruments, including:
- Guarantee Fund for Small and Medium Enterprises, specialised in protecting bank loans granted to support business financial needs;
- ISMEA (the Italian Institute for Services for the Agricultural Food Market), formerly the SGFA (the Italian Agricultural and Food Management Fund), dedicated to issuing direct or subsidiary guarantees, co-guarantees and counter-guarantees to agricultural companies;
- SACE, in the form of the "SACE Italy Guarantee", "SACE Mid Cap Guarantee", "SACE SupportItalia Guarantee" and "SACE Green Guarantee" (both under an arrangement with SACE and outside of the same), the latter to meet the parameters envisaged in the European Regulation and Taxonomy of "green" activities (Reg. EU no. 852/2020).

The above-mentioned guarantees benefit from the ultimate guarantee of the State, which allows the Bank to lower the production costs of lending and to apply special terms to the guaranteed loans.
These interventions entailed compliance with the regulations issued on each occasion, starting with Decree Law no. 23 of 8 April 2020 ("Liquidity" DL) and subsequently the 2022 Budget Law as well as Decree Law no. 50 of 17 May 2022 ("Aid DL"), as amended.
The collaboration with the Confidi continued with the final signature of the new version of the convention by all Guarantee Entities and Financial Intermediaries and with the addition of new Confidi (Confidi Sardegna and Confeserfidi), consolidating their support of local businesses.
Dedicated loan products were also launched in accordance with the provisions of the "Ukraine Decree Law" in order to exploit the opportunity of the counter-guarantee issued by the Central Guarantee Fund.
Lastly, the Bank also continued to work with various Foundations, by virtue of agreements entered into over time, which regulate operations as regards measures to contrast usury with regard to the funds allocated by Italian Law 108/96 "Anti-Usury Law", also to meet the liquidity needs of individuals with overt economic difficulties and problems accessing credit.

Other State subsidies for businesses

With regard to other schemes that benefit SMEs, Banco BPM also participates in different initiatives that envisage tax relief (interest rate subsidies or non-repayable grants/plant and equipment grants) dictated by various national and regional regulations, thus confirming its close deep-rooted relationship with the local communities served.

Partnership with the CBI

Starting from October, Banco BPM participated in an initiative led by the CBI consortium to set up a system database that allows real-time consultation of invoices and the percentage of advances already granted to applicant customers at other institutions. If these developments are successful, significant improvements will be made to customer risk profile analyses as regards advances on invoices and mitigating the risk of possible fraud.

Transfer of tax credit originating building bonus schemes - businesses and condominiums

In 2022, customers belonging to the businesses and condominiums segment again had the opportunity to transfer tax credit originating from work to improve the energy efficiency of buildings or other subsidised building work, in the same way as private segment customers.
For the Retail channel, in relation to the two segments in question, the applications submitted in 2022 had a credit value of approximately 289 million.

Corporate

	2022	2021 (*)	absolute change	% change
Net interest income	474,250	472,695	1,555	0.3%
Financial margin	**474,250**	**472,695**	**1,555**	**0.3%**
Net fee and commission income	278,601	245,198	33,403	13.6%
Other net operating income	58	62	(4)	(6.5%)
Net financial result	(18,338)	21,920	(40,258)	
Other operating income	**260,321**	**267,180**	**(6,859)**	**(2.6%)**
Operating income	**734,571**	**739,875**	**(5,304)**	**(0.7%)**
Personnel expenses	(76,838)	(76,023)	(815)	1.1%
Other administrative expenses	(134,810)	(118,711)	(16,099)	13.6%
Net value adjustments to property, plant and equipment and intangible assets	(4,102)	(4,629)	527	(11.4%)
Operating expenses	**(215,750)**	**(199,363)**	**(16,387)**	**8.2%**
Profit (loss) from operations	**518,821**	**540,512**	**(21,691)**	**(4.0%)**
Net adjustments to loans to customers	(191,673)	(390,121)	198,448	(50.9%)
Net provisions for risks and charges	(11,915)	(5,014)	(6,901)	137.6%
Profit (loss) before tax from continuing operations	**315,233**	**145,377**	**169,856**	**116.8%**
Taxation charge related to profit or loss from continuing operations	(105,648)	(49,023)	(56,625)	115.5%
Profit (loss) after tax from continuing operations	**209,585**	**96,354**	**113,231**	**117.5%**
Charges related to the banking system, net of taxes	(14,348)	(11,159)	(3,189)	28.6%
Impact of the realignment of tax values to book values	-	1,850	(1,850)	
Purchase Price Allocation net of taxes	110	167	(57)	(34.1%)
Parent Company's profit (loss) for the year	**195,347**	**87,212**	**108,135**	**124.0%**

(*) Keeping the total of the item unchanged, the figures relating to the previous year were restated to guarantee a like-for-like comparison with the profiling criteria used for 2022.

Economic performance of the segment

The Corporate segment recorded a total operating income of 734.6 million, down by 5.3 million (-0.7%) compared to last year.
Within this aggregate, net interest income stood at 474.2 million, with an increase of 1.6 million compared to 2021 (+0.3%), benefiting from the increase in the reference rates, which enabled the lower benefit of the economic effects of TLTRO III to be offset.
Net fee and commission income was up and amounted to 278.6 million (+33.4 million; +13.6%), due, in particular, to the higher contribution of other business services (+29.8 million; +29.6%), while the net financial result of -18.3 million decreased considerably, mainly due to the impact of value adjustments to loans measured at fair value as they did not pass the SPPI test (-34.6 million).
Operating expenses recorded an increase of 16.4 million, attributable to other administrative expenses, while the cost of credit showed a marked improvement, amounting to 191.7 million (390.1 million in 2021), benefiting from a significant improvement in the risk level of the portfolio, largely attributable to the derisking actions and the hedging policies completed in recent years.
The segment in question was also impacted by charges related to the banking system of 14.3 million, net of taxes, compared to 11.2 million in 2021, in line with the increase in the target defined by the Single Resolution Fund. The net result of the business line therefore stood at 195.3 million compared to 87.2 million of the previous year.

As illustrated in the introduction, the "Corporate" segment includes the management and marketing of banking and financial products/services and loan brokering, which are mainly aimed at medium and large-sized companies.

More information on the activities managed by the business segment in question are provided below.

Introduction

Banco BPM's Corporate function is the organisational structure that manages medium and large-sized corporate customers, through the centralised management of activities with a high specialist content and in areas with high added value and directly oversees the Corporate Commercial Network.

The Corporate Commercial Network is organised on a territorial basis according to a model developed and consolidated over the last few years and which saw, in 2022, an increase in the number of units in high potential areas[1]. This model has proven to be efficient in guaranteeing commercial and territorial coverage through:

- a central unit which directly handles business governance;
- 5 Corporate Markets, broken down, in turn, into 21 Corporate Centres;
- over 150 managers who, together with dedicated analysts, assist companies in their operations, with a strong focus on business development;
- a Large Corporate unit, with several local offices (Milan, Turin, Verona, Bologna, Rome), which focuses on serving customers with a turnover exceeding 1 billion.

Corporate customers

Corporate customers are represented by medium and large companies, Mid and Large Corporate.

Segment	no. of customers with current accounts (*) or with loans (**) as at 31/12/2022
Mid Corporate	approx. 9,800
Large Corporate	approx. 1,100
Total companies	**approx. 10,900**

(*) commercial current accounts, excluding technical accounts.
(**) Customers who have a loan (excluding credit limits, credit lines for derivatives and technical credit lines for usage limits).

[1] Three new Corporate Centres were established in 2022: Trentino Alto Adige, Novara-Lombardia Ovest, Bari.

The breakdown of Corporates, considering Customers and Groups, is as follows:

Corporate Customers	Total	of which, holders of current accounts	of which, those with loans
Number of customers	approx. 10,900	approx. 10,600	approx. 7,000
Number of Groups	approx. 3,200	approx. 3,000	approx. 2,800

The data on loans as at 31 December 2022 is as follows:

(millions of euro)	
Cash + Bonds	31,294
Unsecured	5,197
Total loans	**36,491**
Direct Funding	**9,187**

Corporate business strategy

In a complex scenario, which has suffered both the consequences of the pandemic period and the economic impacts of the Russian-Ukrainian conflict, the constant monitoring of corporate customer relations, invaluable for providing them with optimal and targeted support, was more strategic than ever.
This support took the form of prompt responses to customer needs that are constantly evolving. The role of relationship managers was fundamental, as they form the heart of the Corporate commercial network and work in close synergy and coordination with the Corporate Management Units and the centres of excellence.

Overseeing customer needs

Oversight took place in two fundamental areas:
<u>Support to deal with the energy crisis</u>: in view of the considerable increase in the cost of energy and raw materials in general, Banco BPM made the so-called "energy fund" available. This is an allocation of 5 billion to support corporate customers in limiting the effects resulting from the high cost of energy and raw materials and which takes the form of solutions dedicated to the financing of stocks and raw materials made available at advantageous financial and technical conditions;
<u>Support to ESG projects</u>: in 2022 Banco BPM reconfirmed its commitment to supporting ESG projects and the "green transition" of its customers, in line with the objectives defined in the 2021-2024 Strategic Plan. The Corporate function has integrated these elements in the management of its commercial activities, also in consideration of the fact that transition risk represents a key variable in business positioning and in the development and growth projects of its corporate customers.
In 2022, the continuation of disbursements relating to the "2020-2023 Sustainable Investments" fund of a total of 5 billion, 80% of which has already been allocated, thanks above all to transactions related to Green Project Finance, Real Estate and through Sustainable Linked Loan transactions, both bilateral and pooled, is an important part of this initiative.
Alongside the "Sustainable Investments" fund, the development of dedicated products continued, with a view to providing targeted support to the green projects and investments of Corporate customers, both that regard transactions with highly personalised structures, and that regard more standardised transactions developed directly by the Corporate Commercial Network.

Offer to customers - focus on the ESG component

ESG loans, loans attributable to anti-crisis measures (e.g. backed by SACE guarantee) and expansion of the offer catalogue to support the "green transition"

In 2022, the development of the system offering dedicated loans to Corporate customers followed a dual approach: on the one hand, continuity was pursued, aiming to make the processes related to solutions already in place more effective and efficient, as in the case of interventions backed by public guarantees; on the other hand, innovation was pursued, introducing new tools able to stimulate and support the "green transition" of customers. This is consistent with the current scenario, affected by pervasive "ESG oriented" phenomena and processes. Initiatives

aimed at enhancing relationships with customers operating in green sectors or with negligible transition risk are also included in this perspective.
Lastly, activities continued in synergy with the various units of the Bank, functional to the evolution and development of solutions, products, services and tools to be able to seize the opportunities associated with the measures envisaged in the National Recovery and Resilience Plan (NRRP).

Support to the green transition: development of the offer and dedicated commercial initiatives

As previously indicated, in 2022 efforts to provide support for the "green transition" of corporate customers became increasingly important.
This commitment entailed the disbursement of appropriately identified loans to enhance the interventions in the Real Estate area (e.g. urban redevelopment or energy projects), Project Finance and more generally the improvement objectives of specific green or ESG KPIs pursued by corporate customers as part of the development and growth process.
The introduction of the "Unsecured Loan with Sustainability Objective" was significant, a tool dedicated to supporting businesses in their path towards more sustainable business models from an ESG perspective, thanks to the adoption of "ESG" objectives (ESG KPIs - contractual covenants), to reward and motivate companies that commit, in various ways, to improving their green sustainability and, more generally, ESG profile.
Particular attention was also paid to supporting the investments of companies operating in naturally green sectors or in sectors with low transition risk, to which specific commercial initiatives were dedicated.
Again in support of the "green transition", in 2022 the loans backed by the SACE Green Guarantee were increased, also thanks to the implementation of the partnership management approach. This guarantee is part of a wider European "Green New Deal" programme, which encompasses a set of measures in response to the climate emergency, and which envisages achieving the neutrality of polluting emissions by 2050.

Other commercial initiatives: synergies with Banca Aletti and Banca Akros

With a view to the growth and development of synergies, the Corporate function developed the "Insieme" project with Banca Aletti, to acquire new Private customers through Corporate channels, by exploiting existing customer relationships within the Group.
Also its collaboration and synergy with Banca Akros continues to be significant, the latter specialising in Capital Markets (interest rate, exchange rate and commodity hedging) and Investment Banking (Equity Capital Markets, Debt Capital Markets, M&A, Securitisation and Advisory segments).

The role of public guarantees to sustain the Italian economy

In 2022, with the progression of the Russian-Ukrainian conflict, the instrument of SACE Italy Guarantee, widely used in 2021, was replaced by the launch of loans backed by the so-called SACE Supportitalia guarantee.
These instruments were used to deal with the fluctuating market dynamics, alongside other public subsidies (e.g. those connected with projects linked to the NRRP).

Other distinctive activities

In 2022, the use of the "Sales4Change" commercial interaction platform was further developed, which contributed to achieving commercial objectives.
The purpose of these developments was to optimise its use to the advantage of the Network, in order to improve customer service, in a context of digital innovation. Project work is continually evolving and will continue in the near future as well, with a view to achieving a fully integrated digital ecosystem.

Hedging financial risk

In 2022, Banco BPM Group reaffirmed its activity of providing specialised support to corporate customers in managing interest rate, exchange rate and commodity risks, through the Corporate & Institutional Banking unit of Banca Akros. Customers are assisted by a group of sales advisors and specialists, located in different geographical areas, equipped with superior technical and commercial skills.

The development of new products and services also continued: the most recent innovative activities include hedging of ESG rates, which comply with sustainability parameters, allowing companies to also hedge the risk relating to fluctuations in the price of gas.
In 2022, there was also an increase in exchange rate and commodity hedging, while interest rate hedging slowed down compared to the previous year, mainly due to the trend in market rates.

Purchase of trade and tax receivables without recourse

During 2022, Banco BPM extensively developed services relating to the purchase from its customers without recourse of trade, fiscal and tax receivables, held both vis-à-vis private companies and Public Administration entities, including tax credit relating to Decree Law 34/2020 (so-called Super Ecobonus).
The activities performed in this regard seek, first and foremost, to support the production chains using an instrument that in recent years has proven to be particularly effective in optimising a company's working capital.
The experience acquired by Banco BPM in this area is demonstrated above all by its ability to enter into customised agreements with leading companies that wish to optimise the opportunities available to manage supply credit/debt, while at the same time offering effective financial services to their suppliers.
A particularly important market position was consolidated in the purchase of tax credits deriving from the so-called Super Ecobonus, an activity that has allowed customers to take advantage of the important tax benefits provided.

Consolidating its leadership position in this specific set of activities has been possible also thanks to the innovation of internal procedures, with a view to facilitating operating aspects in the bank-customer relationship.
This innovation will be fully completed through the adoption of a new operating platform that is part of a broader global digitalisation project currently in progress.

Structured finance

In 2022, structured finance activity further consolidated its assistance to Group customers with regard to more sophisticated lending transactions, made with institutional and industrial counterparties which, as regards the purpose of the loan and/or its amount, require a personalised and specialised approach. In general, however, it should be noted that customer interest in this type of service increased during 2022 given both the strategic value linked to this type of transaction and post-pandemic effects.
The performance of this segment improved compared to the previous year, also thanks to the economic situation, for all performance parameters (capital, economic and operating).
More specifically, Corporate Lending activity recorded a very significant increase in the number of transactions made, and in the commission collected.
Activities carried out for Financial Sponsors, an area in which the Bank maintained its leadership position in the SME segment, recorded a particularly positive year thanks to the general improvement in market conditions and the maintenance of a high flow of transactions. Moreover, the particular financial market context further facilitated the increase of both the number of transactions carried out and the number of Sponsors financed.
Project Finance activity maintained the excellent performance data recorded in 2021, thanks to the consolidation of relations with several operators, and the participation in several transactions related to very important infrastructure projects.
Looking forward, the launch of the projects relating to the NRRP and the geopolitical scenario should have important and positive repercussions on activities in the years to come.
Real Estate activity maintained the business levels recorded in the previous two-year period, thanks to the continuing interest that institutional, and international, operators continue to have in areas in which the Bank boasts consolidated expertise.

Over 200 structured finance transactions were concluded in 2022, for a total resolved amount of around 8 billion. Of these, around 100 transactions (for over 5 billion in loans subscribed), relate to Corporate Lending. This is followed, in terms of number and relative volumes, by Leverage transactions (50 transactions for around 1 billion), Real Estate transactions (over 40 transactions, for around 1 billion) and lastly Project Finance transactions (approximately 20 for a total of around 900 million), thus confirming the role of Structured Finance as an important driver for the development of relations with the Group's most dynamic and sophisticated customers.

Foreign Operations and Trade Finance

In a context of economic growth, but also of unprecedented complexity (the Russia-Ukraine war, shortages of raw materials, the euro/dollar trend), activities related to internationalisation processes and the promotion of imports/exports recorded significant growth in 2022.
In particular, the first part of the year, characterised by the start of the Russia-Ukraine conflict, entailed the structure making considerable efforts to support customers and the Network in managing contracts (with related transactional flows) underway in the countries affected by the new penalty mechanism.

Dedicated network and foreign goods unit
Despite the complexity of the situation, 2022 maintained a positive trend in international trade and the dedicated Foreign Operations and Trade Finance unit was able to exploit this growth, significant increasing its market share, above all in terms of exports, and providing constant and proactive support to its customers.
This support was provided through the dedicated commercial network, made up of more than 60 reference specialists across Italy, who have superior technical and commercial skills and are, therefore, able to best support companies in their internationalisation activities.
Of the joint initiatives set in place, to maximise its presence for customers belonging to leading export sectors (plant and machinery, mechanics), meetings were organised that involved foreign specialists and colleagues from Trade & Export Credit with a view to informing and training customers on the Supplier's Credit instrument, enriched, in the last part of the year, by the possibility of discounting bills backed by a policy issued by Euler Hermes, as well as by SACE.
In addition, in terms of operational support, the Group also has foreign-goods units located throughout the country, more specifically in Milan, Legnano, Verona, Modena, Bergamo and Lucca.
In particular, the above units handle operations relating to documentary credits and documented remittances, while those regarding international guarantees are handled centrally by a dedicated unit called CUGI and based in Milan.
The common objective is to provide customers with a high-added value service that guarantees consistent returns in terms of commission income, while at the same time carefully and promptly monitoring the considerable technical-operational risks.
Overall, the Operations unit currently has about 100 members of staff and manages foreign documentary transactions, as illustrated above, with the exclusion of electronic receipts and direct remittances (i.e. the open account area).

Financial Institutions
In the third quarter of 2022, the Financial Institutions Group (F.I.G.) returned to making regular trips abroad after being suspended for two years due to the constraints imposed by the health emergency, continuing to oversee the main foreign markets with the primary purpose of guaranteeing adequate credit lines to support customers' import and export business.
To support the export business, adequate trade credit lines have been implemented and renewed, both ongoing and temporary, for foreign banks; with regard to imports, thanks to the targeted trips made in the latter part of the year in the three main Asian countries of interest to customers, and by maintaining regular contact with foreign correspondent banks, through videocalls, it was able to maintain existing credit lines and implement new ones.
For the purpose of providing suitable coverage for Trade Finance operations with Countries/Banks considered risky or problematic, the Financial Institutions Group renewed its participation in the respective trade facilitation programmes of the main supranational banks: EBRD, IFC, ADB.
By managing the foreign Representative Offices in Mumbai and Hong Kong, the unit has helped customers who operate, or intend to operate, in the areas of responsibility of these offices.

Foreign Products and Services
In 2022, Banco BPM continued to provide assistance to companies operating in foreign markets, responding to the changed financial requirements of business operators by working with institutional entities and implementing the measures set in place by the Government to provide financial support to Italian exports.
In line with the growing importance of offering a range of digital services, in 2022, Banco BPM continued its integration of new cutting-edge channels, with both information and order functions, addressed to companies that work with or intend to work with firms abroad.
More specifically, the "BancoBPM Trade World - your ally abroad" channel allows access to international markets and contact with selected commercial partners, thanks to the YouWorld and YouLounge platforms:

- YouWorld is the information platform to support foreign trade, which provides details of potential suppliers or foreign customers organised by country, type of good or services handled. A total of around 900 companies were using the service at December 2022;
- YouLounge is the B2B platform to promote its own products/services through a virtual showcase, accessible through BANCO BPM's e-banking. Together with a further 12 leading international partner banks, it participates in the Trade Club Alliance which covers 60 countries and includes over 23,100 selected companies worldwide. As at December 2022, over 1,500 corporate customers utilised YouLounge.

With regard to Foreign operations, the digital offer is completed by a third portal, YouTrade Finance, which enables goods operations to be managed online (international guarantees - already operational, documentary credits, operational for the import phase), simplifying and optimising the bank-customer relationship, and able to guarantee maximum safety (i.e. the use of digital signatures) through guided procedures. Approximately 500 customers use the service.

Agreements with leading institutions
In order to expand the support to customers that operate in the complex field of internationalisation, Banco BPM has joined numerous associations through its managers specialised in Foreign Operations and Trade Finance, or has agreements in place with leading institutions (including ICC Italia International Chamber of Commerce, Credimpex Italia, De International Italia and the previously mentioned SACE) aimed at offering customers professional support based on in-depth knowledge of regulatory techniques and methods, instruments and rules relating to the world of international trade.
Regarding relations with the Chambers of commerce, in 2022 Banco BPM maintained its collaboration with the German-Italian Chamber of Commerce (CCIG), the Russian-Italian Chamber of Commerce, as well as with DE International Italia. This company, which belongs to the CCIG, offers a wide range of services for the internationalisation and promotion of forms of cooperation (business days, B2B meetings between Bank customers and foreign operators) with a particular focus on the German area, a region of Europe of particular interest for exporting Italian companies.

Trade and Export Finance
The Trade and Export Finance unit encompasses all export finance activities with the support of SACE/SIMEST, the Group’s international structured finance and Export Finance transactions and Trade Finance transactions such as supplier's credit.
In 2022, development continued of buyer's credit transactions with SACE, SACE Push strategy and of supplier's credit with SACE coverage, and several important international transactions were concluded, both as regards export finance and commodity finance and international corporate, creating new trade relations and consolidating existing relations with industrial groups active in the US, Chinese, Swiss, Belgian and German markets. An important area of development during the year was the support provided to global energy traders who, due to the diversification of the sources needed by Italy, find themselves working more intensively with our country.
The focus in the SACE and ECA area was characterised by the expansion of relations with major Italian exporters, SACE, Cassa Depositi e Prestiti, international banks and international corporations. Also in 2022, the sector in question participated in some financing operations with EU green taxonomy and green KPIs.
The development of relations with international corporations is always highly selective and aimed at creating the greatest number of commercial opportunities for the corporate network and investment banking. Particular focus is dedicated to the major players in the energy transition.
The average size of supplier's credit transactions grew considerably, as did the activity in international guarantees with SACE coverage.
Since the beginning of its activity, 25 international financing transactions have been concluded, mostly with senior roles.

Sustainable finance culture and ESG training initiatives for customers

In 2022, Banco BPM confirmed its support for companies that intend to launch or develop their own path towards green transition, not only through dedicated financing solutions, as illustrated above, but also by promoting awareness and knowledge of the opportunities available.
In order to actively spread a 360-degree ESG culture and encourage customers to reflect on the impacts of a correct ESG approach, in 2022 training meetings (webinars) dedicated to Corporate customers were held, which involved highly qualified technical partners, external to the Bank.

Institutional

	2022	2021 (*)	absolute change	% change
Net interest income	94,552	51,165	43,387	84.8%
Financial margin	**94,552**	**51,165**	**43,387**	**84.8%**
Net fee and commission income	50,118	42,596	7,522	17.7%
Other net operating income	3,470	3,504	(34)	(1.0%)
Net financial result	(466)	(455)	(11)	2.4%
Other operating income	**53,122**	**45,645**	**7,477**	**16.4%**
Operating income	**147,674**	**96,810**	**50,864**	**52.5%**
Personnel expenses	(13,884)	(12,972)	(912)	7.0%
Other administrative expenses	(31,113)	(28,186)	(2,927)	10.4%
Net value adjustments to property, plant and equipment and intangible assets	(607)	(749)	142	(19.0%)
Operating expenses	**(45,604)**	**(41,907)**	**(3,697)**	**8.8%**
Profit (loss) from operations	**102,070**	**54,903**	**47,167**	**85.9%**
Net adjustments to loans to customers	(1,396)	(7,194)	5,798	(80.6%)
Net provisions for risks and charges	(386)	(144)	(242)	168.1%
Profit (loss) before tax from continuing operations	**100,288**	**47,565**	**52,723**	**110.8%**
Taxation charge related to profit or loss from continuing operations	(33,160)	(15,699)	(17,461)	111.2%
Profit (loss) after tax from continuing operations	**67,128**	**31,866**	**35,262**	**110.7%**
Charges related to the banking system, net of taxes	(13,976)	(10,726)	(3,250)	30.3%
Impact of the realignment of tax values to book values	-	880	(880)	
Purchase Price Allocation net of taxes	(25)	(38)	13	(34.2%)
Parent Company's profit (loss) for the year	**53,127**	**21,982**	**31,145**	**141.7%**

(*) Keeping the total of the item unchanged, the figures relating to the previous year were restated to guarantee a like-for-like comparison with the profiling criteria used for 2022.

Economic performance of the segment

Total operating income for the Institutional segment came to 147.7 million, up considerably compared to the previous year (+50.9 million; 52.4%).
This change is mainly explained by the increase in net interest income of 43.4 million, mostly due to the slower repricing of deposits compared to that of loans, while net fee and commission income recorded an increase of 7.5 million, corresponding to 17.7%. Operating expenses increased overall, and amounted to 45.6 million (+3.7 million against 2021), in particular due to higher other administrative expenses, which rose 2.9 million.
Net adjustments to loans to customers fell significantly to 1.4 million, compared to 7.2 million recorded last year, due to the substantial reduction of the cost of risk resulting from the lower risk level of the portfolio.
Charges related to the banking system, net of taxes were booked to the income statement of the current year, and amounted to 14.0 million (10.7 million in 2021), in line with the increase of the Target defined by the Single Resolution Fund. 2022 closed with a net profit of 53.1 million, compared to 22.0 million recorded last year.

More information on the activities managed by the business segment in question are provided below.

2022 was characterised by phenomena that had a significant impact:

- the outbreak of the war in Ukraine, which led to negative economic consequences that were very difficult to counter, with repercussions at international level (including the exponential rise in the cost of raw materials, primarily natural gas);
- the growth of inflation, which led to the progressive increase in market interest rates, with consequent repercussions in economic terms for households and businesses, such as the sudden increase in bills, the increase in fuel prices and the progressive increase in spending linked to the instalments of mortgage loans already set at variable rates and for new loans granted at fixed and variable rates, which have become increasingly onerous.

The coordination and commercial support relating to Institutional customers, the Public Administration, Religious Entities, the Third Sector and Centralised Alliances, has been entrusted to the Institutional Customers, Entities and

Third Sector Function, which manages the product range offered, developing suitable distribution channels, evolving the service model and developing dedicated products.

The "business" offices that the Institutional Customers, Entities and Third Sector Function is comprised by, are as follows:

- Institutional;
- Centralised Partnerships with Alliances External to the Group;
- Entities and the Public Administration;
- Third Sector and Religious Entities.

Institutional

Institutional Counterparties are the main "supervised" parties such as Insurance companies and Non-banking finance companies, asset management companies (SGRs), SIMs, open and closed-end Mutual Funds, Bank Foundations, Social Security and National Insurance entities and Pension Funds. Furthermore, Institutional Counterparties also encompass the State, Constitutional Bodies, Central State Entities and several Companies part-owned by the Central Public Administration, in addition to Regional Authorities, Healthcare Organisations and Hospitals and Large Municipalities.

Relations with Institutional Counterparties are monitored through a complete service model, which includes managers and specialised employees and a dedicated branch.

Institutional Customers are broken down by type of SAE (Sector of Economic Activity) as follows (figures as at 31 December 2022):

Type of Entity by SAE (*)	% Breakdown
Mutual Investment Funds, Pension Funds and UCITs	19%
SIMs, SGRs and trust companies	7%
Non-banking (Leasing, Factoring) and Consumer Credit companies	6%
Regions, Healthcare Companies, Large Municipalities and Companies Co-owned by the Public Administration	8%
Insurance companies	6%
Bank foundations	2%
Central Government and Constitutional Bodies	2%
Social Security and Social Welfare Entities	2%
Other companies and financial intermediaries	48%
Total	**100%**

(*) *Group companies are not included*

The office which handles Institutional Counterparties also manages the operations performed for Banco BPM Group Companies.

With a view to achieving greater efficiency in the management of relationships, the services offered have been harmonised and commercial partnerships have been developed with Banca Akros and Banca Aletti to make the range of services offered to this particular type of customer more complete and specialised.
In 2022, activities related to securitisations continued, within which Banca Akros acted as arranger and institutional customers as purchasers of the senior notes, thus implementing a path complementary to the more traditional one of direct loans, to support the real economy.
Particular attention was paid to the financial support of companies associated with the MEF (Ministry of the Economy and Finance) that operate in the energy sector (i.e. Gestore Mercati Energetici (Energy Markets Authority) and Gestore Servizi Energetici (Energy Services Authority), providing them with financial support to sustain the Government's energy policies.

Commercial partnerships with allies external to the Group

The Institutional Customers, Entities and Third Sector Function is also tasked with supervising and coordinating the unit dedicated to centrally managing commercial alliances with partners external to Banco BPM Group.

These alliances are regulated by specific commercial partnership agreements, which envisage a range of products addressed exclusively to the customers of the external alliance, through a dual distribution channel:

- "off-site" offer, through external financial advisors;
- branch sales, through dedicated branches, in the financial shops of the commercial ally.

Centralised commercial management takes the form of a dedicated unit, included within the Institutional Customers, Entities and Third Sector Function, which has 17 branches spread across Italy.

Direct supervision through a wholly dedicated unit enables commercial agreements to be constantly developed in view of legislative changes as well as better economic returns and better supervision of operational risks especially as regard Anti-Money Laundering Legislation.

The market for the off-site offer of banking products and services through the networks of financial advisors belonging to groups that do not have banks within their perimeter represents an area with strong potential and the organisational model specifically adopted and the know-how acquired to date by Banco BPM have lain the groundwork for the strong possibility of the further development of constantly growing business on the market.

Entities and the Public Administration

Pursuant to EU Regulation no. 549/2013 on the European system of national and regional accounts, Entities and Public Administration, or also Public Sector customers consist of:

- Public Administrations, which in turn include the Central Administrations (State and Constitutional Bodies, Ministries and relative Departments, etc.), Territorial Administrations (Regions and Autonomous Provinces) and Local Administrations (Provinces and Municipalities) and Social Security and National Insurance entities;
- Public Companies, namely parties that produce goods and/or services for sale, or which are a public corporation, or which are controlled directly or indirectly by the Public Administrations, under specific laws, decrees or regulations.

The Public Sector function is responsible for managing the segment from a commercial, regulatory and administrative perspective. The activity, in relation to the acquisition of relationships and the management of the Public Administration, is conducted with particular focus on the commitments and critical issues that arise, on the limitations of operational risks, of image, of credit and from a commercial perspective.

Banco BPM holds UNI EN ISO 9001:2015 quality certification for the management of treasury and cash services and loans to the Public Administration.

Commercial activities in 2022 entailed providing Public Sector counterparties with products and services able to meet their specific needs. In this regard, increasing attention was paid to activities performed by public investee companies in the water and waste disposal cycle sector, due to the clear environmental impacts, based on ESG logic.
The NRRP was the subject of specific focus, as well as the key role that the Public Sector will play in this context.

Entities and P.A. Customers are broken down by type of SAE (Sector of Economic Activity) as follows (figures as at 31 December 2022):

Type of Entity by SAE	% Breakdown
Municipalities - Unions of municipalities	35%
Schools and Universities	23%
Companies Co-Owned and Production Companies of Public Services	26%
Other entities	16%
Total	**100%**

Third Sector and Religious Entities

Customers belonging to the Third Sector and Religious Entities are represented by Third Sector Entities (TSE) enrolled in the new RUNTS (Single National Register of the Third Sector) and non- profit non-enrolled entities, amateur sports associations, Federations recognised by Coni, as well as dioceses, parishes, congregations and religious orders. The segment also includes trade unions and political parties.

The regulatory framework of the Third Sector has recently changed and is constantly evolving. At the beginning of the year 2022, in fact, various activities related to the census of third sector entities were implemented, to capture all the peculiarities of the TSE and, from December 2022, a new section was implemented in the procedure for the internal management of customer records, which enables all the essential characteristics of this rapidly evolving customer segment to be recorded, tracked and monitored over time.

Third Sector and Religious Entities customers are broken down by type of SAE (Sector of Economic Activity)/Legal nature as follows (figures as at 31 December 2022):

Type of Entity by legal nature	% Breakdown
Associations	44%
Foundations	2%
Religious Entities (parishes)	12%
Social Cooperatives	4%
Other entities with or without legal status	38%
Total	**100%**

The Third Sector and Religious Entities represent a central customer segment in terms of interest in ESG issues, and Banco BPM has strengthened its sales efforts towards these customers through a dedicated unit, with specialists in each geographical area of action of Banco BPM.
The most important initiatives of 2022 included:

- economic support measures for investments relating to the NRRP, in social and ecological transition, and in post-pandemic support by granting new loans for liquidity needs triggered first by the pandemic and, subsequently, by the energy and inflation crisis, exacerbated by the war in Ukraine;
- the collaboration with KPMG for a study on social impact banking, to finalise activities concerning the new metrics for measuring the social value of investments, according to ESG logic;
- the granting of a new loan for social impact projects (so-called Social bonds);
- the management and monitoring of activities relating to the Third Sector Portal, launched in 2021 and dedicated to customers in this segment, which is directly linked to Banco BPM's institutional website (https://www.bancobpm.it/terzo-settore/). Through this site, customers can contact the dedicated specialist office, which provides advice and facilitates opening new accounts;
- the sponsorship of the third edition of the "Cantieri Viceversa" laboratory, organised by the National Forum of the Third Sector, to ensure the matching of the demand for and the supply of funds between Third Sector entities.

Private

	2022	2021 (*)	absolute change	% change
Net interest income	4,091	(2,417)	6,508	
Financial margin	**4,091**	**(2,417)**	**6,508**	
Net fee and commission income	97,177	100,748	(3,571)	(3.5%)
Other net operating income	5	5	-	-
Net financial result	(429)	(289)	(140)	48.4%
Other operating income	**96,753**	**100,464**	**(3,711)**	**(3.7%)**
Operating income	**100,844**	**98,047**	**2,797**	**2.9%**
Personnel expenses	(57,159)	(55,953)	(1,206)	2.2%
Other administrative expenses	(15,259)	(15,909)	650	(4.1%)
Net value adjustments to property, plant and equipment and intangible assets	(3,501)	(3,423)	(78)	2.3%
Operating expenses	**(75,919)**	**(75,285)**	**(634)**	**0.8%**
Profit (loss) from operations	**24,925**	**22,762**	**2,163**	**9.5%**
Net adjustments to loans to customers	541	(265)	806	
Net provisions for risks and charges	(4,665)	(204)	(4,461)	-
Profit (loss) before tax from continuing operations	**20,801**	**22,293**	**(1,492)**	**(6.7%)**
Taxation charge related to profit or loss from continuing operations	(7,240)	(7,488)	248	(3.3%)
Profit (loss) after tax from continuing operations	**13,561**	**14,805**	**(1,244)**	**(8.4%)**
Charges related to the banking system, net of taxes	(963)	(772)	(191)	24.7%
Impact of the realignment of tax values to book values	-	242	(242)	
Purchase Price Allocation net of taxes	(2,490)	(2,680)	190	(7.1%)
Parent Company's profit (loss) for the year	**10,108**	**11,595**	**(1,487)**	**(12.8%)**

(*) Keeping the total of the item unchanged, the figures relating to the previous year were restated to guarantee a like-for-like comparison with the profiling criteria used for 2022.

Economic performance of the segment

Total operating income for the Private sector came to 100.8 million, up (+2.9%) compared to the previous year.
Within this aggregate, net interest income was up compared to 2021 (+6.5 million); this increase is mainly due to the increase in the funding margin, as part of the benefit resulting from the slow repricing of assets which was attributed to the business line. Net fee and commission income, amounting to 97.2 million, recorded a decrease of 3.6 million compared to last year.
Operating expenses, amounting to 75.9 million, are substantially in line with the amount recorded in the previous year, with personnel expenses of 57.1 million, value adjustments to property, plant and equipment and intangible assets of 3.5 million and other administrative expenses amounting to 15.3 million.
The income statement of the segment in question also includes net provisions for risks and charges of 4.7 million, up by 4.5 million compared to 2021, mainly due to the allocation for commitments undertaken. Instead, charges related to the banking system, net of taxes were 1.0 million euro (0.8 million in the previous year).
Also considering the negative contribution of the PPA (Purchase Price Allocation) of -2.5 million, the Private business segment closed with a net profit for the year of 10.1 million, with a decrease of 1.5 million against 2021.

As illustrated in the introduction, the "Private" segment includes the management and marketing of banking and financial products/services and loan brokering aimed at private customers with assets that, individually and/or within their business, amount to at least 1 million. These activities are carried out by the subsidiary Banca Aletti. More information on the activities managed by the business segment in question are provided below.

At the end of 2022, the Private Banking Network of Banca Aletti recorded a global amount of "assets under management" (administered and managed) of 22.5 billion, down against 2021; the figure does not include the marginal liquidity positions of private customers of Banca Aletti with accounts at Banco BPM.
The substantial stability of income data benefited from the good quality of the investment portfolios and from the consistent advisory services provided by the Private Network, which supported customers in the sudden and radical worsening of the financial markets and avoided the abandonment of investment portfolios which, despite generating

negative performance, were characterised by a correct approach to risk and by international and thematic diversification. Maintaining a high level of delegation allowed the quality of the portfolios to be guaranteed, even in a context of objective difficulty, mainly through high quality asset management solutions.
The international scenario of extreme uncertainty, combined with the return of positive returns on interbank monetary rates and on the yield curves of many bond markets, encouraged the recovery of bond investments. Specifically, the extremely negative performance of equity and bond indices, despite a highly inflationary scenario, led to an extremely prudent approach by investors who maintained volumes of direct deposits on demand at levels similar to the previous year and favoured short durations.
The many actions and strategies aimed at increasing volumes in the medium term and expanding the customer scope provided comforting results in terms of net funding, both as regards private and institutional customers.
To support development activities, in line with the strategy of previous years, efforts were made to create opportunities to meet potential customers through several local events.

During the first half of 2022, the new territorial model of the Private Banking Network was created in Banca Aletti, which led to the definition of 7 Areas, with 30 associated Branches and 22 remote branches.
In line with Banco BPM's strategic plan, which envisages an increasingly pervasive approach to cross selling, 2022 saw the launch on a national scale of the new model for synergy with the Corporate and Business world. During the second and third quarters, all partnerships in the area were activated, with the presence of Private Branches, Corporate Centres and Business Centres.
This activity was accompanied by structured collaboration with the Investment Banking division of Banca Akros. The set of activities made a significant contribution to the collection of new assets and to the extension of the customer base.

Investment Banking

	2022	2021 (*)	absolute change	% change
Net interest income	56,509	53,830	2,679	5.0%
Financial margin	**56,509**	**53,830**	**2,679**	**5.0%**
Net fee and commission income	50,237	43,424	6,813	15.7%
Other net operating income	962	1,126	(164)	(14.6%)
Net financial result	13,278	13,414	(136)	(1.0%)
Other operating income	**64,477**	**57,964**	**6,513**	**11.2%**
Operating income	**120,986**	**111,794**	**9,192**	**8.2%**
Personnel expenses	(29,590)	(33,528)	3,938	(11.7%)
Other administrative expenses	(60,478)	(58,038)	(2,440)	4.2%
Net value adjustments to property, plant and equipment and intangible assets	(370)	(356)	(14)	3.9%
Operating expenses	**(90,438)**	**(91,922)**	**1,484**	**(1.6%)**
Profit (loss) from operations	**30,548**	**19,872**	**10,676**	**53.7%**
Net adjustments to loans to customers	111	(55)	166	
Net adjustments to securities and other financial assets	(68)	17	(85)	
Net provisions for risks and charges	(83)	490	(573)	
Profit (loss) before tax from continuing operations	**30,508**	**20,324**	**10,184**	**50.1%**
Taxation charge related to profit or loss from continuing operations	(9,227)	(5,834)	(3,393)	58.2%
Profit (loss) after tax from continuing operations	**21,281**	**14,490**	**6,791**	**46.9%**
Charges related to company restructuring, net of taxes	(2,556)	-	(2,556)	
Charges related to the banking system, net of taxes	-	(3,836)	3,836	
Parent Company's profit (loss) for the year	**18,725**	**10,654**	**8,071**	**75.8%**

(*) Keeping the total of the item unchanged, the figures relating to the previous year were restated to guarantee a like-for-like comparison with the profiling criteria used for 2022.

Economic performance of the segment

An analysis of the reclassified income statement as at 31 December 2022 shows that operating income amounted to approximately 121.0 million, up by 9.2 million compared to 2021.

The increase in operating income concerned all the Bank's business areas. In particular, the greater volatility that characterised the financial markets in the first part of the year was accompanied by an increase in volumes brokered by the Brokerage Division, while the significant rise in interest rates recorded in the second half of 2022, contributed to an increase in margins in the Global Markets and C&IB areas, both in trading activities and in structured products for retail and institutional customers.

The main increase is due to higher net fee and commission income, which amounted to 50.2 million, deriving mainly from higher placements of structured products (Certificates) by the distribution networks. In particular, note the positive contribution deriving from the growth of Advisory M&A activities, which also benefited from the contribution of the investee Oaklins Italy S.r.l., the latter focused more on cross-border Merger & Acquisition activities.

Operating expenses, amounting to 90.4 million, were down compared to the previous year, the value of which included, however, the impact of early retirement incentives on personnel expenses (approximately 4 million). Net of this non-recurring component, operating expenses in 2022 were up slightly compared to the previous year. This last aspect was affected by other administrative expenses, which recorded an increase of 2.4 million.

Net profit for the year, after taxes due in the period and net charges relating to the contribution to the banking system, amounted to 18.7 million, up by 8.1 million compared to 2021.

The "Investment Banking" segment includes the structuring of financial products, access to regulated markets, and the support and development of specialised financial services, carried out by Banca Akros and by the subsidiary Oaklins Italy S.r.l., which operates in the Mergers & Acquisitions consulting business.

More information on the activities managed by the business segment in question are provided below.

Corporate & Institutional Banking

During 2022, the commercial coverage and development activities of Corporate & Financial Institutions customers in relation to the specialist products and services offered by Banca Akros continued successfully, in coordination with the Parent Company.
In particular, thanks to the service model that envisages, for hedging products, sales staff and specialists to support the Parent Company's managers, transactions on financial risk hedging instruments were effectively monitored, with particular attention to customer service and development for both retail and corporate areas. During the year, cash flows on derivative products amounted to a total notional value of around 8.1 billion for exchange rate and commodity risk hedges and around 4.0 billion for interest rate risk hedges on the underlying loans at floating rate, mainly disbursed by Banco BPM. Operating income was higher than the previous year in exchange rate activities (spot, forwards and options) and in commodities. On the other hand, there was a slowdown in income from hedging transactions on interest rates, both for corporate customers and for businesses, mainly due to a very volatile market and a sudden rise in interest rates, especially in the last few months of the year.
Thanks to its sales staff and specialists located in Corporate Centres in Italy, the structure has forged, together with the Group, solid commercial relationships with its customers, providing services with high added value, in a market context characterised by strong competition from major Italian and foreign banks.
Banca Akros continued to develop new activities and services, including ESG products and new technical hedging solutions on interest rate and exchange rate risks, confirming its status as a benchmark in terms of innovation to the benefit of the customer.
The portfolio of products for financial risk management for businesses has been enriched with instruments that allow them to hedge the risk of fluctuations in gas prices which, both nationally and internationally, represents one of the main risks that businesses, especially those belonging to the energy-intensive sector, have had to deal with in recent times.

In 2022, total Investment Certificates structured by Banca Akros amounted to approximately 1,684 million, of which 1,461 million placed by Banco BPM Group networks and 223 million issued by Banca Akros and placed by third-

party networks. Compared to 2021, volumes more than doubled. In a year that saw significant declines in the stock markets, the placement of certificates was characterised by the prevalence of products with unconditionally protected capital, both for the Banco BPM Group network and for the third-party distribution networks.
Banca Akros, in collaboration with Anima SGR, continued the structuring of asset management investment products with quantitative components, for a total of approximately 839 million. The figure is down compared to 2021, mainly due to the negative trend of the stock markets and the significant increases in interest rates that penalised their performance.

As regards the core business of trading in the secondary bond market, the cash flows from institutional customers in the segments of government, supranational and agency securities, as well as from corporate and financial issuers, albeit suffering the general slowdown of activity that characterised the main reference markets, amounted in total over the year to 7.5 billion.
The positive contribution of the so-called "flow business" from institutional and professional investors in the equity and foreign exchange and OTC derivatives segments was also confirmed.

The distribution of issues on the primary bond market reserved to institutional investors was significant, with the active participation in the placement of medium/long-term bonds of leading issuers, as described in more detail in the "Investment Banking" paragraph below; note also the significant contribution provided for the placement of the 17th issue of BTP Italia in June, and the 18th issue in November, which saw Banca Akros as Co-dealer, invited by the MEF due to its proven expertise in placements (approximately 10% market share in this placement) and market making on the secondary market to promote liquidity on the security.

In terms of the diversification of sources of funding for businesses, the Bank's activities continued to be developed as regards equity funding operations by operators specialising in the private debt sector and in infrastructure funds.
Banca Akros signed an important partnership with the European Investment Fund (EIF) to promote their "closed-end" fund AMUF, exclusively for Italy, with institutional investors.

Trading and market making activities on own account

The yields of financial and corporate bonds rose gradually throughout the year, also and especially in terms of spreads with the core government bonds, showing a greater weakness than the expected rate hike cycle. In addition to being weak, the credit market was extremely illiquid throughout the year, with said bonds which significantly underperformed with respect to the main credit derivative indices. During the first half of the year, the Bank reduced its portfolio of corporate and banking securities, reduced their duration and increased hedging with derivative instruments. All this contributed to containing the losses on the portfolio, even though it did not eliminate them entirely.

In the new context of rising interest rates and falling risky assets, which characterised a fair part of 2022, market making activity with customers proved to be lower than expected: in the Fixed Income segment, customer flows decreased, particularly on the credit portion due to the aforementioned illiquidity, while, with regard to government securities, the activity, albeit reduced, continued with satisfactory results.

Proprietary trading was partially affected by the difficulty in liquidating cash positions on financial and corporate securities, while it gave positive results in the area of government bonds and on interest rate risk positions in general, especially in the second half of the year.

The structuring of hedging products for Corporate/Business customers continued, with competitive prices on swaps and interest rate options and in exchange rate hedging.

On the stock markets, market making on certificates was below expectations, substantially down compared to 2021, due to the downtrend of the stock markets. On the other hand, market making on equity, listed and OTC derivatives, continued at good levels, in line with 2021, also due to the high volatility recorded by the markets. Proprietary equity trading initially suffered due to the significant reversal that occurred at the time of the Ukrainian crisis, not accompanied by a rise in the implied volatilities on which it was positioned, but then recorded more satisfactory performances in subsequent quarters, with a positioning on volatility that was consistent with, and often anticipated market trends.

The structuring of investment products, in the form of certificates and total return swaps with underlying shares, exceeded the figures recorded in 2021. Banca Akros continued to pursue the diversification of the underlying assets and investment themes, with positive management of the books, consequently offering customers competitive prices and structures.

Market making activities in the foreign exchange market increased compared to the previous year, confirming the increase in demand from customers. Proprietary trading in forex and commodities also recorded better results than expected.

The risk weighted assets associated with trading and market making activities remained at the levels of the end of 2021, as a result of the reduced risk positions, especially on bonds, in line with the indications of the Parent Company's RAF. Risk positions were managed with prudence, especially due to the difficult and volatile conditions of the various financial markets in which Banca Akros operates.

Brokerage and financial research activities

In the particularly challenging macroeconomic scenario, which deteriorated during the second half of 2022 due to the prolonged conflict in Ukraine, but above all characterised by the increase in interest rates implemented by many central banks, Banca Akros maintained third place in brokerage activity on the Italian stock market, with a market share of 10.24% and was positioned among the top 5 players in the segment of mini and micro futures on indices.

In June 2022, the migration of transactions on regulated derivatives of Webank from Banca IMI to Banca Akros was successfully completed. This migration process began in July 2021 with the Euronext Market and then continued in November 2021 for the IDEM Market and in January 2022 for the EUREX Market, ending in June 2022 for the CME Market. Thanks to this migration, all Webank transactions are now within the scope of Banco BPM Group where Akros acts as executing & clearing broker for Webank.

As regards specialist and corporate broker activities for issuers listed on the Borsa Italiana, 32 mandates were recorded, compared to 35 as at 31 December 2021, of which 7 related to companies listed on Euronext Milan Domestic, 13 to companies listed on Euronext STAR Milan (formerly STAR) and 12 companies listed on the Euronext Growth Milan market.
Also in 2022 the role of financial research played by Banca Akros in the equity segment proved to be fundamental in terms of generating ideas and proposals for investment allocations to SGRs, Insurance companies, Family Office and Italian and foreign Institutional Investors. In 2022, the Financial Analysis Department produced over 170 single-topic reports and over 2,400 daily comments on the roughly 110 securities hedged; the sponsored research segment continued to give satisfaction with around 30 contract issuers. Marketing activities accelerated in the second half of the year, also thanks to the post-pandemic reopening. The impartial opinions and the quality of the recommendations have made Banca Akros' financial analysis a benchmark in terms of supporting brokerage activities, corporate brokerage and, in general, all customer service activities.
With regard to bond products, Banca Akros confirmed its undisputed leading position in third-party brokerage on the fixed-income market of Borsa Italiana (Source Assosim), with total trading volumes representing 29.24% for the whole of 2022 (33.04% in 2021). More specifically, the value of brokerage on behalf of third parties confirmed Banca Akros, also throughout 2022, in first place on the Borsa Italiana DomesticMOT market with 30.47% (Source: Assosim). Again with reference to the bond markets, Banca Akros came in second on the Euromot (28.66% share), Extramot (16.60% share) and ETLX (23.23%) markets.
Banca Akros also holds second place (third place in 2021) on the ETF (ETFPLUS) market and third place on the Certificates SEDEX market, with a market share of 12.99% and 18.50% respectively (Source: Assosim). The excellent performance on the ETF market was achieved also due to the contribution of SABE ETF, the proprietary system for the automatic search for dynamic best execution, which complies with the dictates of MiFID II, at the service of banking and institutional customers. For years, the SABE system has also been active for the collection of bond and equity orders.

Transactions in the energy derivative markets, which had already seen a decline in the first part of the year as a result of the increase in the market prices of commodities, continued in the same vein also in the second half of 2022, but the decline in Brent and Gas bode well for 2023.

The number of market players decreased, and those that remained active saw an increase in margins to be paid as a result of the volatility of the underlying assets. Banca Akros continued to carefully monitor the situations of market stress experienced by some customers, providing financial support where necessary.

Investment Banking

M&A activities on medium-sized enterprises were affected by macroeconomic issues, as well as by the changed geopolitical contexts; nevertheless, in this regard, Banca Akros has intensified its focus on its M&A/Corporate Finance activities, acquiring new "sell side" and "buy side" assignments with family businesses and private equity funds.
With reference to the activities completed during the year, the following are of note: the sale of Almac, WMT and Air Power, assisting the respective family businesses, the acquisition of CEI and of Crionet by the Whitebridge fund, the assistance to Linkem in the merger of Linkem Retail into Tiscali, the acquisition of Taccetti by the Florence group, the assistance to Hera and Ascopiave in the acquisition of ASCO TLC, the advice provided to a shareholder in the sale of INMAN shares, the advice provided to Anthilia in the transaction with Banco Desio, as well as acting as assigned intermediary with regard to the Relaunch Fund (Patrimonio Rilancio) of Cassa Depositi e Prestiti.
As regards the activities carried out by Oaklins Italy, a subsidiary of Banca Akros, note the completion of four sell side M&A transactions: Sapici, Fedriani, Crespi and Ricotto, assisting the respective family businesses, as well as the close collaboration with Oaklins' international network which led to the study and implementation of cross-border transactions and, specifically, the M&A transactions with Stardea and Wedely.
Cross-selling activities within Banca Akros continued and with the Parent Company, in particular with Structured Finance, Lending Corporate Origination, Corporate Centres, Territorial Departments, Third Sector Department, as well as with Banca Aletti.

As regards Equity Capital Markets, Banca Akros acted as Joint-Global Coordinator and Sponsor in the IPO of Generalfinance, the only transaction on the STAR segment of Euronext Milan in the first six months of 2022 and the first IPO on the market since the outbreak of the conflict in Ukraine, for a total value of 38.5 million. Banca Akros also acted, among others, as Financial Advisor of the Trinity Investments fund in the voluntary full public tender offer for the delisting of Banca Intermobiliare di Investimenti e Gestione, as well as the role of intermediary in charge of coordinating the collection of subscriptions in the aforementioned public tender offer and in that promoted for La Doria by the Investindustrial fund. In the second half of the year, Banca Akros participated in the share capital increases of Saipem as Joint-Bookrunner and of Landi Renzo as Financial Advisor; it also acted as Financial Advisor and Appointed Intermediary in the voluntary partial public tender offer on own shares made by Culti.

With regard to the Debt Capital Market segment, we draw attention to the participation of Banca Akros in the placement with institutional investors of the following bond issues in the Corporate segment: ENEL S.p.A.: Multi Tranche fixed-rate Senior Sustainable Linked Bond (2.75 billion); Terna S.p.A.: Fixed-rate Subordinated Hybrid Green Bond (1 billion); FIS S.p.A.: Fixed-rate Senior Secured Sustainable Linked Bond maturing in 2027 (350 million); Autostrade per l'Italia S.p.A.: Multi Tranche fixed-rate Senior Bond (1 billion); Ferrovie dello Stato S.p.A.: Fixed-rate Senior Green Bond maturing in 2027 (1.1 billion).

In the Financial Institutions segment, Banca Akros participated, as Joint-Bookrunner, in the placement with institutional customers of the following bond issues of the Parent Company Banco BPM: Subordinated Tier 2 Bond (400 million), Green Covered Bond (750 million) and Senior Non-Preferred Green Bond (two issues of 500 million each). As Other Bookrunner, it participated in the placement of the AT1 Subordinated Bond, for a total of 300 million. Lastly, it acted as Dealer in an issue of 300 million at a fixed rate, fully subscribed by Cassa Depositi e Prestiti.
Banca Akros also participated, as Joint-Bookrunner, in the placement of the issue of Mediocredito Centrale - Banca del Mezzogiorno S.p.A. of Subordinated Callable Tier 2 Bonds at a fixed rate for 70 million.
In the segment of SSA (Supranational, Sovereign and State Agencies) issuers, Banca Akros participated, as Joint-Bookrunner, in the issue by Cassa Depositi e Prestiti S.p.A. of a Fixed-rate Senior Sustainable security for 750 million and the Invitalia S.p.A. issue of a Fixed-rate Senior security for 350 million.
Banca Akros has also been involved in over twenty issues by leading Italian and foreign issuers, including the European Investment Bank (EIB) and the German bank, Kreditanstalt Für Wiederaufbau (KFW).

Lastly, in the Securitisation & Structuring Solutions and performing securitisations segment, we draw attention to the participation of Banca Akros, as Joint Arranger, in the following securitisation transactions: "Sunrise 2022-1" and

"Sunrise 2022-2", two consumer credit securitisations originated by Agos Ducato, amounting to approximately 1.2 billion and 1.1 billion respectively.
Banca Akros also assisted Alba Leasing S.p.A. as Joint Arranger, in the securitisation of receivables deriving from "Alba 13 SPV S.r.l." lease contracts, for an amount of approximately 1.3 billion and acted as Financial Advisor and Placement Agent for Generalfinance S.p.A. as part of the increase, up to 738 million, of the three-year securitisation programme of the trade receivables of the same.

Insurance

	2022	2021 (*)	absolute change	% change
Net interest income	(39)	(1,352)	1,313	(97.1%)
Gains (losses) on interests in associates and joint ventures carried at equity	5,399	19,321	(13,922)	(72.1%)
Financial margin	**5,360**	**17,969**	**(12,609)**	**(70.2%)**
Other net operating income	1,219	-	1,219	
Profit (loss) on insurance business	31,718	-	31,718	
Other operating income	**32,937**	**-**	**32,937**	
Operating income	**38,297**	**17,969**	**20,328**	**113.1%**
Personnel expenses	(8,133)	(155)	(7,978)	not indicated
Other administrative expenses	(6,478)	(42)	(6,436)	not indicated
Net value adjustments to property, plant and equipment and intangible assets	(948)	(15)	(933)	not indicated
Operating expenses	**(15,559)**	**(212)**	**(15,347)**	not indicated
Profit (loss) from operations	**22,738**	**17,757**	**4,981**	**28.1%**
Net provisions for risks and charges	(3)	-	(3)	
Profit (loss) before tax from continuing operations	**22,735**	**17,757**	**4,978**	**28.0%**
Taxation charge related to profit or loss from continuing operations	(5,900)	516	(6,416)	
Profit (loss) after tax from continuing operations	**16,835**	**18,273**	**(1,438)**	**(7.9%)**
Parent Company's profit (loss) for the year	**16,835**	**18,273**	**(1,438)**	**(7.9%)**

(*) The relative data shown in the column relating to the previous year were determined in accordance with the new Segment Reporting structure adopted from 31 December 2022.

The Insurance sector is the segment in which the contributions to the consolidated financial statements of the interests held in Banco BPM Vita, Banco BPM Assicurazioni, Vera Vita and Vera Assicurazioni converge.
As from 1 July 2022, Banco BPM Vita and Banco BPM Assicurazioni have been consolidated on a line-by-line basis following the acquisition of control.

It should be noted that, for a better representation of the profitability of the segment in question, the reclassified income statement also shows the figures relating to the previous year, although the "Insurance" segment was shown only as from financial year 2022. More specifically, the column relating to 2021 shows the contribution referring to the insurance companies Banco BPM Vita, Vera Vita and Vera Assicurazioni, measured with the equity method, which until 2021 were reported in the "Strategic Partnerships" segment.

Economic performance of the segment

The segment in question closed 2022 down, recording 16.8 million compared to 18.3 million in 2021. The reason for this decrease is mainly due to the negative impact of the valuation of securities in the portfolios of the insurance companies, due to the dynamics of the financial markets.
Given that the line-by-line consolidation from the second half of the year of Banco BPM Vita and Banco BPM Assicurazioni makes the data between 2022 and 2021 incomparable, Vera Vita and Vera Assicurazioni, valued at equity, recorded a total decrease of 7.7 million. In the second half, Banco BPM Vita and Banco BPM Assicurazioni contributed revenues of 32.9 million, against costs, which rose to 15.6 million.
However, to give visibility to the discontinuity generated by the entry of Banco BPM Vita and Banco BPM Assicurazioni in the Group scope, we will focus on their performance and activities.
In particular, the persistence of the health emergency linked to the spread of the Coronavirus and, above all, the Russian invasion of Ukraine, had a significant impact on the financial markets. In fact, for a fair part of the year, the

market performance of almost all asset classes was extremely negative and diversification only partially mitigated losses, given that (almost) all asset categories in the portfolios of the Insurance Companies decreased, with consequent effects on valuation reserves and on the result for the period.
It should be noted that these companies, falling within the scope of line-by-line consolidation of Banco BPM Group, adopted IFRS 9, with a consequent impact on the income statement of the net unrealised losses of the securities classified as FVTPL (shares and funds) of approximately -3.6% million.
Despite the difficulties identified, the gross production of the two companies for the period stood at substantial levels, only slightly down compared to that recorded in the same period of the previous year. Total direct funding from insurance business, amounting to 847 million (values expressed in accordance with Italian accounting standards), actually showed a slight decrease (-6.84%, equal to -62 million) in the twelve-month period.
In particular, the life premiums of the insurance companies, amounting to 813 million, fell by approximately 7% compared to the previous year, attributable to traditional products, in line with the strategy of focusing the offer on products with a lower capital impact, also in consideration of the current level of government bond yields. Premiums on pension products were also down slightly. Unit-linked products were also down (-48%).
Non-Life business premiums amounted to 34 million, up by around 8% compared to 2021. In particular, the growth regarded Accident and Health guarantees linked to protection products, which recorded an increase of approximately 1.8 million.
As regards operating expenses, both personnel expenses and other administrative expenses rose, where the costs for the adjustment to the new accounting standards IFRS 17 and IFRS 9 were recorded as well as the expenses related to the transfer to the new company headquarters.

More information on the activities managed by the business segment in question are provided below.

Despite the fact that 2022 was a year impacted by numerous external phenomena, as described above, it was certainly a year with a wealth of initiatives, both in terms of product innovation and marketing and commercial actions to support the spread of insurance products.
As regards Life products, two new unit-linked products were designed, created and made available to the distribution network during the first half of the year. The insurance solutions were placed for a limited period of time. Built with an allocative-management strategy, in collaboration with Banca Aletti and Anima SGR, they were very well received by Banco BPM customers.
In addition to the innovations regarding class III, the multi-segment product "Multiscelta 2" was closed in the second half of the year. At the same time, a new multi-segment product was created, "BPMVITA Personal Insurance", specifically designed to respond more consistently to the current conditions of the financial markets and the needs of customers.
In a year marked by the simultaneous occurrence of several crises, various initiatives were implemented to support the sales network, including the gradual strengthening of the online sales process and the commercial campaign to support the sale of the revaluable product "Coupon 3".
With regard to the protection products sold by Banco BPM Assicurazioni, marketing activities sought to directly and indirectly help the distribution networks in order to increase the effectiveness of the commercial proposition.
In line with previous years, the company also carried out an investigation into the quality perceived by customers in the event of a claim.
On the communications front, in close collaboration with the relevant units of Banco BPM, various initiatives were implemented to promote customer awareness of the range of products and services offered by the insurance companies, in particular with the promotion of a new product dedicated to the protection of enterprises, for which physical posters and brochures for agencies were created as well as virtual communication campaigns.
In addition, considerable supporting materials were prepared for training sessions dedicated to the distribution network. In collaboration with the internal and Banco BPM's commercial departments, further product sheets with a commercial bias were created in order to provide additional sales support.
Numerous events focused on the distribution network were planned, developed in close collaboration with the relevant services of Banco BPM, which varied in terms of method, duration and time, and continued for the whole of 2022. In particular, towards the end of the year, we draw attention to a joint initiative with the distributor to promote the civil liability guarantee of the MP5 product as a solution compliant with the new national legislation (in force from 2022), which requires skiers to have insurance coverage to cover the risk of harming others.
During the second half of the year, steps were taken to carry out the complete rebranding of the Insurance companies in order to give immediate internal and external vision of the change of ownership and consequently of their names, now Banco BPM Vita S.p.A. and Banco BPM Assicurazioni S.p.A..

In addition, also in 2022, regulatory compliance activities continued, in line with the requirements of the regulatory body, which impacted the process of creating new insurance products, with a view to further promote transparency with regard to the investor-policyholder and, in particular, the comparability between the products available on the market, in addition to increasingly focusing on matching customer needs and the insurance solutions proposed. Efforts also increased with regard to control measures for the distribution networks that have perfected their own analysis tools.

Strategic Partnerships

	2022	2021 (*)	absolute change	% change
Net interest income	(1,961)	(3,185)	1,224	(38.4%)
Gains (losses) on interests in associates and joint ventures carried at equity	150,221	210,286	(60,065)	(28.6%)
Financial margin	**148,260**	**207,101**	**(58,841)**	**(28.4%)**
Operating income	**148,260**	**207,101**	**(58,841)**	**(28.4%)**
Personnel expenses	(1,741)	(1,780)	39	(2.2%)
Other administrative expenses	(619)	(479)	(140)	29.2%
Net value adjustments to property, plant and equipment and intangible assets	(40)	(175)	135	(77.1%)
Operating expenses	**(2,400)**	**(2,434)**	**34**	**(1.4%)**
Profit (loss) from operations	**145,860**	**204,667**	**(58,807)**	**(28.7%)**
Gains (losses) on interests in associates and joint ventures and other investments	-	(18,673)	18,673	
Profit (loss) before tax from continuing operations	**145,860**	**185,994**	**(40,134)**	**(21.6%)**
Taxation charge related to profit or loss from continuing operations	1,429	1,845	(416)	(22.5%)
Profit (loss) after tax from continuing operations	**147,289**	**187,839**	**(40,550)**	**(21.6%)**
Parent Company's profit (loss) for the year	**147,289**	**187,839**	**(40,550)**	**(21.6%)**

(*) The relative data shown in the column relating to the previous year were determined in accordance with the new Segment Reporting structure adopted from 31 December 2022.

The contributions to the consolidated financial statements of the interests held in Agos Ducato, Alba Leasing, Selmabipiemme Leasing, Gardant Liberty Servicing and Anima Holding are included within the Strategic Partnerships segment.

Note that, for a better representation of the profitability of the segment in question, the figures of the previous year have been restated as compared to those published in the 2021 Annual Report, to take into account the amendments made to the Segment Reporting structure. More specifically, the contribution referring to the insurance companies Banco BPM Vita, Vera Vita and Vera Assicurazioni, measured with the equity method, was separated from the “Strategic Partnerships” segment and shown in the new "Insurance" segment.

Economic performance of the segment

The operating income of the segment in question amounted to 148.3 million, down compared to the previous year, substantially as a result of lower equity gains (-60.1 million). In particular, among the gains recognised in equity, note the decrease in the contribution of Anima Holding (-8.0 million compared to the previous year), of Agos (-51.3 million), which had benefited from extraordinary tax components. Furthermore, note the missing contribution resulting from the sale of Factorit, which took place in the first quarter of the year, in anticipation of which an impairment of 18.7 million euro had been recognised in the 2021 income statement.
Operating expenses were substantially stable.

Corporate Centre

	2022	2021 (*)	absolute change	% change
Net interest income	503,060	433,721	69,339	16.0%
Gains (losses) on interests in associates and joint ventures carried at equity	1,863	2,333	(470)	(20.1%)
Financial margin	**504,923**	**436,054**	**68,869**	**15.8%**
Net fee and commission income	(30,866)	4,632	(35,498)	
Other net operating income	59,923	65,417	(5,494)	(8.4%)
Net financial result	256,467	213,127	43,340	20.3%
Other operating income	**285,524**	**283,176**	**2,348**	**0.8%**
Operating income	**790,447**	**719,230**	**71,217**	**9.9%**
Personnel expenses	(375,449)	(417,759)	42,310	(10.1%)
Other administrative expenses	317,335	342,303	(24,968)	(7.3%)
Net value adjustments to property, plant and equipment and intangible assets	(163,074)	(127,230)	(35,844)	28.2%
Operating expenses	**(221,188)**	**(202,686)**	**(18,502)**	**9.1%**
Profit (loss) from operations	**569,259**	**516,544**	**52,715**	**10.2%**
Net adjustments to loans to customers	(79,836)	(49,932)	(29,904)	59.9%
Fair value gains (losses) on property, plant and equipment	(108,347)	(141,633)	33,286	(23.5%)
Net adjustments to securities and other financial assets	(9,038)	(345)	(8,693)	-
Net provisions for risks and charges	(6,401)	(5,955)	(446)	7.5%
Gains (losses) on interests in associates and joint ventures and other investments	2,258	(95)	2,353	
Profit (loss) before tax from continuing operations	**367,895**	**318,584**	**49,311**	**15.5%**
Taxation charge related to profit or loss from continuing operations	(141,174)	(119,035)	(22,139)	18.6%
Profit (loss) after tax from continuing operations	**226,721**	**199,549**	**27,172**	**13.6%**
Charges related to the banking system, net of taxes	(9,632)	(25,556)	15,924	(62.3%)
Impact of the realignment of tax values to book values	-	48,808	(48,808)	
Goodwill impairment	(8,132)	-	(8,132)	
Change in own credit risk on Certificates issued by the Group, net of taxes	4,818	4,354	464	10.7%
Purchase Price Allocation net of taxes	(19,192)	(8,802)	(10,390)	118.0%
Profit (loss) for the year attributable to non-controlling interests	786	284	502	176.8%
Parent Company's profit (loss) for the year	**195,369**	**218,637**	**(23,268)**	**(10.6%)**

(*) The relative data shown in the column relating to the previous year were determined in accordance with the new Segment Reporting structure adopted from 31 December 2022.

Contributions to the consolidated financial statements that are not represented in the other lines of business are included within the Corporate Centre business line. Specifically, the Corporate Centre includes the financial contributions of the Parent Company Banco BPM's Finance, of the Group's real estate companies, of the run-off activities relating to the Group's leasing business, as well as the centralised management of functions for the entire Group (such as Cost Management, Personnel, etc.).

Note that, for a better representation of the profitability of the segment in question, the figures of the previous year have been restated as compared to those published in the 2021 Annual Report, to take into account the amendments made to the Segment Reporting structure. More specifically, the contribution relating to the Group's leasing business, which until 2021 had been included in a specific segment, was attributed to the "Corporate Centre" segment.

Economic performance of the segment

The total operating income of the Corporate Centre amounted to 790.4 million, up against 2021 (+71.2 million).
In particular, net interest income stood at 503.1 million, up by 69.3 million. The Parent Company's securities portfolio made a substantial contribution, although it was offset by the increase in the cost of funding to finance it, especially in its dollar component. However, the rise in interest rates equally penalised the Group's institutional bond issues, also due to new placements made for 5 billion. The return to the bond market should be read together with the early repayment of 12.5 billion of a portion of TLTRO III. In particular, the decisions made by the ECB, both to

increase rates and to change the mechanism for calculating the rate applied to the TLTRO, generated an increase in interest expense of 170.8 million, only partially offset by the re-use of liquidity in the Deposit Facility.
However, overall, the Corporate Centre recorded growth due to both higher loans with institutional counterparties and as a result of the non-retrocession to the Commercial Network of the benefit deriving from the special interest period of TLTRO III.
The decrease recorded in net fee and commission income of 35.5 million compared to the previous year is largely due to new synthetic securitisation transactions which, against the benefit of a reduction in risks of the Group, weigh on the item in question for approximately 25 million. In addition, this was also affected by the retrocession to the Commercial Network, by the Parent Company's Treasury, of part of the revenues deriving from the Network's new exchange transactions, carried out with its customers.
Other operating income was down, amounting to 59.9 million, due to numerous positive extraordinary components in 2021.
The net financial result stood at 256.5 million, benefiting from capital gains deriving from the sale of a portion of the securities portfolio and higher trading profits. The latter more than offset the negative impact of the valuation of some securities held by the Group, in particular the Nexi share, down by 84 million compared to the previous year.
Operating expenses were up, amounting to 221.2 million. The reduction in personnel expenses, down to 375.4 million, due to the gradual reduction of the workforce, was more than offset by the increase in other administrative expenses and by amortisation/depreciation, due to inflationary trends and new investments made.
The cost of credit stood at 79.8 million, due almost entirely to lease receivables, especially due to the impact of the increase in the targets for the sale of non-performing loans, as a result of the change in the management strategy for non-performing loans approved by the Group.
Fair value gains (losses) on property, plant and equipment, corresponding to 108.3 million, were down. Other items in the Income Statement included the elimination of a significantly positive item recorded in 2021, relating to the exercise of the right to realign tax values to the book values of property used in operations by the Group.
Banking industry charges decreased, amounting to 9.6 million, as additional contributions paid to the National Resolution Fund of 28.6 million gross were charged in the previous year.
Lastly, there was a goodwill impairment of 8.1 million and a significant increase in the item relating to the Purchase Price Allocation, equal to 19.2 million, due to the consolidation of the insurance companies Banco BPM Vita and Banco BPM Assicurazioni from 1 July 2022.

More information on the activities managed by the business segment in question are provided below.

Finance

The Parent Company coordinates and oversees the management policies of its structural asset and liability items, as well as those of the other Group companies, to optimise available capital, identify adequate funding strategies and transactions for the Group, through action on domestic and international markets, as well as to monitor liquidity requirements and dynamics, and the management of portfolios of securities and of other financial instruments held by the Group.
Group Finance operations are carried out by the following operating units: Funding and Capital Management, Banking Book and ALM, Trading and Funds and Group Treasury.

More information on the activities managed by the business segment in question are provided below.

Funding and Capital Management

The Group's liquidity position remained extremely strong throughout 2022; during the year, liquidity indicators LCR and NSFR remained well above the Group's Risk Appetite Framework objectives.

During 2022, as a result of the changed economic and monetary policy conditions introduced by the European Central Bank, recourse to medium/long-term funding from the ECB (TLTRO III) was reduced by 12.5 billion and stood at 26.7 billion as at 31 December 2022.
During the year, the ECB changed the conditions relating to the interest rate applicable to TLTRO loans, which rose from a negative figure at the beginning of 2022 to the rate applied on the deposit facility of 2%. In December 2022, the Bank therefore proceeded with the partial early repayment of the TLTRO maturing in June 2023 amounting to 12.5 billion.

With regard to the issue of bonds for the wholesale market, the EMTN programme was adapted and updated, also through supplements and Covered Bond programmes that can be used for covered bond issues.

With regard to public bond issues, five bond placements were made totalling 2.45 billion. More specifically, the following were issued: (i) in January a Subordinated Tier II instrument, with a 10-year maturity (redeemable in advance 5 years after issue by the issuer and subject to regulatory approval) for an amount of 400 million and a 3.375% coupon, (ii) in March a Green Covered Bond of 750 million with a 5-year maturity and a 0.75% coupon, which is the inaugural issue of Green Covered Bonds for Banco BPM; (iii) in April an Additional Tier I perpetual instrument of 300 million (redeemable in advance by the issuer 5 years after the issue date) and a 7.00% coupon and (iv) in September and November two issues of Green Senior Non Preferred instruments both of 500 million with maturities of 4 years and 5 years, respectively, with an early redemption option in favour of the issuer 4 years after issue, with a 6.0% coupon for both issues.

Lastly, regarding the optimisation of RWA, note that in December two synthetic securitisation transactions were concluded:

- synthetic securitisation “Sofia”: transaction that envisages the hedging of the junior tranche by two market investors and the hedging of the mezzanine tranche through an insurance policy. The underlying portfolio consists of specialised lending facilities for an amount of approximately 1.5 billion divided between project finance and real estate. This is the first transaction that envisages the hedging of a tranche by an insurance company;
- synthetic securitisation “Greta”: transaction conducted with a market investor, which entails a guarantee on the mezzanine tranche of a portfolio of around 1.7 billion in performing loans disbursed to SMEs, Mid Corporate and Mid Corporate Plus.

Banking Book and ALM

ALM

The management of interest rate risk in the Banking Book is carried out centrally by the Parent Company within a specific delegated department, and the primary objective of management decisions is to mitigate the rebalancing of the dynamics of economic value volatility with the volatility of net interest income as the rate curve changes of monetary and financial market in general, in accordance with the provisions of specific regulations (BCBS, CRR/CRD, EBA and the Bank of Italy).
The Group utilises an integrated Asset Liability Management (ALM) system with the aim of calculating the risk measurements that also include the use of behavioural models and measures, and management is primarily based around a “natural hedge” model, which tends to pursue a natural compensation of the risks generated by the gaps in liabilities and assets. The items for which hedges are present are above all those on-demand, bond issues, mortgage loans and the securities portfolio.

Management of Proprietary Portfolios

Regarding the management of financial instruments under assets, in 2022 the strategies briefly described below were followed.

Positions in the HTCS category
In 2022, the Parent Company’s HTCS business model portfolio recorded a slight increase, from 9.9 to 10.9 billion.
The government share is the main subject of this increase, given by a combination of purchases divided equally between domestic and foreign Government bonds, +0.7 and +0.4 billion respectively.
The non-government component, which increased as a whole by approximately 500 million from the end of August, saw a reduction in the portion allocated to this accounting category, whose percentage of the total fell from 65% to approximately 55%. The reallocation did not substantially change the strategies already put in place in 2021, characterised by a focus on ESG issues and a strong focus on the level of diversification and average rating, both kept as high as possible given the profitability targets assigned to these specific investments. The share of ESG issues on the total portfolio of non-government securities held by the Parent Company is 25%, up by 11% compared to the previous year.

Positions in the HTC accounting category
In 2022, the HTC portfolio of the Parent Company's Banking Book increased from a nominal 18.7 billion to 26.8 billion. The government portfolio saw the most substantial increase for a total of 7.4 billion, recorded against a number of transactions: in the first part of the year, forward sales traded in 2021 were completed for 2 billion and 1.8 billion in securities was sold, while subsequently, in the face of the sharp increase in interest rates resulting from the geopolitical situation, the portfolio was reinvested and increased with a focus on domestic securities in the first case, and foreign in the second.
The non-government HTC component was the main beneficiary of the overall increase in this type of bond, recording an increase in the total nominal amount of over 600 million. The allocation of new investments was consistent with the strategies described for the HTCS accounting category.

Trading and Funds

Positions in the HFT category
With regard to trading activities, it should be noted that trading at the beginning of 2022 was conducted without substantial discontinuity with respect to the end of the previous year, i.e. with bond positioning lower than that of previous years but still focused on being the main driver of trading performance through carry-trade strategies. The sudden change in market conditions resulting from the outbreak of the Russia-Ukraine conflict, the exacerbation of inflationary pressure and expectations of a rapid conclusion of accommodative monetary policies, including that of the ECB, led not only to a generalised increase in aversion to money risk in all asset classes, but also to a strong decrease in the liquidity of interest rate instruments which, given the presence of various off-the-run instruments, considerably reduced the margin of intervention on the bond component. To partially offset the overall risk profile of trading activities, a bearish strategy was promptly implemented on the equity markets, appropriately reversed in late spring. The trading of currencies and related options also received a strong boost in the second half of the year, at the same time as the decision to refocus trading activities on the equity and currency components.

Alternative Investments and Funds
In 2022, investment in both Italian and foreign Alternative Funds continued, maintaining a priority for Private Equity, even though, with a view to obtaining a lower level of risk and market diversification, on a par with the previous year, investments also regarded other asset classes, such as private debt, venture capital and infrastructure. In the selection of Alternative Investment Funds, particular attention was paid to the implementation of ESG factors in the investment policy applied by the managers.

Group Treasury

The Bank's liquidity position in 2022 was significant and the advantageous conditions offered by the ECB such as TLTRO III funding, contributed to achieving a significant economic result in treasury management. During the year, Banco BPM participated in the Deposit Facility, a one-day use of ECB liquidity, for a daily average (including holidays) of approximately 29.4 billion.
During 2022, the activities of the Money Market Desk recorded a high volume of forex swap operations, both to fulfil the coverage needs of accounts in foreign currencies at the various treasury banks, and to seize arbitrage opportunities, generating an average monthly turnover of around 13 billion in nominal amount (value in euro), with a 10% increase against the previous year.
Geopolitical tensions influenced transactions on foreign currencies, but they were managed by minimising the negative economic impact and paying even greater attention to the needs of the Group's business customers.
After joining the Central Counterparties Eurex Clearing AG and LCH SA between December 2020 and March 2021, in 2022 Banco BPM significantly increased its negotiable securities financing activities with these counterparties, reducing operational risks and counterparty risks as well as optimising funding in the very short term.
In terms of the secured investment of surplus liquidity, like last year, a marked decrease in volumes was recorded due to the fact that General Collateral repo rates continue to be constantly lower than the ECB Deposit Facility rate.
Secured funding activity on proprietary assets reported daily average funding of approximately 12.1 billion, while lending activity, including long-term transactions, amounted to approximately 800 million.
Considering the portfolio of government bonds in US dollars, in 2022 there was a sharp rise in the USD repo rate curve on all the main maturities. The Federal Reserve's increase in official rates was the fastest, most rapid and impressive in recent decades. To fund US government securities, a diversification strategy was adopted for maturities with a view to making the funding of said portfolio as efficient as possible.

During the fourth quarter of 2022, all non-collateralised securities lending transactions (total outstanding of which amounted to approximately 2.4 billion) with underlying High Quality Assets were extinguished.
Medium/long-term repo transactions, with underlying non-government bonds, in particular with the use of issues of less liquid instruments, recorded a further substantial fall over the year against the progressive natural maturities.
Collateral optimisation activities also continued through collateral switching.
In 2022, limited transactions were carried out on Overnight Index Swap derivatives on the electronic platform, with €str as the variable parameter and a short-term horizon; most of the deals made were subject to unwinding before their actual maturity.
Trading in spot exchange rates recorded an increase in volumes of around 10% in nominal amounts compared to the previous year.
Lastly, the foundations were laid for the increase in collaboration with the Commercial Network on spot and forward exchange rates, involving the specialist units and targeting SMEs, with positive signs with respect to their potential.

Portfolio Management

The Corporate Centre segment also comprises the activities relating to Banca Aletti's portfolio management, whose net fee and commission income from trading and performance, based on a logic of allocating resources to the different segments, and analysing the relative performances defined by the Group, is not allocated to the Private Banking Network.
With reference to the assets managed, the investments made were characterised by a reduction in the equity component in the first months of the year, underweight, down compared to the initial overweight; subsequently, the proportion of this asset class was reduced as the macroeconomic, monetary and financial conditions changed towards more restrictive attitudes. The average duration of the bond portfolio was kept constantly underweight, given the restrictive monetary policies put in place and planned by the Central Banks due to the significant rise in inflation. In the second part of the year, after maintaining a high level of liquidity to protect assets, steps were taken to invest what was available in government bonds with short-term maturities, with decidedly positive nominal rates of return. Investments in the corporate bond markets were maintained in an underweight position, given the deterioration of macroeconomic aggregates and due to the sensitivity of the asset class to a rise in official rates.
Investments in financial assets exposed to exchange rate risk were kept close to neutral, with a main focus on the US dollar, which during the year appreciated significantly for various reasons, including the ability to generate higher returns, and by virtue of its status as a safe haven currency.
As at 31 December 2022, assets under management stood at 3.2 billion, slightly lower than the volumes at the end of 2021 (3.5 billion), with a positive contribution from net funding and a negative contribution due to market effects.

Leases

Starting from financial year 2022, Leases are no longer shown as an "operating segment" used as a benchmark to analyse performance and to prepare disclosures pursuant to accounting standard IFRS 8. The economic contribution of Leases was therefore included in the "Corporate Centre" segment, albeit subject to continuous internal monitoring, given the size of the managed portfolio as at 31 December 2022, equal to approximately 1.1 billion gross.

The portfolio of the Leases segment, managed in run-off, as there is no provision for the stipulation of new transactions or the disbursement of new loans on those in effect, includes the assets relating to the contracts of the former Banca Italease and the former Release, both merged into the Parent Company.
As described in detail in Part A - Accounting policies - Other significant aspects relating to Group accounting policies, during the year the segment in question underwent a restructuring of credit exposures attributable to a leading real estate group (known as "Project Wolf"), aimed at pursuing active management of the properties underlying the aforementioned exposures, with the support of a specialised partner, Aurora Recovery Capital S.p.A. (AREC) and the arrival of new funds provided by third-party investors to finance the development of real estate. In particular, the transaction envisaged the sale of loans, for a gross value of 461.1 million, to the special purpose entity for securitisation Lilium SPV, as well as the transfer of lease contracts and related properties to a LeaseCo (Ninfa LeaseCo S.r.l.).

Real Estate Sector

As at 31 December 2022, the book value of the Group's total real estate assets amounted to 2.4 billion.
Operations in the real estate sector involve both the management of the Group's operating properties and the enhancement, development and disposal of non-operating properties.
Following the incorporation of the subsidiaries Bipielle Real Estate and Release into the Parent Company during the year, the reorganisation of the real estate segment was completed.

In 2022 the Group focused on increasing the efficiency of the spaces occupied and reducing their management costs, continuing with the market rationalisation plan that envisages the release of third-party properties and/or empty or only partially occupied ones.
Operations relating to enhancing and selling non-operating assets are part of a market that after a 2021 of strong global economic growth still recorded growth, but with a slowdown in recovery and in which the war in Ukraine and the energy crisis have pushed up inflation, reducing purchasing power and per capita income.
Another important element that influences the real estate market is linked to credit, as the increased cost of debt has drastically reduced the scale of the credit channel.
On the other hand, the situation on the corporate front was different, where the recovery was strong until the end of the third quarter, fuelled by the increased attractiveness of alternative sectors (logistics and hotel), in addition to the return of interest in the "core" management segment. In terms of investments, net returns rose, but more slowly than in other European businesses, while ESG topics have become increasingly important for foreign companies and investors.
In this regard, an important factor is the strong link between credit and sustainability in the real estate market in terms of energy efficiency, as the legislation on real estate credit and the guidelines of the European Banking Authority envisage taking ESG factors into account when determining the value of collateral on properties. In addition, climate and environmental risk factors could also impact the valuation processes of the property.
Despite the recovery, in 2022 the Group's sales recorded a slowdown due to the fact that the characteristics of the properties held - in terms of location and energy requirements - do not fully coincide with those that drove the real estate market. In addition, during 2022 there were some delays in the approval procedures of building and urban planning applications needed to finalise the notarial deeds.
In 2022, the Group entered into deeds for approximately 55 million; as at 31 December 2022, sales commitments that meet IFRS 5 requirements amounted to 133 million, up compared to 106 million as at 31 December 2021.

In terms of leases, the Italian commercial market continues to be positive, with a strong recovery in the demand for rental property.
The first nine months of the year saw exponential growth in the number of contracts signed, a sign of how the economic difficulties experienced by the segment are being replaced by a newfound confidence on the part of citizens and businesses.
The most attractive sector for investments continued to be new generation offices, and especially those with excellent energy coefficients or "core", with the key city for leases continuing to be Milan, a true benchmark for the sector with invested capital reaching 2.7 billion.
The retail lease segment and the tourism sector are also recovering, with a significant increase in investments and rent.
As regards the tenants of the spaces leased by the Group, after a still critical first quarter, requests for a reduction in lease payments were almost zero. In particular, for the tourism sector, no requests were made to reduce the rent for seasonal properties (owned by the special-purpose real estate subsidiary companies) while those with business customers were still affected by the tail-end of the pandemic in the first part of the year, with impacts on turnover and the relative requests for the temporary adjustment of the rent.
At Group level, the "income generation" of free spaces also continued, including those resulting from recent branch closures, also to offset the reduction in income-generating properties following sales of leased properties during the year.

Lastly, the update of the valuations as at 31 December 2022 of the Group's real estate assets resulting in an overall negative economic effect of 108.3 million. This effect incorporates the new fair value estimates - drawn up with the support of special appraisals issued by leading companies, based on the "RICS Valuation" standards - rather than the presumed sale values inferred from ongoing negotiations.
The causes underlying this result are numerous and are attributable both to changes in market parameters and to events involving some specific properties such as to require a revision of the assumptions used in the previous estimates.

RISK MANAGEMENT

Capital adequacy and main risks

The current level of own funds and of risk-weighted assets means that Banco BPM Group is easily able to comply with both the regulatory thresholds and the specific thresholds required by the Supervisory Authority on conclusion of the Supervisory Review and Evaluation Process (SREP).
In order to provide its management team, stakeholders and the Supervisory Authority with a complete and informed disclosure, which confirms the adequacy of its own funds, the first defence against the risks assumed, Banco BPM Group assesses its capital situation from a current and future perspective, both as regards Pillar I and Pillar II, based on Basel 3 rules and the specific guidelines that the banks receive from the ECB. The Group’s capital adequacy is substantiated in the continuous monitoring and management of capital ratios, so as to verify compliance with regulatory limits and ensure the maintenance of the minimum levels of capitalisation required by the Supervisory Authority. These ratios are also estimated during the budget or Strategic Plan preparation process, and their consistency with the thresholds established in the Risk Appetite Framework (RAF) is assessed. The RAF is the instrument which makes it possible to establish, formalise, communicate and monitor the consistency of the risk profile of the Group and of individual legal entities with the risk appetite approved by the Board of Directors in a unitary and synergistic manner and constitutes a policy for the development of the main company processes. The Risk Function develops the RAF to support the Body with Management Functions, in collaboration with the Planning and Control Function and the other competent Functions, revising the framework at least annually based on changes in the internal and external conditions in which the Group operates. Following the finalisation of the acquisition of the equity interest of Banco BPM Vita and Banco BPM Assicurazioni, to provide support to the Insurance Company's Risk Function, the Parent Company's Risk Function collaborated in the revision of the RAF related to insurance companies, aligning it with the Group RAF.
From an operating perspective, ex ante risk management activities are also found in the process to manage the Most Significant Transactions - MST (relating to credit, finance, disposal of loans, etc.), which primarily involve the Risk Function, which must express a prior and non-binding opinion on all transactions categorised as such based on criteria established and regulated internally. The scope of application of the ex-ante opinions of the Risk Function has been extended establishing the issue of a prior opinion even for transactions defined as Significant - ST. The latter regard the credit area and enable a considerably greater number of credit transactions to be assessed in advance, both at the time of disbursement - also with reference to the SME portfolio - and when classified from greater to lesser risk and vice versa. The scope of MST and ST in the Group credit sector has been expanded, including the assessments relating to Real Estate Finance transactions (in particular Real Estate Development – RED – and Income Producing Real Estate – IPRE). The starting point of the various strategic processes of Banco BPM Group - including the annual budget, the RAF, the capital adequacy (ICAAP) and liquidity adequacy (ILAAP) assessment processes - is represented by the Risk Identification process. Within the current regulatory context, the Risk Identification process has become increasingly important, as the competent Supervisory Authorities verify whether institutions have an adequate framework for identifying, understanding, measuring and managing risks.
The Risk Identification process is carried out at Group level and involves the Top Management of the Group and of the main companies (Banca Akros, Banca Aletti, Banco BPM Vita and Banco BPM Assicurazioni), leveraging their experience and strategic vision, in order to identify the main risk factors and emerging risks to which the Group and/or the relevant legal entities are, or could be, exposed, both under normal conditions and in adverse scenarios. Their involvement, through dedicated interviews, enables the Risk Identification process to be effectively implemented and known within the Bank. Between the end of the second and the first half of the third quarter of 2022, the process of updating Risk Identification was completed. The new elements compared to 2021 include: (i) the extension of the Risk Identification process to the insurance companies Banco BPM Vita and Banco BPM Assicurazioni; (ii) the definition of specific risk factors for ESG issues and for the insurance business; (iii) in the ESG area, the breakdown between climate-related issues and those of governance and social sustainability.
Risk management activities also include an effective integrated risk reporting system, at Group level and for relevant individual legal entities, which enables all risk measurements and the main risk factors to which the Group and/or legal entities are exposed to be monitored, as well as a periodic assessment of the risk profile of the RAF indicators by comparing it with the thresholds defined in the framework, providing historic and detailed analyses that explain the trends, the areas that need attention and the areas for improvement.

In order to promptly and meticulously oversee the risks to which it is exposed, Banco BPM Group adopts a complex group of policies, processes, methods and instruments, which will be described briefly below, while reference should be made to the Notes to the financial statements (Part E) for more information.

Credit risks

Credit risk is managed by means of a portfolio VaR risk estimation model, belonging to the category of default models, which is applied on a monthly basis to credit exposures of Group banks. This model enables the economic capital against credit risk to be estimated, taking into account the portfolio concentration and the assumption of a joint non-fulfilment of counterparties, in a predefined context of significant macroeconomic variables. The confidence interval used is 99.9% and the time horizon of reference is one year. At the end of the model's simulation process, the maximum potential loss of the loans portfolio is broken down into the expected loss component and the unexpected loss component. For other residual exposures that are not part of the portfolio model, economic capital is calculated for the purpose of management control of risk through the use of supervisory regulatory metrics (Standardised approach).
As regards the processes and the tools used to manage and control the quality of the loans portfolio pertaining to Corporate and Retail customers, a key element is represented by internal ratings calculated by models that are differentiated and estimated specifically for each customer segment. The rating represents a valuation, referring to a time horizon of 12 months, made on the basis of all reasonably accessible information, both quantitative and qualitative, expressed by means of a classification on a ranking scale, of the ability of a party to whom a loan has been granted or is to be granted to honour its contractual obligations.
Rating plays a key role in loan granting, credit product disbursement, monitoring and performance management processes. In particular, it plays a role in deciding which Bodies are competent to approve loans, as well as on the mechanism for the automatic renewal of uncommitted credit facilities, and it contributes to determining automatic interception in the monitoring and management process (Watchlist).
Note that the internal rating is not applied for regulatory purposes to the perimeter of Banca Akros, to which standardised regulatory approach is applied. Therefore, in operational applications, including the quantification of economic capital and the calculation of the Expected Credit Loss under IFRS 9, proxies with average values are used. Instead, the internal rating is used for Banca Akros as part of the loan granting process for customers in common with the Parent Company. The classification of non-performing exposures is conducted in line with the criteria established by the EBA.
The management of non-performing loans in Banco BPM Group is based, to a great extent, on a model that assigns the management of a specific set of loans (portfolio) to specialist resources.
During 2022, for the fourth consecutive year, work continued on the project to reorganise the management of the Group's non-performing loans, which in 2019 saw the completion of the transfer of a business segment focused on bad loan collection to a specialised partner, with the subsequent assignment of a management mandate for most of the new flows of bad loans for the following ten years. From the finalisation of this agreement, the management of bad loans has mainly been conducted by a leading player in the sector, while the management of the remaining non-performing exposures has been handled by specialised internal personnel. Following the transfer of the business segment mentioned above, it was also agreed that the management of all the non-performing exposures should be unified within the structure reporting to the Chief Lending Officer (CLO).

Credit risk control framework - Level II Controls

In 2022, Enterprise Risk Management (ERM), through the 2nd Level Control (C2L) unit, continued to conduct controls on credit risk management processes - carried out on a continuous basis and independently with respect to the line functions, through the analysis of the loan portfolio and of samples carried out with the Credit File Review (CFR) - mainly concerning the interception system adopted by the CLO Area as part of credit monitoring, the process of identifying forbearance measures and guarantees.
As regards conducting "ex-ante" controls, ERM promoted a review of the framework of opinions, for which the Bank requires the approval by the Risk Function before any resolution is passed, extending the reference perimeter to the Small and Medium-sized Enterprise (SME) portfolio and to Real Estate positions - and continued with the prior assessment of credit files authorised by the Non Performing Exposures Committee.
In line with the provisions of the ECB NPL guidelines on 2nd level credit monitoring activities, as well as the recommendations formulated by the ECB as part of the 2020 SREP Decision, ERM continued to provide support to the CRO for the preparation of the quarterly risk opinion to be shared with the Corporate bodies in order to assess the completeness and adequacy of the activities carried out or planned by the CLO Area on the credit risk

management process; in this regard, ERM revised the reporting system to make the representation of credit portfolio risk more effective. In 2022, ERM also finalised the analysis of the framework of credit monitoring tools (PMG), launched at the end of 2021 and reinforced the information flows between the CRO Area on the one hand, and the CLO and Operations Areas on the other, also by defining a specific communication protocol.

Financial risks

With regard to counterparty risk, defined as the risk that the counterparty in a transaction defaults before the final settlement of the cash flows of such transaction (EU Regulation no. 575/2013), for supervisory reporting purposes, the Group uses standard methods to calculate exposures on the entire reference scope (derivatives, repurchase agreements, securities lending and medium- and long-term loans).
From June 2021 the new standard SA-CCR methodology entered into force for calculating exposure to counterparty risk on transactions in derivatives (Ref. EU Regulation no. 2019/876).
The new standard method replaces the previous Market Value approach, and makes it possible to calculate capital requirements which better reflect the risks linked to transactions in derivatives.
Membership of Clearing Houses for operations in OTC Derivatives and Credit Derivatives has enabled the mitigation of risks.
In accordance with the Basel III Framework Regulation, additional capital requirements regarding the following are to be calculated:

- own funds for the CVA Risk through the adoption of the standardised method, as established by Regulation (EU) no. 575/13 for banks that are not authorised to use the internal model method (IMM) for counterparty risk or the IMM for Incremental Risk Charge (IRC);
- exposures relating to operations with Qualifying Central Counterparties (QCCP) by adopting the methods envisaged by Arts. 306-308 of Regulation (EU) no. 575/2013.

As regards this type of risk, for management purposes and to provide support for capital adequacy assessment processes (ICAAP process), the Parent Company and Banca Akros also use an internal method to estimate exposures to the risk of possible default of counterparties in OTC derivative transactions subject to Collateral Agreements (CSA).
The above-mentioned simplified simulative method, known as the "Shortcut Method", estimates exposures on the basis of possible changes of the mark to market of the individual contracts underlying the same reference CSA, on a time horizon given by the "risk margin period" that characterises each contract. The measurement is also implemented in the Parent Company and Banca Akros lending process chain, together with a daily monitoring and reporting system.
For the remainder of the exposures to derivatives, the exposure is estimated with the standard methodology which is also used for Supervisory reporting purposes.

Furthermore, the Group has met the obligation envisaged by European Legislation (EU Delegated Regulation no. 2016/2251), by exchanging, based on the relative contracts (CTA - Collateral Transfer Agreement), the initial margins of OTC derivatives not cleared by a central counterparty, which provide additional protection in the event that one of the two counterparties is not able to meet its commitments over the life of the contract.
Banco BPM Group uses the SIMM method, whose calculation is mostly risk-sensitive, and is based on aggregate sensitivities by risk and product category.

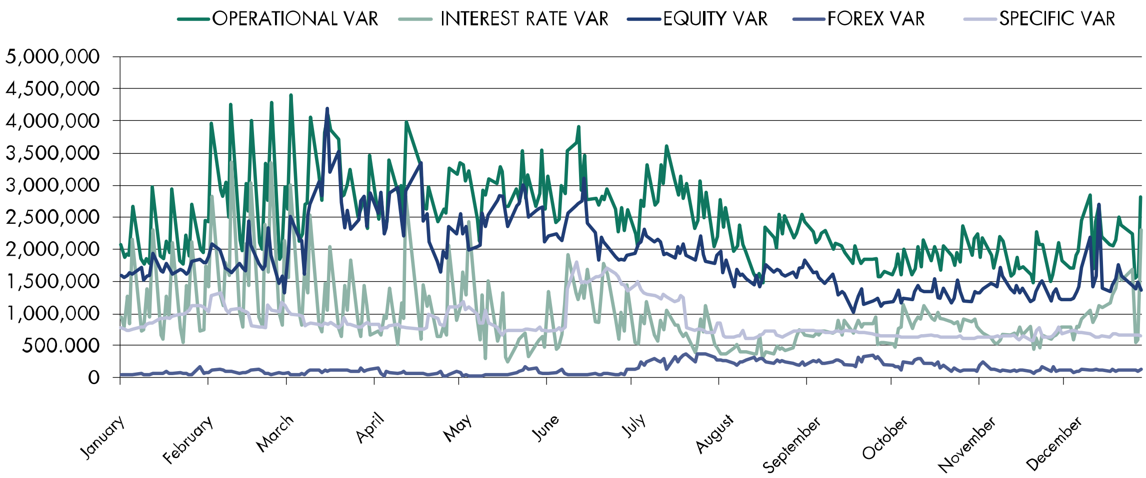
Regarding the control of financial risk management, the identification, measurement and operating control of the risk positions of Group banks are conducted using an effective position-keeping and risk control system that provides constant monitoring of exposure levels and of the accurate verification of compliance with the operating limits defined by the Board of Directors of the Parent Company and by the Boards of Directors of Group banks.
Financial risks are monitored on a daily basis, both through the use of deterministic indicators (sensitivity to market risk factors and indicators referred to the issuer) and probabilistic indicators (Value at Risk - VaR). The VaR, which indicates the maximum potential loss associated with market movements in unexceptional conditions, over a certain time horizon and with a certain confidence interval, represents a synthetic risk measurement. The approach used to calculate the VaR is based on historical simulation. The values calculated are provided with a confidence interval of 99% and a time horizon of one day. The correlations used are those implicit in the historical scenarios of risk factors applied to estimate the empirical distribution of values in the trading book.

With reference to the IMA (Internal Model Approach) capital requirement, note that, from the reporting date of 31 December 2020, Banco BPM Group has used the extended model for the calculation of the capital requirement for Market Risk. Said requirement is therefore calculated on the basis of the VaR, Stressed VaR – including the specific risk of debt securities – and of the IRC.
At the end of 2022, the IMA (Internal Model Approach) Capital Absorption of Banca Akros against market risks amounted to approximately 87 million, corresponding to approximately 1,083 million expressed in terms of RWA.

On 11 January 2023, Banco BPM received the Final Decision from the ECB that approved the implementation of the relative change in the IRC calculation method requested in January 2022. The new method guarantees a more accurate estimate of the P&Ls associated with rating migration events through a greater number of financial instruments used to calibrate the spread levels of the worst rating classes. A forward structure with different maturities (1, 3, 5, 7, 10 years) for the different rating classes and sectors was also introduced in the Asset Swap Spread matrix and a CDS spread matrix was created to calculate the P&L associated with the shock spreads of the CDS, with the same forward structure (1, 3, 5, 7, 10 years). Therefore, the new method has been used to calculate capital absorption/RWA starting from the first quarter of 2023. The ECB decision in question also provides for the removal of the 10% IRC add-on. As regards the latter metric, a limitation was actually in place with a 10% add-on on an individual and consolidated basis, until several relative methodological findings were resolved.

The performance graph containing the operational VaR figures for 2022 related to the regulatory trading book of Banco BPM Group, is shown below.

Daily VaR and VAR by risk factor
BANCO BPM GROUP: TRADING Book



In the first half of 2022, the prevalent risk component is that relating to equity risk, due to the derisking which started in 2021, and which involved especially the bond portfolio, due to the need to respect the Market RWA limits after the extension of the internal model to the specific risk of debt securities.
In the second half of 2022, the prevalent component continued to be that related to generic risk on equity securities, although lower than the first half of the year (with the exception of the peak of interest rate risk at the end of the year due to a technical change of the repo curves at year-end). Changes in these securities mostly account for trends in the Group's overall risks. In the second half of the year, the specific risk component on debt securities further decreased.

Operational risk

With reference to operational risk, Banco BPM Group fully adopts the Traditional Standardised Approach to calculate capital requirements for all companies that make up the Supervised Group, while with regard to the other qualitative-quantitative elements envisaged by Supervisory Regulations, as requested by the ECB, it meets all of the requirements of the CRR (EU Regulation no. 575/2013) for the TSA, as well as those envisaged by the above-mentioned AMA in articles 321 (points b-e) and 322 (points b-f).

Also in compliance with the relevant regulations, the Group adopted an operational risk management model that illustrates the management methods and the people involved in risk identification, measurement, monitoring, mitigation and reporting. In particular, the model refers to centralised oversight functions (governance and control functions) and decentralised oversight functions (coordinators and ORM contacts, which are specifically involved in the key processes of collecting operating loss data, continuously assessing the operating scenario and forecasting exposure to risk). This model is governed by a specific Group Regulation approved by the Corporate Bodies.
In line with mission of Banco BPM Group, the main risk impacts regard the “Commercial practices” category, followed by “Processes”, which together represent the predominant portion of total risk and which, for the most part, arise in the Group’s commercial networks. With reference to the category of “External Fraud”, given the trend of increasingly sophisticated techniques (e.g. identity theft, cyber risk phenomena, etc.), the Group is constantly reinforcing physical and logical security, therefore containing these phenomena both in terms of frequency and the average impact on loss events of this kind. The Group takes the appropriate mitigating measures (e.g. training, implementation of application processes/procedures etc.) as protection against the main risk factors that arise.
With reference to the management of operational-reputational risks of Banca Akros, we draw attention to the reputational aspect related to financial research and Investment Banking activities, the potential impact of operational risks due to the size/number of transactions carried out by the Brokerage area and the strategic impact for customers of the activities carried out by both the Investment Banking area and the Corporate & Institutional Banking area.
In particular, note the importance and the related operational risks of the specific structuring and dynamic management of Equity and Fixed Income structured products carried out by Banca Akros as Group Corporate & Investment Bank, inherited from the incorporation of the Corporate & Investment Banking business unit of Banca Aletti (which took place in 2018).
Operational risk, including legal and tax risk, and the reputational risk typically associated with Corporate & Investment Banking activities, including structuring, marketing of structured products and hedging, are present throughout the industry that carries out these activities, given the issues of a contractual nature, pricing, fair value/mark to market and management of structured payoffs, requests for transparency and potential conflicts of interest. The risk of money laundering, proper tax monitoring and implementation of sanctions/prohibitions resulting from the Russian invasion of Ukraine should also be noted.

Liquidity risk

Regarding liquidity risk, in 2022 Banco BPM Group effectively carried out its Internal Liquidity Adequacy Assessment Process (ILAAP), which the Corporate Bodies use to ensure that the Group operates with liquidity and funding levels that meet both the minimum regulatory requirements and the risk appetite approved within the RAF.
As part of this process, liquidity risk is monitored regularly, on an intra-day, daily (short-term liquidity) and monthly (structural liquidity and funding) basis, for both regulatory metrics (LCR, NSFR, ALMM) and metrics developed internally. In 2022, all regulatory liquidity reports required at the level of Banco BPM Group were prepared.

For further information on credit, financial and operational risk, please refer to Part E in the Notes to the financial statements, which is dedicated to risk management. The same section also contains detailed information on structured credit products, on exposures towards Special Purpose Entities, on securitisation transactions and operations in derivatives.
The models developed internally by Banco BPM Group are subject to periodic tests by the Internal Validation function, which is independent from the functions in charge of developing the models. The results of the tests are illustrated in specific reports shared with the Corporate Bodies. These results did not highlight any significant critical issues on the internal models.

Outlook for Group risks and objectives

The macroeconomic scenario currently envisaged for 2023 sees a phase of stagnation for Italy and the Eurozone, after the strong recovery of the previous two years. The economic slowdown is linked to the effects of residual tensions on the supply markets of raw materials as a result of the ongoing conflict between Russia and Ukraine, to the decrease in the purchasing power of households caused by the increase in inflation and the effects of monetary policies on businesses and private customers that will remain restrictive to counteract the increase in prices. In this regard, refer to the paragraph below "Outlook for business operations" in this report.

The outlook for risks must take into account the tensions that may be triggered by energy price trends, on consumption and production, as well as the rise of market interest rates.
Any action taken by the Group will in any event be based on a prudent approach, continuously monitoring activities with a view to limiting the impact of potential adverse changes that cannot be predicted in the current economic scenario.
The capital ratios of Banco BPM Group are actually much higher than the minimum levels set by the Supervisory Authorities, guaranteeing adequate coverage of risks also in adverse macroeconomic scenarios.

In view of the above, with regard to credit risk, the Group intends to continue the risk containment process started in recent years, supported by a growth in volumes directed towards sectors characterised by better prospects and lower default rates. In 2022, the forward-looking assessment of counterparties incorporated ESG risk factors, mainly related to the transition risk associated with the sector to which they belong. Also in 2023, the careful use of mitigation instruments (guarantees) and the accurate provisioning policy will be the foundation for a prudent approach to loan portfolio management.
With regard to both operational and structural liquidity risk, it is possible to forecast a situation of substantial stability and security.

The interest rate risk of the Group’s own portfolio still shows a bullish trend, which, in the event of an increase in market rates, would allow for a further improvement in the net interest income to be achieved. During the year, the Group’s overall risk profile appeared to be generally adequate and consistent with the approved risk thresholds, with the exception of some tension triggered by monetary policy decisions on the remuneration of TLTROs, just as the liquidity profile appeared to be adequate in the short and longer term, complying with the internal risk limits and, where present, with regulatory ones.

The Risk Function coordinated the renewal of insurance coverage relating to the protection of the assets used in operations of the Group, property, plant and equipment and intangible assets, and assets used to guarantee business transactions and to cover damages relating to banking activities, with a view to appropriately managing the transfer of operational risk.

In this context, an analysis of the Group's active coverage was conducted, therefore making any possible rationalisations and boosting the effectiveness of the guarantees acquired.

SUPERVISORY, CONTROL AND SUPPORT ACTIVITIES

Human resources

In a year still characterised by complexity and uncertainty following the extension of the state of emergency due to the Covid-19 pandemic, in order to ensure the best working conditions, Banco BPM confirmed the smart working approach adopted in 2020 and in 2021 as well as the flexibility of entry, exit and lunch break times.
In addition to measures to guarantee safety and promote the quality of the work-life balance, initiatives were undertaken to pursue the company's business strategies by empowering staff, preparing them to provide a constant and high quality contribution.
In particular, targeted and professional training courses were planned and implemented (made even more effective following the creation of the Key People and Talents unit), both by implementing job rotation initiatives and by launching mentoring projects, mainly dedicated to young people, to acquire a complete and enhanced vision of the Bank and to facilitate understanding of the interconnections between the various Functions.
Personnel management was based on constant dialogue with resources in order to know their expectations and any needs, the careful assessment of performance and adequate recognition of the work carried out, with particular attention to the pursuit of policies aimed at achieving gender equality, through the development of female talent, to be accompanied in a path of growth towards managerial positions.
Through the numerous initiatives prepared by the "Inclusion, Diversity and Social" unit, all the conditions to guarantee an inclusive environment able to offer the best opportunities for personal and professional development have been implemented.

During 2022, 293 people were recruited, favouring the use of apprenticeships, thus supporting youth employment and encouraging generational turnover.
In addition, to mitigate turnover and ensure proper organisational oversight, additional new hires were made, which contributed to the development of the business through the inclusion of the new skills required by the market and by the changed reference context.

The breakdown of personnel by category and gender as at 31 December 2022 is shown in the table below:

Category	Men			Women			Total
	Full-time	Part-time	Total	Full-time	Part-time	Total	
Executives	231	-	231	37	-	37	**268**
Middle Managers	5,240	41	5,281	2,154	399	2,553	**7,834**
Professional Areas/Other Personnel	5,152	181	5,333	3,919	2,787	6,706	**12,039**
Foreign employees	11	-	11	5	-	5	**16**
Total workforce	**10,634**	**222**	**10,856**	**6,115**	**3,186**	**9,301**	**20,157**
of which:							
Apprentices	213	-	213	300	-	300	**513**
Permanent contracts	10,421	222	10,643	5,815	3,186	9,001	**19,644**
Supply contracts	-	-	-	-	-	-	**-**

Remuneration Policies

With regard to the remuneration policy, the short-term and the long-term incentive schemes are particularly important, as they encourage personnel to achieve company and Group objectives, both in the short and medium term.
The short-term incentive scheme represents a management lever to recognise the contribution of personnel and reward individual merit. The long-term incentive scheme supports the 2021-2024 Strategic Plan and aligns the interests of management with those of the stakeholders that are important to the Group.
Detailed information concerning the Group's remuneration policy can be found in the "Policy-on-remuneration report and payouts awarded", drawn up in accordance with the provisions of the Italian and European supervisory authorities and approved by the Bank's Corporate Bodies.
The Report is published on the Group website www.gruppo.bancobpm.it (Corporate Governance - Remuneration Policies section).

Development and training

The unit dedicated to development and training activities oversaw the development, selection and training processes as part of the implementation of the 2021-2024 Strategic Plan, in which Banco BPM considers its People Strategy an enabling factor to generate value and plan the future through an approach that combines investment in people and the dissemination of a culture of development and sustainable management.

Planning and development

In 2022, development programmes were launched dedicated to young people, women and talents who have distinguished themselves in terms of their characteristics, commitment, career aspirations and in whom the company has decided to make an investment as regards professional growth in line with the career aspirations expressed by individuals in dedicated listening sessions. They were involved in empowerment paths to work on self-awareness, to train functional soft skills with a view to opening themselves up to new professional scenarios and to focus on their leadership style. In parallel with the courses, customized development and management levers were activated, such as on-the-job training and mentoring. The objective for 2023 will be to further enrich the set of levers that can be activated (e.g. coaching) and to guarantee the extension of the programme to all targets of the company population.

More specifically, the Youth Programme involved 692 colleagues in a process of learning about the context and future scenarios and training in the key skills of their positions. The programme will continue in 2023 and will expand to those hired in 2022/2023.

The Gender Programme, an empowerment path to enhance female talent, which develops self-confidence and the ability to influence, and the affirmation of women, started in 2021 and continued in 2022, involving a total of 294 colleagues.

In 2022, the Talent Programme called "Boost your talents", dedicated to talented people currently in professional/commercial positions, who progress to positions of increasing complexity over time, involved 60 people.

The 2021 performance assessment was concluded at the beginning of the year, with the consequent return of feedback and the establishment of the development objectives for 2022. At the end of the year, the 2022 assessment cycle involved a population of approximately 19,300 assessed employees (97.1% of the population). The system, applied to all Group companies covered by the National Labour Collective Agreement for the Credit sector, promotes empowerment at each level and encourages the spread of quality behaviour, through the acknowledgement of individual performance and the application of assessment criteria based on the principles of fairness and merit.

In parallel, the 2021 assessment cycle was completed and the 2022 cycle for top management was launched, which promotes the dimension of ESG targets.

To support people in their professional development in an increasingly effective manner, a new performance model is being designed to support continuous feedback between managers and their staff, which focuses more on continuously listening to the career aspirations of employees over time.

As part of the EBA LOM (Loan Origination and Monitoring) project, in 2021 a survey of knowledge in the credit area was carried out, which involved more than 3,000 people who work both in the commercial network and in central units. The analysis of the data made it possible to highlight the existing skillset and to identify the main gaps and in 2022, upskilling and reskilling measures were implemented through training plans that met both the need for continuous updating on regulatory and process issues, and the need to fill the gaps that emerged.

Training courses dedicated to IT and Data Governance personnel were also launched in 2022, designed in line with the knowledge mapping exercise carried out as part of the development programme launched in these functions from 2020.

Selection and Assessment

The fully digitalised selection process made it possible to identify the best recent graduates with skills aligned with the company's needs and the new professional skills sought. About 2,500 people participated in the selection process, which enabled the recruitment of young people who later became part of the Group.

In 2022, 54 internships were offered to university students and recent graduates, which allowed them to gain experience in what they had learned during their studies and to increase their awareness in relation to future career choices.

Employer Branding initiatives continued to strengthen ties with the local community, as they made the know-how of Banco BPM professionals available to schools and universities through university testimonials, career guidance

initiatives and career days. These schemes involved a total of roughly 2,400 young people and 46 colleagues in collaboration with 16 institutions (universities, business schools and training organisations).
As part of the Gender Programme, Assessment activities were launched for the first 294 colleagues. The Assessment, placed within a professional growth programme, provides a useful set of information on the person's skills to better identify development actions and is an important moment of personal awareness. The initiative reflects the attention that Banco BPM places on the enhancement of its people.

Training
In 2022, the training unit accompanied and supported people in their professional and managerial growth with refresher training courses for specific positions adapted to the changed context, promoting knowledge, continuous learning and the building of advanced professional skills, including digital skills.
The main training initiatives implemented in 2022 regarded:

- New hires: with regard to the recruitment defined in the Business Plan of around 800 young people, of which around 230 in 2022, a three-year programme was developed with the aim of:
  - consolidating job-specific skills with three-year training courses customised according to the position and the Organizational Unit they are to join: Network, Customer Support Development, Central Units. The courses are focused on technical-professional skills (general and specific) and cross-departmental skills needed for the position;
  - facilitating growth and enhancing individual potential through the development of soft skills and the mentoring process as envisaged by the Youth Programme;
- Managerial training: development of leadership style by enhancing and expanding the anticipatory thinking, guidance and direction, cooperation and learning agility skills that enable objectives and people management to be combined, that focuses on the expression of talent and success in the company. First and second line managers were also involved in the Mentoring programme for young people to facilitate their integration into the company. With reference to the 2021-24 Strategic Plan, an initiative for the management and monitoring of projects was designed and implemented, to define the guidelines, action plans and the financial and organisational impacts of the projects in question, guaranteeing the governance and control of their progress.
  The managers of Retail branches, Business Centres and newly appointed Corporate Centres were involved in initiatives to support the ability to identify effective solutions to manage complexities related to the new position, the team and to enhance self-empowerment;
- Training initiatives and projects, in collaboration with the Inclusion Diversity and Social unit, dedicated to:
  - #Respect Programme: to spread a culture of respect and to promote the adoption of conduct and management practices characterised by respect. This year, the focus was on developing and increasing awareness of Banco BPM's Manifesto Commitment, which breaks down the key words of respect for Banco BPM into observable and measurable conduct to aspire to in the daily life of the company;
  - Disability Management: to promote a cultural change towards disability and to facilitate the inclusion of people with disabilities; encouraging their involvement in all facets of working life;
  - Parenting: a time dedicated to colleagues returning from maternity leave to share reflections and to exchange experiences between those who have to balance work and family on a daily basis, interpreting the multiple roles that this phase of life requires;
  - Providing care: how to deal with care during the entire life cycle, referring to parents with children in the different developmental phases, future parents and caregivers who take care of their family members;
- "W@W-Well-being at Work": also in 2022, training initiatives were carried out to promote the well-being of people, health and the culture of well-being in the company, dedicated to all Group personnel;
- Language R-evolution: the project, which started in 2021, aims to simplify and make company communication clearer and more understandable by defining the guidelines for a new culture of inclusive language for both internal and external customers;
- ESG Programme: the project underpins the entire ESG Programme to spread knowledge of the ESG context and culture through training activities addressed to the entire company population or to specific targets in the technical, commercial and managerial spheres;
- Digital transformation programme: this transformation process is supported through training courses that accompany the releases of the DOT programme, initiatives dedicated to the commercial network to develop multi-channel topics; specialist up-skilling courses for central units that need to develop reference professional skills;
- Growth in volumes and profitability in the key segments: that training provided for the opening of Business Centres and the reorganisation of Banca Aletti, promoting the implementation of the new Service Model

and the strengthening of business skills, reinforced the distinctive skills of Banca Aletti, Banca Akros and the Corporate Network in the relational, advisory, technical and commercial areas, and promoted the knowledge of the NRRP and the opportunities for customers;
- Bancassurance: training initiatives to strengthen the insourcing programme: wider spread of a common culture and language in consulting in the retail network;
- Control Functions Programme (Audit, Compliance, Risk): to provide the reference framework needed to do the job with the highest recognised professional standards; to improve the knowledge of the reference methods; to guarantee expertise in the digital tools applied in the control units; to acquire "Certified Internal Auditor" certification;
- Evolution of regulations and legislation: training, in collaboration with the relevant functions, through training courses on regulatory and legislative developments (anti-money laundering, Italian Legislative Decree 231/01 offences, transparency, GDPR, cyber security, business continuity, IVASS and ESMA-MIFID II regulations, occupational health and safety;
- On-the-job training for the Retail commercial network: on-the-job training continuously aligns technical-professional skills to changes in jobs and strengthens soft skills to develop commercial relationships with customers through a personalised service in line with the market evolution;
- Training initiatives for the Corporate commercial network: the training provided in previous years was consolidated, to support the specific skills of the position, consistent with strategic business objectives and credit risk governance;
- Training in Group banks (Banca Aletti and Banca Akros): to develop specialist skills, training initiatives continued with a view to strengthening technical, commercial and relational expertise.

In 2022, training was mostly provided virtually (synchronous and asynchronous), following the careful redesign of all training initiatives into different modes (virtual classroom, e-learning, mobile learning). Two Smart Learning initiatives were also set in motion.

The table below shows the hours of training provided in 2022, broken down by the various types of training course and the level of attendees.

2022	**Man-days/ Hours provided**
Training days	148,828
Training hours	1,116,210
of which in % by training area:	
Mandatory	18.7%
Technical - professional	29.6%
Qualifying technical professional	39.3%
Relational/skills development/commercial	10.0%
Managerial	2.4%

Inclusion, Diversity and Social

As part of a people strategy focused on a "people oriented" approach, Banco BPM established the Inclusion, Diversity and Social unit to support the cultural change towards ESG issues, stimulating a culture and a policy of inclusion of all forms of diversity (disability, ethnicity, age, gender, sexual orientation, religion and socio-economic status, nationality, language) based on:
- respect and listening to people;
- recognition and enhancement of the differences and talents of each individual;
- fairness and equal opportunities;
- real commitments to achieve an inclusive and respectful environment;
- initiatives aimed at organisational well-being and social support.

The projects implemented in 2022 included:
- VolontariAmo: planning and coordination of initiatives to support local communities and the environment (510 colleagues participated, 2,700 hours of company volunteer work);
- active listening: individual interviews and advice, individual support in the field of Disability Management;

- overseeing cross-functional working groups within Human Resources with the aim of being a recognised point of reference, ready to meet the different needs of people with disabilities in the company and to accompany them in all stages of working life as well as designing inclusive initiatives addressed all Group employees (e.g. Back to Job project, meetings focused on the return of those considered fragile and their managers).

Labour policies - industrial relations

The following paragraphs illustrate the main issues discussed with the Trade Unions.

Prevention measures as regards health and safety in the workplace
Also in 2022, the social partners continued to focus on measures to contain the risk of infection in the workplace, in close correlation with the evolution of emergency legislation. Therefore, the precautionary measures already adopted in 2021 continued to be implemented in all Group companies, adapting them to the preventive measures established by the emergency legislation in force at the time, in particular confirming the use of smart working and the option of using periods of voluntary absence, supplementing the legislative provisions.

Organisational-management interventions and reduction of the workforce
Following the uptrend in the use of digital channels by customers, in line with the forecasts of the Business Plan, the closure of 75 branches of the commercial network, with a proportionally larger transactional component, was approved, and will take place within the first half of 2023, with a view to strengthening the more structured branches to offer advisory services, and with a full range of products. In this regard, a specific disclosure was provided to the Trade Unions, thus initiating the discussion procedure envisaged by the national agreement for the industry on the repercussions for the personnel involved in the rationalisation.

Company interventions
The further rationalisation of the corporate and operating structure of the Group, consisting of the partial spin-off of Tecmarket Servizi to Banco BPM, which was completed with effect from 1 January 2023, was the subject of discussions with the trade unions. This transaction envisaged the assignment to the Parent Company of a business unit comprising all of Tecmarket's activities, with the exception of those related to the management of terminals and technical assistance to customers for POS and mobile POS services. This transaction involved the transfer of 20 of the 23 resources of Tecmarket to the Parent Company, and consequently to the National Collective Agreement for the Credit sector, initiating the envisaged procedure, which concluded with the agreement of 10 January 2023.

Furthermore, considering the wish to support the Group’s employees and their families, to help them deal with the current economic situation, in December 2022, an agreement was reached that envisaged an extraordinary payment, to be paid in welfare services for the amount of 500 euro per capita, for staff belonging to the Professional Areas and Middle Managers category.

Lastly, it should be noted that, with reference to second-level collective bargaining, on 17 February 2023, the complex and detailed negotiations started with the trade unions in the second half of 2022 on numerous issues were successfully concluded. In particular, agreements were reached primarily on:

- provision of welfare services to staff belonging to the Professional Areas and Middle Managers category for an amount equivalent to 1,500 euro;
- management of the repercussions on personnel resulting from the new rationalisation of the commercial network, also with the use - with a view to generational turnover - of the extraordinary benefits of the Sector Solidarity Fund for an additional 250 people, to supplement the agreements of 29 December 2020 and 3 May 2021;
- second-level collective bargaining and agreement on commercial policies and work organisation;
- funding training;
- renewal of agreements on smart working, smart learning and voluntary suspension of work.

Internal audit

On the one hand, the Audit Function of the Parent Company is responsible for monitoring the regular performance of operations and the evolution of risks, with a view to third-level controls, including on-site and off-site checks, and, on the other hand, it strives to assess the completeness, adequacy, functionality and reliability of the organisational unit and other components of the internal control system, presenting possible improvements in the risk management, measurement and control process to the corporate bodies and taking an active part in their implementation.
The Audit Function is responsible for the internal audit activities of all the central and peripheral units of the Italian companies of the banking Group; for the only foreign entity belonging to the Group (Banca Aletti Suisse), it conducts its own audits in addition to those conducted by the local unit assigned audit activities and coordinates with the same where necessary. With effect from 22 July 2022, following the acquisition by Banco BPM of the entire interests in Banco BPM Vita and in Banco BPM Assicurazioni S.p.A. (a wholly-owned subsidiary of Banco BPM Vita), the Audit Function of Banco BPM took over the guidance, coordination and control of the Internal Audit Function of the Insurance companies, which reports to the respective Boards of Directors, reporting functionally to the Audit Function of Banco BPM.
When performing its duties, the Audit Function takes the provisions of the widely accepted professional standards into account.

The audits conducted in 2022 regarded the following areas:

- governance processes
- risk control and management processes
- finance
- commercial
- credit
- support processes
- banking networks

with regard to the organisational processes adopted, compliance with internal and external regulations as well as employee conduct.

The most significant activities involving the Audit Function in 2022 included, in addition to obligatory audits (deriving from fulfilments required by external regulations or Internal Regulations), audits on processes regarding the management of irregular or non-performing loans, on the management of real estate and public collateral against customer loans and on the measures to develop risk measurement processes (with specific regard to the areas related to the internal models validated for regulatory and Second Pillar purposes), as well as support to Supervision (provided both as part of the on-site inspections and as part of the monitoring carried out by the JST).
In addition to the usual internal audit activity, the Audit Function also provided advisory services, offering its experience mostly by participating in projects and working groups, with specific reference to aspects relating to the internal control structure.

Compliance

The Group's Compliance Function carries out its activities, reporting directly to the Chief Executive Officer, both for the Parent Company and for the Group companies that have outsourced the service, and has direct access to the Corporate Bodies, communicating with them without any restrictions or intermediation.
Bank of Italy Circular no. 285/2013 defines compliance risk as the risk of incurring legal or administrative sanctions, significant financial losses or reputational damage as a result of the violation of binding rules (laws, regulations) or self-regulatory systems (e.g., Articles of Association, codes of conduct, codes of corporate governance).
The Function oversees the management of compliance risk with regard to all Group activities, according to a risk based approach, verifying that internal procedures are adequate to mitigate that risk.
The Compliance Manager has also been given the role of Data Protection Officer (DPO) in accordance with European Regulation 2016/679 (GDPR) concerning personal data protection.

During the year under review, the development of processes, methodologies and IT tools used continued; in particular, as part of the continuous strengthening of its methodological and operating model, in the third quarter of 2022 the Compliance function introduced a new Compliance Risk Assessment model that made it possible to further refine the methodology in use with the aim of obtaining additional benefits in the identification, measurement, assessment and representation of non-compliance risks.
In 2022, the Compliance Function also worked on identifying the applicable regulations and assessing their impacts on company processes, models and procedures, providing advice on compliance, as well as assessing compliance with internal regulations as part of the issuing process. In application of the annual or specific plan required by the Corporate Bodies or the Supervisory Authorities, the Function conducted compliance checks to evaluate the existence and adequacy of governance, organisation, control and IT measures of the Group, their strength and effectiveness in mitigating compliance risks, and the compliance of the operating practices and conduct of employees or workers, reporting any situations of non-compliance and identifying possible remediation actions, monitoring their implementation. The Compliance Function also provided advice and assistance to the Group's corporate units on topics where compliance risk is important, particularly as regards preparatory work relating to the issue of internal regulations and sales proposals.

The Function also provided its assistance in conducting personnel training courses, in order to disseminate and promote a solid and robust risk management culture within the Group, adequate knowledge of the regulations and the relative responsibilities, as well as ensure awareness of the supporting instruments and procedures in the fulfilment of obligations.
The most important activities involving the Compliance Function in 2022 included certain internal innovations of the same. In particular, the following are of note: (i) the continuation of project work relating to Compliance methodologies; (ii) developments in the IT area, in line with the methodological changes introduced by the Compliance function in 2022; (iii) the implementation of the remote management of indicators with the aim of obtaining a more complete and common operating environment for the performance of compliance activities; (iv) the continuation of the refresher training course, launched in 2020, addressed to the Function's internal resources and, in particular, the launch of the specific training course on strengthening insurance skills in the fourth quarter of 2022.

Lastly, it should be noted that the Anti-Money Laundering function - organisational unit falling under the organisational structure of the Compliance function until 30 June 2022 - became a direct report of the Chief Executive Officer from 1 July 2022.

Anti-Money Laundering

As already mentioned, from 1 July, the Group’s Anti-Money Laundering function carries out its activities, reporting directly to the Chief Executive Officer, both for the Parent Company and for the Group companies that have outsourced the service, with full autonomy to oversee the risk of money laundering and terrorist financing, as well as reports of suspicious transactions, and has direct access to the Corporate Bodies, communicating with them without any restrictions or intermediation. Furthermore, the function carries out the activities required under the regulations assigned to the Anti-Money Laundering Function Manager and the Suspicious Transaction Reporting Officer (SOS).
The activities are performed according to a risk-based approach, conducting audits and checks in order to assess exposure to the risk of money laundering and terrorist financing, the effectiveness of the organisational and control oversight measures, when setting them in motion and when established, and any corrective measures to be implemented to remedy the vulnerabilities found.
Among the significant elements that regarded the Anti-Money Laundering function in 2022, note, in particular: (i) the assignment to the Anti-Money Laundering Function of the responsibilities of the Sanction Compliance Officer, with a view to overseeing compliance in the application of international sanctions; (ii) the control activities and the additional measures to strengthen the oversight promoted with reference to the provisions issued by the competent Authorities following the onset of the conflict between Russia and Ukraine; (iii) the various training initiatives, many of which are directly provided by the Anti-Money Laundering function, addressed to the Commercial Network as well as to Head Office resources, as well as the specific sessions addressed to the Corporate Bodies (board induction), together with the specialist training courses for the function's resources, provided by highly qualified external teachers.
Lastly, the series of projects focused on the continuous expansion and consolidation of technologies to support risk control and monitoring activities, with the aim of promoting a solid and innovative anti-money laundering control

system, also in terms of adopting tools based on Artificial Intelligence and Machine Learning logic, continues to be autonomous and transversal with respect to the entire scope of the Function.

Research and development

Given the banking nature of the Group, research and development mainly regards studying the possible application of new technology to customer accounts, to improve and/or extend the range of products/services offered, as well as internal company services, to simplify them or make them more efficient. In addition, important regulatory projects, relating to the issue of new legislation at industry level have been completed or are in progress.
These activities are managed centrally by the Parent Company Banco BPM.
The main initiatives for each area are outlined below.

Technological projects and investments

Legal compliance

During the year, work continued on rationalising internal regulations to render them compliant with legislative changes, specifically with regard to:

IBOR's Transition – The transition of benchmark rates

The internal Group project, called the "IBOR Transition", launched in 2019, mainly entailed aligning the organisational and IT processes, and the contracts and regulations of Banco BPM to the provisions envisaged by European Regulation no. 1011/2016 (Benchmark Regulation, BMR), which has redesigned the legislative framework on market benchmarks.
At the end of 2022, the most significant and critical part of the activities envisaged by the IBOR Transition project was completed, with the almost complete transition of the Group's IBOR rates. The last step is expected for 30 June 2023 with the cessation of USD LIBOR.

Refer to part A “Accounting policies” - paragraph “Interest rate benchmark reform (“IBOR Reform”)” - in these Notes to the Consolidated Financial Statements for further details on the projects of the working group.

Italian Legislative Decree 231/01 - Administrative liability of companies

Banco BPM continuously updates its Organisation, Management and Control Model, pursuant to Italian Legislative Decree 231/01 and that of its main subsidiaries, with a view to transposing any new legislative provisions relating to the predicate offences envisaged by Italian Legislative Decree 231/01, as well as changes to the corporate structure that could impact the model in question.
In 2022, a series of actions were completed on the 231/01 system, including:

- the update of the “Organisation, Management and Control Model Regulation pursuant to Italian Legislative Decree 231/01” of the Parent Company, Banca Akros and the ancillary services undertaking Ge.Se.So. which includes significant legislative changes regarding the liability of companies and entities pursuant to Legislative Decree 231/01 and reference to the IT platform for the forwarding of reports of violations (whistleblowing);
- the launch of a 231/01 risk mapping exercise of Banco BPM which involves the commercial network, the central units and top management bodies, to identify the areas that are most exposed to the likelihood of the crimes identified by Italian Legislative Decree 231/2001 being committed.

Italian Legislative Decree 231/07 – Anti-money laundering and the prevention of terrorist financing
During 2022, Banco BPM updated the regulatory framework with reference to the operating rules and consequently implemented the information system in line with the changes introduced by external provisions; more specifically, compliance with the provisions on restrictive measures of the European Union following Russia's invasion of Ukraine was particularly important.

Technological projects and investments

The main areas in which the Group invested were the following:

DOT – Digital Omnichannel Transformation

In 2022, the DOT Programme extended the omnichannel and digital model to numerous products and services thanks to the use of enabling tools created in 2021, such as Digital Identity for private customers, the signature room for the exchange of documents and the remote signing of contracts with digital signatures.
With regard to financial advisory services, during the year, additional functions were developed that can be provided to customers remotely in a fully digital mode and the scope of financial instruments offered was further extended.
With regard to the remote subscription of products and services, the processes for digitally signing documents remotely were simplified and the signature room was made available to customers through the Bank's website and App.
The Digital Branch was fully activated, a centralised unit that supports remote digital sales on the customer's initiative and offers products and services remotely directly to customers, finalising the sale through the remote digital signature of the contracts.
Also in 2022, the catalogue of products available on digital channels was enhanced thanks to the gradual inclusion of e-money products, life and non-life policies, loans and advances.
With regard to digital channels, additional new services were introduced in the Apps for private customers and businesses during the year.
The advanced CRM solutions were further integrated with the front end and with the APPs and the systems in place to collect customer needs were improved through the adoption of innovative Voice Of Customer (VOC) solutions.
Lastly, in relation to the acquisition of new customers, in 2022 Banco BPM adopted some innovative solutions for the digital onboarding of private customers, including, inter alia, remote identification through SPID, and set up projects to create a remote onboarding solution for business customers.

More specifically, these initiatives entailed significant technological investments, mainly focused on the development of digital platforms and on the expansion of the distribution model, by enabling the sale of products and the provision of services in Self mode (Web/App) and the Online Offer channel (OAD).
As part of the Web and App channels, further developments were completed for Private customers such as:

- the simplification of the signature method (so-called "signature train");
- the development of the Onboarding Webank service to engage prospective customers in full digital mode;
- the integration of the customer recognition function through SPID for Banco BPM Onboarding and Webank Onboarding services;
- the completion of the developments for the PFM (Personal Financial Manager) as part of the European directive relating to PSD2 payment systems;
- the integration of the mortgage simulator;
- the completion of the "tokenisation" of the Cartimpronta product on the Samsung Pay, Apple Pay and Google Pay wallets.

With regard to Business customers, the development of the advances on invoices service of the YouBusinessWeb online product was completed, with the implementation of new supporting functions (scheduling, request for extension). Implementations were also finalised in relation to:

- BFM (Business Financial Manager) services for PSD2;
- the development of the new App for businesses;
- the integration of the signature room and the extension of the use of the solution also for branch processes;
- making the securities dossier available on YouBusiness Web.

With regard to the extension of the authorisation to sell products in Self (Web/App) and OAD mode, in 2022 the following products were made available to Private customers:

- Nexi BBPM Credit cards on Web/App and in OAD;
- Nexi Webank Credit cards on Web/App;
- Prepaid card with digital identity on Web/App;
- Agos personal loans in OAD for digital branch and network;
- Multiprotection MP5 non-life policies of Banco BPM Assicurazioni in OAD;

- non-life policies of Cattolica Assicurazioni in OAD by digital branch;
- Vera Vita and Vera Financial financial policies.

During 2022, work continued on the development of the Customer Centre to increase proactive sales, the continuous enhancement of the tools for contact industrialisation, with a view to improving customer relationships, in addition to the development of the VOC (Voice of Customer) system and the Customer Experience management operating model.
Lastly, certification activities were launched for the Group's digital platforms (websites, internet banking, apps) in terms of accessibility, as envisaged by the regulations of the Agency for Digital Italy, defining the first remediation plans.

Other areas developed:

IT Architecture and Cloud Adoption
In 2022, the new architecture of the Banco BPM IT system was implemented, based on market-leader solutions, with the aim of ensuring greater agility, automation, resilience and enabling new service models; this solution has already been adopted by new or re-engineered applications.
In addition, to benefit from the advantages in terms of speed and cloud cost optimisation, the first Cloud Service Provider was activated, selected from among the hyperscalers, already used in production operations.

Data Quality and Data Analytics
To ensure the correct advancement of the business model and compliance with regulatory and legislative requirements, projects have been launched to increase data reliability and quality and to define analytical synergies to produce information of value, with specific focus on the credit, risk and ESG dimensions, with the implementation of the relative Data Warehouses. In line with the development guidelines of Banco BPM, advanced analytical algorithms were identified and implemented to support sales and marketing activities.

More specifically, within the broader scope of risk management, the data quality framework has been extended to all first Pillar risk categories (market risk, credit and counterparty risk and operational risk), as well as to interest rate and liquidity risks. Additional data quality controls were also developed, as part of the development of single-step estimation models for PD and LGD and the New Definition of Default.
During the year, activities were launched to extend the principles envisaged by the Basel Committee on Banking Supervision (BCBS239) beyond the risk area and in particular to the ESG area. In addition, activities were carried out to assess the monitoring of data quality in the Consolidated Non-Financial Statement (CNFS) and Bancassurance; activities will also continue in 2023 and will be integrated with additional perimeters deemed relevant (e.g., reporting).

The second-level monitoring activities on data quality were conducted through the structured approach of the KQI-2L, starting from the second half of the year. Also in this case, the methodology applied to the Risk area will be progressively extended.
Special attention will be paid to second level controls on projects under way that regard the Risk function, such as applications for authorisation to use internal models, the credit datawarehouse, ESG issues and the performance of stress tests. Second level controls on IT risk will also continue. Lastly, the implementation of the framework to transfer risk through insurance cover will continue, with a view to mitigate risks relating to IT security and any reaction costs from reputational damage.

Data Centre Evolution and IT System Convergence
In line with the objective to modernise, increase performance and reduce inefficiencies, Banco BPM has focused on:
- the continuous development of the Group's technological architecture, to align it with the need for resilience, and upgrading the capacity of network traffic;
- the convergence of the Webank IT systems and of Group companies (Aletti, Akros) towards the Parent Company's system.

With reference to this second point, the project is in the final stage with the disposal of 90% of the former BPM Data Centre infrastructure.
BPM historical component was aggregated within a specific architecture created with the aim of offering individual users the possibility to access the previous IT system.

Managing Obsolescence
To guarantee the quality and continuity of the service provided and to reduce any IT risks, the overall assessment of the state of obsolescence of the applications pool already carried out in 2021 was updated, including it in a specific project that has defined a new operating model for the structural management of "End of Life" situations relating to basic software such as operating systems, databases, application servers and languages.
This operating model has introduced structured methods for recognising these situations as well as planning the changes required.

Communication

The Communication Department and, more specifically, the Brand Identity Partnership and Sponsorship Unit oversees all Group projects and activities that involve and communicate the Bank's image.
Banco BPM's institutional and commercial communications are characterised by transparent and clear communication with customers in view of the strategic project called "Language R-evolution". The objective of the Language R-evolution project is to make an important change in communication between bank and customer, adopting a process of simplification of language and transparency, to encourage a new perception of the bank as an innovative, modern and customer-oriented entity. The Language R-evolution project is included in the ESG area of the business plan and is an integral part of the broader Banco BPM #Respect project through which the Bank questioned the meaning of the word "respect": respect towards people and in particular towards colleagues and external staff, towards stakeholders, but also towards the environment, communities and the local area. In 2022, the flagship advertising campaign focused on the subject of the NRRP (National Recovery and Resilience Plan). The bank has continued with the process of relaunching the Italian System as a co-funder of modernisation, digital transformation and sustainable transition plans, as a consultant for all companies, offering ESG investment solutions for businesses and individuals.
"Vicini da sempre anche online" (Always close even online) is the campaign dedicated to the digital revolution, where remote financial advisory services become one of the determining factors thanks to the activation of the digital identity. With regard to advertising dedicated to the business segment, two new visuals were created in 2022: the first, relating to unsecured business loans, with a sustainability objective; the second, flexible loans, emphasises the role of Banco BPM as an active partner, with products that meet the needs of entrepreneurs who have to manage the work-life balance and who are looking for flexible solutions. In 2022, communication was developed for the retail segment focused on young people, using the new layouts of the "Mutuo Giovani" (Young People's Mortgage Loan) and "Prestito Giovani" (Young People's Loan). Sustainable products such as "Conto You" (You Account) and "Prestito Green" (Green Loan) were also created in 2022.
The five-year partnership agreement with the AIRC Foundation (Foundation for Cancer Research) as institutional partner of Banco BPM, continued, with a view to raising funds for scientific research and disseminating useful information on the prevention, diagnosis and treatment of cancer.
The Bank has chosen to support partners that are committed to promoting sport for young people, women and people with disabilities. In particular, the partnership with AC Milan envisages a programme of meetings between AC Milan professionals and over 2,000 secondary school students to raise awareness on the fight against prejudice and discrimination. By sharing the values of sport, Banco BPM and Fondazione Milan, which are truly able to educate, bring people together and inspire, provide support to all children and young people hindered by grave social issues, such as poverty, violence and discrimination. As part of the sponsorship of Vero Volley, we draw attention to the "Sport sì grazie" (Sport yes please) project focused on the importance of physical activity and sports for the positive development of children and young people.

In line with the provisions of the 2021-2024 Business Plan, the work of the Institutional Relations with the community unit focused on relations with its reference communities, concentrating in particular on listening to the requests made by local communities. Therefore, it continued to provide its support also through sponsorships, which privileged support to projects and activities with a strong focus on the social sphere, confirming the Bank's presence in local events with historical roots. The areas with the greatest impact were those linked to initiatives dedicated to solidarity, environmental sustainability and the relaunch of projects linked to art and culture, sectors particularly affected by the crisis triggered by the years of the pandemic. Moreover, the new emergency that struck Europe following the conflict in Ukraine has meant that many of the Bank's activities have been focused on helping refugees. Education and instruction continue to be areas of crucial importance to the country, this is why Banco BPM has continued in its commitment to support schools, in the knowledge that education is the starting point for our country's future. The "School Project", launched back in 2018, focused in particular on activities to support public institutions at all levels that are committed to the integration of Ukrainian children: specifically, in 2022, 19 projects were developed in support of 194 schools throughout Italy. Also this year, initiatives related to "Financial Awareness" played an important role, through workshops on the topics of economics and finance, with particular attention to retail customers and the world of schools through 76 meetings, of which about fifteen in person. With regard to ESG issues for the business world, 13 meetings were held with over 800 business owners.

In 2022, the Media Relations and Institutional Events unit coordinated and managed over 60 events and conferences (of which two digitally), compatibly with the pandemic situation and in line with current regulations. The events, which took place in Italy, prioritised cultural spheres and market outlooks, with specific reference to sustainable investments, and were addressed to both existing and potential customers for the entire Group. Media Relations activities focused on strengthening and expanding relations with national and local newsrooms and press agencies.
In 2022, there were 165 press releases regarding the activities of the entire Banco BPM Group - Parent Company, Group companies and Foundations. Regulated press releases, both price sensitive and non-price sensitive, regard institutional and industrial areas (corporate governance issues, strategic agreements, financial statements results, ECB communications on SREP tests, bond issues, ratings…). Unregulated press releases concern the areas in which Banco BPM focuses its whole attention on communities, through specific projects that cover the most diverse sectors: from schools to sports, from financial education to public meetings with different stakeholders, from partnerships to sponsorships. Media Relations also focused on the enhancement of the work of the various units of the Bank with regard to initiatives and results achieved in the ESG sphere, the execution or development of customer loan transactions and the launch of new products and ceilings. These comprehensive communication actions were accompanied by intense media presence, also supported by a programme of dedicated interviews with top management and line managers, and by participation in events and conferences - both online and in person - often organised or sponsored by Banco BPM directly or in cooperation with other entities that operate locally. On social networks, institutional communication activities focused on the Group's main initiatives in support of communities and businesses. The participation of top management and managers in the numerous events in which they contributed as speakers was appreciated, highlighting the initiatives of the Foundations and corporate voluntary activities. Customer relations were also managed by responding to requests received through the main social media channels. Lastly, in 2022 a new graphic format was adopted to better characterise the posts published.

In 2022, the Internal Communication Unit continued its main focus as a channel aimed at transmitting the vision and values of top management to the company population, at the same time supporting the various Functions to internally promote projects, initiatives and contests designed to encourage the sharing and involvement of Group colleagues. The overall objective is to promote corporate culture and strengthen the identity of Banco BPM. At the same time, Internal Communication worked on the circulating operational information to support the Network's commercial activities.
The company Intranet and Corporate TV, the latter redesigned in terms of layout and whose content was reorganised at the beginning of 2022, were reconfirmed as privileged channels to launch initiatives and convey information. Less frequently than the previous two-year period, information continued to be provided with regard to operating instructions to be adopted in the company to combat the spread of Covid-19 and protect the health and safety of all Banco BPM colleagues. During the year, intensive editorial planning of the Respect Programme was undertaken, highlighting dedicated workshops, creating launch and in-depth videos with the involvement of some colleagues as "actors", contests and targeted communications. In continuity with 2021, Internal Communication continued to promote and disseminate a culture of Sustainability both through campaigns to raise awareness and spread information, and through the enhancement of the work of the Bank, internally promoting participation in conferences, seminars, acknowledgements and awards.
In this regard, a "Guerrilla Marketing" initiative was undertaken to promote virtuous conduct in the areas of environment, people and business, addressing issues such as energy saving, environmental protection, good sustainable practices, respect, etc.
At the time of the conflict in Ukraine, the Internal Communication unit promoted and circulated a fundraiser among colleagues, called "A hand for peace", aimed at supporting humanitarian action to support the Ukrainian population, locally and in our country, in collaboration with Caritas.
With regard to Internal workshops, while respecting the pandemic emergency, the management and organisation of plenary sessions and meetings for Banco BPM colleagues continued. During the year, approximately 50 meetings were organised internally: including Live Commercial Events in the Private and Business worlds, those in Teams with the Chief Executive Officer, Management meetings, the Workshop to redefine the Bancassurance segment, and monthly Live Events dedicated to the Business world, to the Banca Aletti tour, and to Christmas events. Through "In

Teams with the CEO", a limited number of colleagues had the opportunity for dialogue and an exchange of ideas with Giuseppe Castagna, using the Microsoft Teams platform. This year, the Internal Workshops involved a total of around 10,000 colleagues.

Investor Relations

In 2022, the Investor Relations team managed 153 events, meetings and calls overall, conducted both online and in person, also with the involvement of the Group's top management, which led to dialogue with 473 investment companies and financial analyst firms (both on the stock and fixed income markets), rating agencies and other institutional financial entities. Of these events, 14, with a total of 31 parties attending, focused specifically on ESG issues[1].
Furthermore, during the year, Banco BPM held 4 telephone conferences with audio webcasts to present the Group's financial performance to the market (results as at 31 December 2021, 31 March 2022, 30 June 2022 and 30 September 2022).

The following table summarises the events held over the year:

	No. of events	**% of total**	**no. of companies met with**	**% of total**
Industry conferences (stock market)	6	3.9%	89	18.8%
Industry conferences (fixed income market)	6	3.9%	75	15.9%
Roadshows & Reverse Roadshows (stock market)	17	11.1%	129	27.3%
Roadshows & Reverse Roadshows (fixed income market)	5	3.3%	34	7.2%
Other individual and/or group meetings, telephone conferences and video conferences (stock market)	99	64.7%	123	26.0%
Other individual and/or group meetings, telephone conferences and video conferences (fixed income market)	7	4.6%	10	2.1%
Meetings/calls with ESG rating agencies	7	4.6%	7	1.5%
Meetings/calls with credit rating companies	4	2.6%	4	0.8%
Other meetings	2	1.3%	2	0.4%
Total	**153**	**100%**	**473**	**100%**
of which, with a specific ESG focus	14	9.2%	31	6.6%
Presentation to the financial market with conference calls/webcasts	4			

On the stock market front, the Group participated in 6 industry conferences and 17 roadshows and reverse roadshows organised by leading research and brokerage companies. Together, these resulted in meeting 218 counterparties, equal to 46.1% of the total reached overall during the year.
Similarly, in the fixed income market, Banco BPM participated in 6 industry conferences and 5 roadshows and reverse roadshows, meeting 109 counterparties (23.0% of the total).
The remaining 30.9% of the institutional parties involved had the opportunity to dialogue with the Group on a further 119 occasions (meetings and/or calls, individually and/or as a group).

[1] Includes meetings with exclusively ESG-focused funds or exclusively ESG-focused meetings with "mixed" focus funds and meetings with ESG rating agencies. It should also be noted that it is not unusual for ESG issues to be addressed also in events or meetings without a specific ESG focus or for ESG funds to participate in events or meetings with an exclusively financial focus; nevertheless, these cases are not included in this count, as they are difficult to define.

OTHER INFORMATION

Members and Shareholders

The share capital of Banco BPM, amounting to 7,100,000,000.00 euro, is represented by 1,515,182,126 ordinary shares, with no nominal value.
Banco BPM shares are listed on the Electronic Equity Market (MTA) organised and managed by Borsa Italiana S.p.A..

As at 31 December 2022, the Bank had around 265,000 shareholders, broken down as follows:

- approximately 180,000 depositors at Banco BPM Group;
- around 85,000 depositors with other brokers. This figure represents the situation as at the dividend distribution date (20 April 2022 - payment date), as no accounting transactions regarding the entire share capital were subsequently recorded.

In accordance with Article 120 of the Consolidated Finance Law, any investor with shares representing over 3% of the share capital of a listed company, must make a disclosure to the investee company and to CONSOB.

As at 31 December 2022, according to the information published on the CONSOB website regarding parties which hold shares exceeding 3% of the share capital of Banco BPM are the following:

- Crédit Agricole with a 9.18% interest;
- Capital Research and Management Company with a 4.99% interest.

Banco BPM stock

In 2022, the value of Banco BPM shares fluctuated between a minimum closing price of 2.268 euro on 14 July 2022 and a maximum closing price of 3.630 euro on 15 February 2022.
From the beginning of the year, Banco BPM shares recorded a positive performance of +26%. During 2022, average daily volumes were over 15 million shares.
In addition, it should be noted that at the end of 2022, the Banco BPM share was "covered" by 18 equity research companies (of which: 15 with positive recommendations, 3 neutral and 0 negative), with which continuous dialogue was maintained during the year.

Lastly, the shareholders of Banco BPM have a consultation agreement in place relating to the shares of Banco BPM S.p.A., made public pursuant to Art. 122 of Italian Legislative Decree 58/1998 and Art. 129 of CONSOB Regulation 11971 of 14 May 1999.

This consultation agreement, originally signed on 21 December 2020 between several Italian Foundations, shareholders of Banco BPM with a total share of 5.49% of Banco BPM's share capital, gained new shareholders, who signed the Consultation Agreement on 20 July 2021, 18 October 2022 and 31 December 2022. To date, this agreement encompasses shareholders that hold 8.2848% of the Bank's share capital.

For further details, please refer to the website www.gruppo.bancobpm.it Investor Relations - Stock, shareholder base and dividends section, "Consultation Agreements".

Group ratings

Summary table of Banco BPM ratings

Rating Agency	Type of Rating	31/12/2022	31/12/2021
DBRS Morningstar	Long Term on Senior Debt and Long-term Issuer Rating/Trend	BBB/Stable Trend	BBB (low)/Positive Trend
	Short Term on Debt and Short-term Issuer Rating/Trend	R-2 (high)/Stable Trend	R-2 (middle)/Positive Trend
	Long Term on Deposits/Trend	BBB (high)/Stable Trend	BBB/Positive Trend
	Short Term on Deposits/Trend	R-1 (low)/Stable Trend	R-2 (high)/Positive Trend
	Intrinsic Assessment	BBB	BBB (low)
	Support Assessment	SA3	SA3
Fitch Ratings	Long Term Issuer Default Rating (IDR)/Outlook	BBB-/Stable Outlook	-
	Short Term Issuer Default Rating (IDR)	F3	-
	Long Term Deposits	BBB	-
	Short Term Deposits	F3	-
	Viability Rating (VR)	bbb-	-
Moody's Investors Service	Long Term on Senior Unsecured Debt and Issuer Rating/Outlook	Ba1/Stable Outlook	Ba2/Stable Outlook
	Long Term on Deposits/Outlook	Baa2/Stable Outlook	Baa3/Stable Outlook
	Short Term on Deposits	P-2	P-3
	Baseline Credit Assessment	ba2	ba3
	Counterparty Risk Assessment	Baa2(cr)/P-2(cr)	Baa3(cr)/P-3(cr)

Summary table of Banca Akros ratings

Rating Agency	Type of Rating	31/12/2022	31/12/2021
DBRS Morningstar	Long Term on Senior Debt and Long-term Issuer Rating/Trend	BBB/Stable Trend	BBB (low)/Positive Trend
	Short Term on Debt and Short-term Issuer Rating/Trend	R-2 (high)/Stable Trend	R-2 (middle)/Positive Trend
	Long Term on Deposits/Trend	BBB (high)/Stable Trend	BBB/Positive Trend
	Short Term on Deposits/Trend	R-1 (low)/Stable Trend	R-2 (high)/Positive Trend
	Support Assessment	SA1	SA1
Fitch Ratings	Long Term Issuer Default Rating (IDR)/Outlook	BBB-/Stable Outlook	-
	Short Term Issuer Default Rating (IDR)	F3	-
	Shareholder Support Rating	bbb-	-

During 2022, Fitch Ratings assigned the ratings described above to Banco BPM for the first time. As part of normal rating activity, Moody's and DBRS Morningstar monitored Banco BPM's activities through reports, press releases and rating actions; the following were the main events:

- On 14 October 2022, DBRS Morningstar (hereinafter DBRS) improved the main ratings of Banco BPM, as well as of its subsidiary Banca Akros, by 1 notch, at the same time assigning a Stable Trend. This rating action reflects Banco BPM's success in improving its financial position, specifically in terms of asset quality, profitability and operating efficiency. At the same time, DBRS recognised the solid market position of the Group in the wealthy regions of Northern Italy, strengthened by the continuous measures to rationalise the operating structure and the development of digitalisation and the "fee-driven" business, such as bancassurance. The ratings are also supported by the solid funding and liquidity profile of Banco BPM, as well as by the adequate capital position of the Group, driven by recurring capital generation and regular access to wholesale markets;

- On 26 April 2022, Fitch Ratings (hereinafter "Fitch") assigned new ratings to Banco BPM, all in the investment grade area, with a Stable Outlook. The ratings are based on the analysis of Banco BPM's standalone profile which leverages its franchise, rooted in Northern Italy, and take into account a diversified mix of revenues, a moderate risk profile, stable funding and liquidity and adequate capitalisation. The ratings also reflect the significant reduction in non-performing loans achieved by Banco BPM in the last four years, which led to a substantial improvement in asset quality. Fitch also highlighted the quality of the management, whose experience is in line with the Bank's business model;
- On 11 May 2022, Moody's improved Banco BPM's ratings by 1 notch, as specified in the table above. The improvement in long-term ratings on deposits and unsecured senior debt was driven by the upgrade by 1 notch of Banco BPM's standalone Baseline Credit Assessment (BCA), which went from ba3 to ba2. The BCA upgrade mainly reflects the Bank's improvement in credit quality as a result of the continuous process of derisking its loan portfolio. Moody's also noted the equity position of Banco BPM, the level of which significantly exceeds regulatory requirements.

PERFORMANCE OF THE MAIN GROUP COMPANIES

A summary of the main equity interests in Group companies is presented below, with an indication of the most significant balance sheet, income statement and operating balances as at 31 December 2022.

Banca Aletti

(millions of euro)	2022	2021(*)	Change
Income statement figures			
Net interest income	4.9	0.3	n.s.
Net fee and commission income	100.5	106.9	(6.02%)
Operating income	102.7	105.0	(2.15%)
Operating expenses	(75.9)	(75.3)	0.84%
Profit (loss) from operations	26.8	29.7	(9.73%)
Profit (loss) before tax from continuing operations	21.1	28.2	(25.08%)
Profit (loss) for the year	13.5	14.8	(9.32%)

(*) Some 2021 ratios were restated following the restatement of the reclassified income statement.

(millions of euro)	31/12/2022	31/12/2021	Change
Balance sheet figures			
Total assets	2,607.5	2,940.0	(11.31%)
Loans to customers (net)	491.8	370.0	32.92%
Financial assets and hedging derivatives	5.0	8.8	(43.18%)
Shareholders' equity	371.3	371.3	-
Customers' financial assets			
Direct funding	2,076.6	2,406.2	(13.70%)
Indirect funding	20,237.6	22,775.1	(11.14%)
- Asset management	10,120.5	11,484.0	(11.87%)
- Mutual funds and SICAVs	4,922.8	6,101.1	(19.31%)
- Securities and fund management	3,343.9	3,453.9	(3.19%)
- Insurance policies	1,853.9	1,929.0	(3.89%)
- Administered assets	10,117.0	11,291.1	(10.40%)
Information on the Organisation			
Average number of employees	471.4	485.8	(2.96%)
Number of bank branches	52	55	(5.45%)-

	31/12/2022	31/12/2021(*)
Alternative performance measures		
Profitability ratios (%)		
Financial margin/Operating income	4.8%	0.3%
Net fee and commission income/Operating income	97.8%	101.8%
Operating expenses/Operating income	73.9%	71.7%
Return on assets (ROA)[1]	0.52%	0.50%
Return on equity (ROE)[2]	3.76%	4.16%
Return on tangible equity (ROTE) [3]	4.13%	4.62%
Operational productivity figures (thousands of euro)		
Loans to customers (net) per employee	1,043	762
Operating income per employee	218	216
Operating expenses per employee	161	155
Regulatory capitalisation and liquidity ratios		
Common equity tier 1 ratio (CET1 capital ratio)	87.2%	53.4%
Tier 1 capital ratio	87.2%	53.4%
Total capital ratio	87.2%	53.4%
Leverage ratio	49.1%	51.2%
Other ratios		
Loan to deposit ratio (LTD) [4]	23.7%	15.4%

(*) Some 2021 ratios were restated following the restatement of the reclassified income statement.
[1] Calculated as the ratio of net profit (loss) for the year to total assets.
[2] Calculated as the ratio of net profit (loss) for the year to shareholders' equity excluding the profit (loss) for the year.
[3] Calculated as the ratio of net profit (loss) for the year to shareholders' equity, determined by excluding the profit (loss) for the year and intangible assets, net of the related tax effects, from shareholders' equity.
[4] Calculated as the ratio of loans to customers to direct funding.

For a more detailed analysis of the main events that affected Banca Aletti, please refer to the section in this Report on Operations containing an illustration of the business segments and, specifically, the Private segment.

Banca Akros

(millions of euro)	2022	2021(**)	change
Income statement figures			
Financial margin	57.3	54.7	4.7%
Net fee and commission income	47.7	41.0	16.3%
Operating income	119.2	110.2	8.2%
Operating expenses	(89.0)	(90.6)	(1.8%)
Profit (loss) from operations	30.3	19.5	54.9%
Profit (loss) before tax from continuing operations (*)	30.2	20.1	50.7%
Profit (loss) after tax from continuing operations	21.3	14.6	46.2%
Net profit for the year	18.7	10.7	74.7%

(*) also gross of contributions to guarantee schemes.
(**) some 2021 ratios were restated to provide a like-for-like comparison with the reclassification criteria adopted in 2022.

(millions of euro)	31/12/2022	31/12/2021	change
Balance sheet figures			
Total assets	9,445.5	8,241.7	14.6%
Loans to customers (net) (*)	1,773.0	1,963.7	(9.7%)
Financial assets	6,222.7	5,685.4	9.5%
Shareholders' equity	728.1	727.2	0.1%
Customers' financial assets			
Direct funding	1,839.0	956.5	92.2%
Information on the organisation			
Average number of employees and other staff	204	203	
Number of bank branches	1	1	

(*) Customers consisting of qualified and professional counterparties.

	31/12/2022	31/12/2021(**)
Alternative performance measures		
Profitability ratios (%)		
Return on Equity (ROE)	2.64%	1.50%
Return on assets (ROA)	0.20%	0.13%
Financial margin/Operating income	48.05%	49.68%
Net fee and commission income/Operating income	40.01%	37.23%
Operating expenses/Operating income	74.62%	82.26%
Profit (loss) before tax from continuing operations (*)/Operating income.	25.34%	18.20%
Operational productivity figures (thousands of euro)		
Loans to customers (net) per employee	8,691.3	9,673.4
Operating income per employee	584.5	542.7
Operating expenses per employee	436.1	446.4
Annual average operational VAR (99%, 1 day)	2,100	2,400
Other ratios		
Financial assets/Total assets	65.88%	68.98%
Derivative assets/Total assets	21.76%	16.60%
- trading derivatives/Total assets	21.76%	16.60%
- hedging derivatives/Total assets	-	-
Net trading derivatives/Total assets	0.10%	0.02%
Net loans/Direct funding	96.41%	205.29%
Regulatory capitalisation ratios		
Common equity tier 1 ratio (CET1 capital ratio)	22.42%	18.77%
Tier 1 capital ratio	22.42%	18.77%
Total capital ratio	22.42%	18.77%
Leverage ratio	11.76%	12.04%

(*) also gross of contributions to guarantee schemes.
(**) some 2021 ratios were restated to provide a like-for-like comparison with the reclassification criteria adopted in 2022.

For a more detailed analysis of the main events that affected Banca Akros, please refer to the section in this Report on Operations dedicated to describing the business segments and, specifically, the Investment Banking segment.

Other equity interests

(millions of euro)	**Total assets**	**Shareholders' equity (*)**	**Direct Funding**	**Indirect Funding**	**Net loans**	**Profit (Loss)**
Banks						
Banca Aletti & C. (Suisse)	90.1	27.5	60.4	455.9	16.5	(1.5)
Bipielle Bank (Suisse) in liquidation	23.6	22.0	-	-	-	(0.5)
Insurance companies						
Banco BPM Vita	6,181.4	259.5	5,856.3		-	9.3
Banco BPM Assicurazioni (**)	66.1	32.4	-		-	2.3
Financial companies						
Aletti Fiduciaria	9.2	7.2	-	907.5	1.3	(0.2)
Oaklins Italy	2.7	1.8	-	-	-	0.8
Other companies						
Tecmarket Servizi	45.6	26.6	-	-	-	9.9
Ge.Se.So.	1.4	0.4	-	-	-	0.04

(*) amount inclusive of the profit (loss) for the year.
(**) company held for sale pursuant to IFRS 5.

The figures shown in the previous table refer to the balance sheets and income statements as at 31 December 2022 used to prepare the consolidated financial statements; in particular, the result of Banco BPM Vita and Banco BPM Assicurazioni refers to the profit of the second half of 2022.

Relations with subsidiaries and associates

The disclosure on related party transactions and the description of the significant transactions concluded with related parties during the financial year, as provided for by the Regulation adopted by CONSOB through resolution no. 17221 dated 12 March 2010 and subsequent amendments, are included in the Notes to the Consolidated Financial Statements, Part H, to which reference should be made.

Own shares of the Parent Company and of subsidiaries

The disclosure relating to own shares of the Parent Company and to changes in the year is provided in section 13 - Group Equity in Part B of the Notes to the Consolidated Financial Statements.
As illustrated in Section 4 - "Events subsequent to the reporting date" contained in Part A of the Notes to the Consolidated Financial Statements, in February 2023, the Parent Company launched a further own shares purchase programme to support existing short and long-term incentive plans.
The programme, carried out between 28 February and 6 March 2023, regarded 2,418,855 Banco BPM ordinary shares for a total value of 10 million.

Consolidated non-financial statement

Banco BPM Group prepares the Consolidated Non-Financial Statement pursuant to Italian Legislative Decree no. 254/2016 and CONSOB Resolution no. 20267 of 18 January 2018 in a separate document, published on the website www.gruppo.bancobpm.it, in the “Sustainability” section.

Report on corporate governance and ownership structures

Banco BPM Group prepares the Report on corporate governance and ownership structures pursuant to Art. 123-bis of Italian Legislative Decree no. 58/1998 in a separate document published on the website www.gruppo.bancobpm.it, in the “Corporate Governance” section.

Remuneration report

Banco BPM Group prepares the Policy-on-remuneration report and payouts awarded of Banco BPM Group's staff pursuant to the Supervisory Regulations of the Bank of Italy (Circular no. 285/2013, 37th update, Part I, Title IV, Chapter 2 "Remuneration and incentive policies and practices"), of Art. 123-ter of Italian Legislative Decree 58/1998 as amended, of Art. 84-quater of the Issuers' Regulation (CONSOB resolution no. 11971/1999 as amended) and of IVASS Regulation 38/2018 and related Guidelines, in a separate document, published on the website www.gruppo.bancobpm.it, in the "Corporate Governance – Remuneration Policies" section.

Preparation of the financial statements in XBRL format

According to the provisions of European Commission Regulation 815/2019 (European Single Electronic Format – ESEF Regulation), Banco BPM has drawn up this Annual financial report 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 markup (eXtensible Business Reporting Language).
Furthermore, the information contained in the schedules of the consolidated financial statements (balance sheet, income statement, statement of comprehensive income, statement of changes in shareholders' equity and cash flow statement) and in the Notes to the Consolidated Financial Statements were mapped according to "inline XBRL" specifications contained in the basic taxonomy issued by the ESMA (European Securities and Markets Authority).
It should also be noted that, to fulfil the communication obligations envisaged by the Transparency directive (Directive 2004/109/EC), the Annual financial report drawn up by Banco BPM in the format envisaged by the ESEF Regulation will be published within the legal terms.
For further details, please refer to the Notes to the consolidated financial statements - "Part A Accounting policies - Section 5 - Other aspects".

OUTLOOK FOR BUSINESS OPERATIONS

The economic situation that characterised 2022 towards the end of the year, described in the section on the economic scenario of this report, is expected to continue, at least for a part of the new year. Although inflationary pressure has eased in recent months, it is likely to persist, pushing Central Banks to maintain a restrictive stance. The generalised economic slowdown, exacerbated by weakness of China, should translate into a phase of substantial stagnation in 2023.
The year began with short-term rates under tension due to the expectation that the Central Banks on both sides of the Atlantic would increase the official interest rates again at the next meetings. The pressure on the medium/long-term segment of the yield curve moderately eased as long-term inflation prospects took hold. The tensions that emerged on the BTP-Bund spread in the summer months were partially reduced, but the level at year-end showed a certain financial market prudence given the decisions of the ECB to gradually reduce the monthly purchases of the Asset Purchase Programme (APP).
In these conditions, loans to businesses and households will continue to grow in Italy, despite the weakening of development prospects, but at rates lower than those recorded in 2022. The drop in real disposable income, affected by the significant tension on consumer prices, translates into greater needs of households to meet the real estate investments undertaken, or to be undertaken, and consumption. The demand for business loans will be fuelled by the effect of inflation on input prices - primarily on the prices of semi-finished goods and raw materials - and by the consequences of higher investments linked to the NRRP.
The slowdown in economic activity and the pressure exerted by the inflationary trend and the increase in financial charges on household and business budgets will result in a moderate deterioration, especially for energy-intensive companies, of the loan default rate. At the same time, the cost of risk, incorporating the extraordinary adjustments relating to the sale of NPLs on the market and the worsening of the economic scenario, is expected to rise.
On the funding side, the lack of support provided by the ECB through TLTRO operations will result in less support to the banking system in terms of direct funding and will therefore create the need to increase the medium/long-term component with more costly bond issues.
The outlook for banking market rates, stimulated by the continuation of inflationary tension and the aforementioned more restrictive policies, is set to rise at least in the first quarters of 2023, impacting the change of the banking spread, which is expected to increase appreciably compared to 2022. The combined provision of moderately-expanding volumes of loans disbursed and the opening of the banking spread has led an expected increase in the customer margin which, associated with an increase in interest on securities (coupon flow), will lead to an increase in net interest income in the current year, compared to 2022.
Despite the worsening of the confidence level of households and businesses and the reduction in the propensity to save, the expected stabilisation of the financial markets together with bond yields at higher levels than the recent past will be reflected by moderate growth prospects for indirect funding and, therefore, asset management fees. A boost to the fee and commission component is also expected from the support to companies in the implementation of projects related to the NRRP. The above trends will result in an increase in operating income.

Given the context, also in 2023, the external variables will likely continue to be the main influences on the operating performance of the Group.
Despite the deterioration in the conditions of ECB funding in the form of TLTRO, net interest income will benefit from the increase in the short-term rates, specifically in the commercial component. Indeed, the Group maintains significant sensitivity of approximately 160 million in a scenario of a parallel shift of +100 basis points in interest rates.

Fee and commission income, though still in a scenario of high volatility, which specifically impacts up front and running fees and commissions, connected with investment products, will be supported by the trend in those relating to typical commercial banking operations.
The trend in operating expenses, which will continue to be one of the main focuses of managerial action, may be affected at least in part by inflationary pressure and by the effects of a sustained investment policy to support the development initiatives envisaged in the Strategic Plan.
The trend of default flows during the year could increase due to the economic slowdown, with an impact on the cost of credit, for which a prudent approach will be maintained, in the absence of improvements of the macroeconomic framework.

Healthy levels of coverage are expected to be maintained, also thanks to the conservative approach to valuations adopted in the last few years and confirmed in 2022, on both performing and non-performing exposures.
For the whole of 2023, a significant improvement is expected in the Group's net profit compared to the previous year, with a trend that, also in forecasts, will exceed both the trajectory of profitability and the overall targets outlined in the Strategic Plan.

SIGNIFICANT EVENTS OCCURRING AFTER THE END OF THE FINANCIAL YEAR

In compliance with special instructions issued by the Bank of Italy, significant events occurring after the end of the financial year are illustrated in the Notes to the consolidated financial statements, part A, Section 4.

Verona, 7 March 2023

The Board of Directors

Consolidated financial statements

CONSOLIDATED BALANCE SHEET

Asset items	**31/12/2022**	**31/12/2021**
10. Cash and cash equivalents	13,130,815	29,153,316
20. Financial assets at fair value through profit and loss	8,935,495	6,337,110
a) financial assets held for trading	4,508,497	4,538,625
c) other financial assets mandatorily measured at fair value	4,426,998	1,798,485
30. Financial assets measured at fair value through other comprehensive income	12,826,691	10,675,079
40. Financial assets at amortised cost	139,139,766	140,448,388
a) loans to banks	5,492,238	12,773,990
b) loans to customers	133,647,528	127,674,398
50. Hedging derivatives	1,717,211	127,076
60. Fair value change of financial assets in macro fair value hedge portfolios (+/-)	(488,403)	2,875
70. Interests in associates and joint ventures	1,453,955	1,794,116
80. Technical reserves of reinsurers	3,087	-
90. Property, plant and equipment	3,034,689	3,278,245
100. Intangible assets	1,286,734	1,213,722
of which:		
- goodwill	56,709	54,858
110. Tax assets	4,622,827	4,540,229
a) current	265,552	246,601
b) deferred	4,357,275	4,293,628
120. Non-current assets and disposal groups held for sale	214,737	229,971
130. Other assets	3,808,291	2,689,089
Total assets	**189,685,895**	**200,489,216**

Liabilities and shareholders' equity items	31/12/2022	31/12/2021
10. Financial liabilities at amortised cost	153,874,094	166,561,146
a) due to banks	32,636,506	45,691,578
b) due to customers	108,307,067	107,788,219
c) debt securities in issue	12,930,521	13,081,349
20. Financial liabilities held for trading	10,181,692	14,132,931
30. Financial liabilities designated at fair value	3,938,518	1,405,190
40. Hedging derivatives	948,424	227,972
50. Fair value change of financial liabilities in macro fair value hedge portfolios (+/-)	(1,173,078)	(47,812)
60. Tax liabilities	279,983	302,816
a) current	1,610	8,894
b) deferred	278,373	293,922
70. Liabilities associated with assets classified as held for sale	31,731	-
80. Other liabilities	3,430,984	3,613,968
90. Provisions for employee severance pay	258,457	320,303
100. Provisions for risks and charges	730,395	876,643
a) commitments and guarantees given	144,164	131,108
b) post-employment benefits and similar obligations	99,330	124,879
c) other provisions	486,901	620,656
110. Technical reserves	4,414,424	-
120. Valuation reserves	(624,011)	341,360
140. Equity instruments	1,389,794	1,092,832
150. Reserves	4,219,445	3,999,850
170. Share capital	7,100,000	7,100,000
180. Own shares (-)	(18,266)	(8,159)
190. Non-controlling interests (+/-)	720	1,108
200. Profit (loss) for the year (+/-)	702,589	569,068
Total liabilities and shareholders' equity	**189,685,895**	**200,489,216**

CONSOLIDATED INCOME STATEMENT

Items	2022	2021
10. Interest and similar income	2,937,053	2,425,188
of which: interest income using the effective interest method	2,656,868	2,137,845
20. Interest and similar expense	(595,587)	(409,048)
30. Net interest income	**2,341,466**	**2,016,140**
40. Fee and commission income	1,998,389	2,018,601
50. Fee and commission expense	(143,896)	(117,906)
60. Net fee and commission income	**1,854,493**	**1,900,695**
70. Dividends and similar income	60,840	53,718
80. Net trading income	174,105	79,523
90. Fair value gains/losses on hedging derivatives	1,402	(848)
100. Gains (losses) on disposal or repurchase of:	(165,927)	(129,080)
a) financial assets at amortised cost	(60,948)	(145,262)
b) financial assets measured at fair value through other comprehensive income	(101,636)	16,256
c) financial liabilities	(3,343)	(74)
110. Net gains (losses) from other financial assets and liabilities measured at fair value through profit and loss	(9,146)	16,342
a) financial assets and liabilities designated at fair value	163,348	7,894
b) other financial assets mandatorily measured at fair value	(172,494)	8,448
120. Operating income	**4,257,233**	**3,936,490**
130. Net credit impairment losses/recoveries relating to:	(482,702)	(630,954)
a) financial assets at amortised cost	(480,574)	(629,997)
b) financial assets measured at fair value through other comprehensive income	(2,128)	(957)
140. Gains (losses) from contractual modification without derecognition	1,713	(8,521)
150. Net income from financial activities	**3,776,244**	**3,297,015**
160. Net premiums	359,803	-
170. Balance of other income/expenses from insurance activities	(357,484)	-
180. Net income from financial and insurance activities	**3,778,563**	**3,297,015**
190. Administrative expenses:	(2,758,642)	(2,771,573)
a) personnel expenses	(1,609,881)	(1,670,739)
b) other administrative expenses	(1,148,761)	(1,100,834)
200. Net provisions for risks and charges	(57,214)	(26,039)
a) commitments and guarantees given	(14,407)	(5,254)
b) other net provisions	(42,807)	(20,785)
210. Depreciation and impairment losses on property, plant and equipment	(183,093)	(165,828)
220. Amortisation and impairment losses on intangible assets	(135,102)	(114,457)
230. Other operating expenses/income	345,930	363,082
240. Operating expenses	**(2,788,121)**	**(2,714,815)**
250. Gains (losses) of associates and joint ventures	146,781	213,314
260. Fair value gains (losses) on property, plant and equipment and intangible assets	(108,347)	(141,633)
270. Value adjustments to goodwill	(8,132)	-
280. Gains (losses) on disposal of investments	2,258	(142)
290. Profit (loss) before tax from continuing operations	**1,023,002**	**653,739**
300. Taxation charge related to profit or loss from continuing operations	(321,199)	(84,955)
310. Profit (loss) after tax from continuing operations	**701,803**	**568,784**
330. Profit (loss) for the year	**701,803**	**568,784**
340. Profit (loss) for the year attributable to non-controlling interests	786	284
350. Parent Company's profit (loss) for the year	**702,589**	**569,068**
Basic EPS (euro)	0.46	0.38
Diluted EPS (euro)	0.46	0.38

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

Items		31/12/2022	31/12/2021
10.	**Profit (loss) for the year**	**701,803**	**568,784**
	Other comprehensive income after tax without reclassification to the income statement	**2,018**	**139,815**
20.	Equity instruments designated at fair value through other comprehensive income	(35,428)	14,591
30.	Financial liabilities designated at fair value through profit and loss (changes to its own credit risk)	(8,478)	2,131
50.	Property, plant and equipment	4,883	128,784
70.	Defined benefit plans	40,378	(5,517)
90.	Share of valuation reserves related to interests in associates and joint ventures carried at equity	663	(174)
	Other comprehensive income after tax with reclassification to the income statement	**(952,330)**	**(108,790)**
100.	Foreign investment hedges	(872)	(802)
110.	Exchange rate differences	2,371	2,138
120.	Cash flow hedges	(11,239)	(12,129)
140.	Financial assets (other than equity instruments) measured at fair value through other comprehensive income	(739,300)	(86,744)
160.	Share of valuation reserves related to interests in associates and joint ventures carried at equity	(203,290)	(11,253)
170.	**Total other comprehensive income after tax**	**(950,312)**	**31,025**
180.	**Comprehensive income (Items 10+170)**	**(248,509)**	**599,809**
190.	Consolidated comprehensive income attributable to non-controlling interests	(786)	(284)
200.	**Consolidated comprehensive income attributable to the Parent Company**	**(247,723)**	**600,093**

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

31 December 2022	Balance as at 31/12/2021	Changes in opening balances	Balance as at 01/01/2022	Allocation of profit from previous year		Changes in the year										Shareholders' equity as at 31/12/2022	Group shareholders' equity as at 31/12/2022	Non-controlling interests as at 31/12/2022
						Changes in reserves	Operations on shareholders' equity							Comprehensive income for 2022				
				Reserves	Dividends and other allocations		Issue of new shares	Purchase of own shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on own shares	Stock options	Changes in equity interests					
Share capital:	**7,100,736**		**7,100,736**	**-**			**-**	**-**					**(5)**		**7,100,731**	**7,100,000**	**731**
a) ordinary shares	7,100,736		7,100,736	-			-	-					(5)		7,100,731	7,100,000	731
b) other shares	-		-	-			-	-					-		-	-	-
Share premium reserve	**-**		**-**	**-**		**-**	**-**						**-**		**-**	**-**	**-**
Reserves:	**4,000,506**	**-**	**4,000,506**	**280,448**		**(54,799)**	**(5,935)**	**-**	**-**		**-**	**-**	**-**		**4,220,220**	**4,219,445**	**775**
a) retained earnings	3,670,845	-	3,670,845	280,448		(69,580)	(5,935)	-	-				-		3,875,778	3,875,001	777
b) other	329,661	-	329,661	-		14,781	-		-		-	-	-		344,442	344,444	(2)
Valuation reserves	**341,360**	**-**	**341,360**			**(15,059)**							**-**	**(950,312)**	**(624,011)**	**(624,011)**	**-**
Equity instruments	**1,092,832**		**1,092,832**							**296,962**					**1,389,794**	**1,389,794**	**-**
Own shares	**(8,159)**		**(8,159)**			**-**	**5,909**	**(16,016)**							**(18,266)**	**(18,266)**	**-**
Profit (loss) for the year	**568,784**	**-**	**568,784**	**(280,448)**	**(288,336)**									**701,803**	**701,803**	**702,589**	**(786)**
Shareholders' equity	**13,096,059**	**-**	**13,096,059**	**-**	**(288,336)**	**(69,858)**	**(26)**	**(16,016)**	**-**	**296,962**	**-**	**-**	**(5)**	**(248,509)**	**12,770,271**	**12,769,551**	**720**
- of the Group	**13,094,951**	**-**	**13,094,951**	**-**	**(288,336)**	**(70,261)**	**(26)**	**(16,016)**	**-**	**296,962**	**-**	**-**	**-**	**(247,723)**	**12,769,551**		
- of non-controlling interests	**1,108**	**-**	**1,108**	**-**		**403**	**-**	**-**	**-**	**-**	**-**	**-**	**(5)**	**(786)**	**720**		

31 December 2021	Balance as at 31/12/2020	Changes in opening balances	Balance as at 1/01/2021	Allocation of profit from previous year		Changes in the year									Shareholders' equity as at 31/12/2021	Group shareholders' equity as at 31/12/2021	Non-controlling interests as at 31/12/2021
							Operations on shareholders' equity							Comprehensive income as at 31/12/2021			
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of own shares	Extraordinary distribution of dividends	Changes in equity instruments	Derivatives on own shares	Stock options	Changes in equity interests				
Share capital:	**7,101,310**	**-**	**7,101,310**	**-**		**-**	**-**	**-**					**(574)**		**7,100,736**	**7,100,000**	**736**
a) ordinary shares	7,101,310	-	7,101,310	-		-	-	-					(574)		7,100,736	7,100,000	736
b) other shares	-	-	-	-		-	-	-					-		-	-	-
Share premium reserve	**-**	**-**	**-**	**-**		**-**	**-**	**-**					**-**		**-**	**-**	**-**
Reserves:	**4,117,332**	**-**	**4,117,332**	**16,632**		**(38,792)**	**(4,194)**	**-**	**(90,544)**		**-**	**-**	**72**		**4,000,506**	**3,999,850**	**656**
a) retained earnings	3,796,621	-	3,796,621	16,632		(47,742)	(4,194)	-	(90,544)				72		3,670,845	3,670,187	658
b) other	320,711	-	320,711	-		8,950	-	-			-	-	-		329,661	329,663	(2)
Valuation reserves	**310,412**	**-**	**310,412**	**-**		**(77)**							**-**	**31,025**	**341,360**	**341,360**	**-**
Equity instruments	**695,417**	**-**	**695,417**							**397,415**					**1,092,832**	**1,092,832**	**-**
Own shares	**(14,002)**	**-**	**(14,002)**			**-**	**5,843**	**-**							**(8,159)**	**(8,159)**	**-**
Profit (loss) for the year	**16,632**	**-**	**16,632**	**(16,632)**	**-**									**568,784**	**568,784**	**569,068**	**(284)**
Shareholders' equity	**12,227,101**	**-**	**12,227,101**	**-**	**-**	**(38,869)**	**1,649**	**-**	**(90,544)**	**397,415**	**-**	**-**	**(502)**	**599,809**	**13,096,059**	**13,094,951**	**1,108**
- of the Group	**12,225,207**	**-**	**12,225,207**	**-**	**-**	**(38,869)**	**1,649**	**-**	**(90,544)**	**397,415**	**-**	**-**	**-**	**600,093**	**13,094,951**		
- of non-controlling interests	**1,894**	**-**	**1,894**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(502)**	**(284)**	**1,108**		

CONSOLIDATED CASH FLOW STATEMENT

Indirect method

A.	**Operating activities**	**31/12/2022**	**31/12/2021**
	1. Cash flow from operations	**1,763,018**	**1,270,260**
-	profit (loss) for the year (+/-)	701,803	568,784
-	gains/losses on financial assets held for trading and on other financial assets/liabilities at fair value through profit and loss (-/+)	(14,535)	(111,965)
-	capital gains/losses on hedging derivatives (-/+)	(1,402)	848
-	net credit impairment losses/recoveries (-/+)	480,989	639,475
-	net impairment losses/recoveries on property, plant and equipment and intangible assets (+/-)	326,327	280,285
-	net provisions for risks and charges and other costs/revenues (+/-)	63,260	28,229
-	net premiums not collected (-)	(153)	-
-	other insurance income/expenses not collected (-/+)	57,287	-
-	taxes, duties and tax credits not settled (+/-)	306,139	77,587
-	net impairment losses/recoveries on discontinued operations net of taxes (-/+)	-	-
-	other adjustments (+/-)	(156,697)	(212,983)
	2. Cash flow from/used in financial assets	**(6,079,114)**	**2,433,061**
-	financial assets held for trading	40,287	2,762,800
-	financial assets designated at fair value	-	-
-	other financial assets mandatorily measured at fair value	(2,793,070)	41,670
-	financial assets measured at fair value through other comprehensive income	(2,153,740)	34,760
-	financial assets at amortised cost	829,761	162,417
-	other assets	(2,002,352)	(568,586)
	3. Cash flow from/used in financial liabilities	**(11,359,632)**	**15,977,948**
-	financial liabilities at amortised cost	(12,490,168)	15,962,095
-	financial liabilities held for trading	(6,336,795)	2,457,926
-	financial liabilities designated at fair value	1,246,802	469,112
-	other liabilities	6,220,529	(2,911,185)
	Net cash flow from/used in operating activities	**(15,675,728)**	**19,681,269**
B.	**Investing activities**		
	1. Cash flow from:	**76,839**	**18,036**
-	sales of interests in associates and joint ventures	75,000	314
-	dividends collected on interests in associates and joint ventures	-	-
-	sales of property, plant and equipment	1,839	17,722
-	sales of intangible assets	-	-
-	sales of subsidiaries and business segments	-	-
	2. Cash flow used in:	**(327,275)**	**(198,527)**
-	purchases of interests in associates and joint ventures	(700)	-
-	purchases of property, plant and equipment	(122,290)	(92,323)
-	purchases of intangible assets	(204,285)	(106,204)
-	purchases of subsidiaries and business segments	-	-
	Net cash flow from/used in investing activities	**(250,436)**	**(180,491)**
C.	**Financing activities**		
-	issues/purchases of own shares	(16,016)	-
-	issues/purchases of equity instruments	208,015	332,395
-	dividend distribution and other allocations	(288,336)	(90,544)
-	third-party sales/purchases	-	-
	Net cash flow from/used in financing activities	**(96,337)**	**241,851**
	Net cash flow from/used during the year	**(16,022,501)**	**19,742,629**

	Reconciliation	31/12/2022	31/12/2021
-	Cash and cash equivalents at the beginning of the year	29,153,316	9,410,687
-	Net cash flow from/used during the year	(16,022,501)	19,742,629
-	Cash and cash equivalents: foreign exchange effect	-	-
	Cash and cash equivalents at the end of the year	**13,130,815**	**29,153,316**

Below is the information required under IAS 7, paragraph 44, A and B.

(thousands of euro)	31/12/2021	Cash flows	Non-monetary changes			31/12/2022
			Business combinations/ loss of control of companies	Fair value changes	Other	
Liabilities deriving from loan activities (items 10, 20 and 30 in the liabilities)	182,099,267	(17,580,161)	1,104,863	2,166,059	204,276	167,994,304

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.

§§§

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.

<u>Definition of insurance contract and identification of the investment component</u>

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.

Accounting models for the measurement of insurance liabilities

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.

<u>Procedures for transition to the new standard</u>

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.

<u>Exceptional circumstances</u>
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

<u>Depreciation</u>

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

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

Provisions for risks and charges: post-employment benefits and similar obligations
As explained in the paragraph below "16 - Other information, Provisions for employee severance pay and other employee benefits", the sub-item "Post-employment benefits and similar obligations" includes defined-benefit plans, namely pension funds backed by a capital repayment and/or return guarantee in favour of beneficiaries. Benefits to

be paid in the future are measured by an external actuary, using the "projected unit credit method", as required by IAS 19.
Actuarial gains and losses, defined as the difference between the book value of the liability and the present value of the commitments at the end of the period, are accounted for in full directly to shareholders' equity under the item "Valuation reserves".

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

Income item recognition and measurement criteria

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

- there is a current obligation (legal or implicit) as a result of a past event;
- it is likely that an outflow of resources 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.

<u>Model risk</u>: 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.

<u>Liquidity risk</u>: 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.

<u>Counterparty risk</u>: 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.

PART B – INFORMATION ON THE CONSOLIDATED BALANCE SHEET

ASSETS

Section 1 - Cash and cash equivalents - Item 10

1.1 Cash and cash equivalents: breakdown

	Total 31/12/2022	Total 31/12/2021
a) Cash	676,459	787,733
b) Current accounts and demand deposits with Central Banks	12,034,192	28,008,297
c) Current accounts and demand deposits with banks	420,164	357,286
Total	**13,130,815**	**29,153,316**

The sub-item b) "Current accounts and demand deposits with Central Banks", of 12.0 billion, shows one short-term deposit with the Bank of Italy.

Section 2 - Financial assets at fair value through profit and loss – Item 20

2.1 Financial assets held for trading: breakdown by product

Items/Amounts	Total 31/12/2022			Total 31/12/2021		
	L1	L2	L3	L1	L2	L3
A. On-balance sheet assets						
1. Debt securities	219,452	40,789	-	1,057,713	2,051	-
1.1 Structured securities	657	32,476	-	53,225	-	-
1.2 Other debt securities	218,795	8,313	-	1,004,488	2,051	-
2. Equity instruments	1,333,525	-	18	1,270,245	-	18
3. UCIT units	33,398	-	128	18,888	-	134
4. Loans	-	157,184	-	-	194,122	-
4.1 Repurchase agreements	-	157,184	-	-	194,122	-
4.2 Other	-	-	-	-	-	-
Total (A)	**1,586,375**	**197,973**	**146**	**2,346,846**	**196,173**	**152**
B. Derivative instruments	-	-	-	-	-	-
1. Financial derivatives	134,634	2,587,772	1,186	172,004	1,821,274	2,037
1.1 held for trading	134,634	2,465,536	1,186	172,004	1,786,116	2,037
1.2 connected with the fair value	-	122,222	-	-	34,956	-
1.3 other	-	14	-	-	202	-
2. Credit derivatives	-	411	-	-	139	-
2.1 held for trading	-	411	-	-	139	-
2.2 connected with the fair value	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total (B)	**134,634**	**2,588,183**	**1,186**	**172,004**	**1,821,413**	**2,037**
Total (A+B)	**1,721,009**	**2,786,156**	**1,332**	**2,518,850**	**2,017,586**	**2,189**

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

Sub-item 1.2 "Other debt securities" includes subordinated financial assets mainly issued by banks and insurance companies of 31.2 million classified as level 1 and 0.5 million classified as level 2. The previous year they amounted to 45.7 million, classified as level 1.

Item 4. "Loans" is fully represented by trading repurchase agreements, mainly entered into with Central Counterparties.

The table below presents the breakdown of UCIT units by type of fund, mostly attributable to share funds.

Items/Amounts	31/12/2022	31/12/2021
Share Funds	27,659	17,901
Real Estate Funds	5,867	1,121
Total	**33,526**	**19,022**

2.2 Financial assets held for trading: breakdown by debtor/issuer/counterparty

Items/Amounts	Total 31/12/2022	Total 31/12/2021
A. On-balance sheet assets		
1. Debt securities	**260,241**	**1,059,764**
a) Central Banks	-	-
b) Public Administrations	28,950	828,411
c) Banks	137,602	141,056
d) Other financial companies	42,746	54,114
of which: insurance companies	7,989	9,975
e) Non-financial companies	50,943	36,183
2. Equity instruments	**1,333,543**	**1,270,263**
a) Banks	52,897	22,327
b) Other financial companies	83,230	94,980
of which: insurance companies	1,589	1,988
c) Non-financial companies	1,197,412	1,152,946
d) Other issuers	4	10
3. UCIT units	**33,526**	**19,022**
4. Loans	**157,184**	**194,122**
a) Central Banks	-	-
b) Public Administrations	-	-
c) Banks	125,388	192,086
d) Other financial companies	31,796	2,036
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total (A)	**1,784,494**	**2,543,171**
B. Derivative instruments		
a) Central Counterparties	44,980	61,060
b) Other	2,679,023	1,934,394
Total (B)	**2,724,003**	**1,995,454**
Total (A+B)	**4,508,497**	**4,538,625**

2.3 Financial assets designated at fair value: breakdown by product

As at 31 December 2022, as in the previous year, the Group had no assets classified in the portfolio in question.

2.4 Financial assets designated at fair value: breakdown by debtor/issuer

As at 31 December 2022, as in the previous year, the Group had no assets classified in the portfolio in question.

2.5 Financial assets mandatorily measured at fair value: breakdown by product

Items/Amounts	Total 31/12/2022			Total 31/12/2021		
	L1	L2	L3	L1	L2	L3
1. Debt securities	38,063	-	41,789	40,601	-	48,520
1.1 Structured securities	-	-	1,000	-	-	-
1.2 Other debt securities	38,063	-	40,789	40,601	-	48,520
2. Equity instruments	266,088	36,892	32,056	252,623	26,896	38,277
3. UCIT units	2,859,428	-	637,895	566,983	-	505,559
4. Loans	-	-	514,787	-	-	319,026
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	514,787	-	-	319,026
Total	**3,163,579**	**36,892**	**1,226,527**	**860,207**	**26,896**	**911,382**

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

Exposure to debt securities amounts to a total 79.9 million, represented almost entirely by bonds issued by financial companies and banks. In particular, sub-item 1.2 “Other debt securities” includes:

- subordinated financial assets due to banks and insurance companies classified as level 1 for 38.1 million (nominal value of 38.4 million) compared to 40.6 million (nominal value of 40 million) in 2021 classified in the same level;
- Asset Backed Securities (ABS) for 40.8 million (45.3 million in 2021), of which 39.9 million with subordination clauses, finalised through the following vehicles: Pharma Finance S.r.l., Bnt Portfolio SPV, Red Sea SPV, Leviticus SPV, Tiberina SPV, Titan SPV, Tevere SPV, Aurelia SPV and Sun SPV. Those securities are classified as level 3. For further details please refer to paragraph “C. Securitisation transactions” in Part E of these Notes.

In item 2 "Equity instruments", which amounts to a total of 335.0 million (317.8 million in 2021), the main investment, classified under level 1, is represented by an interest in the share capital of Nexi S.p.A. for an amount of 132.9 million (252.4 million in 2021).

Item 4 “Loans” includes, for 219 million, the exposure recognised in this portfolio following the restructuring that took place in 2022, as part of the “Wolf Project”, as illustrated in more detail in the paragraph “Other significant aspects relating to Group accounting policies” contained in Part A of these Notes. The above-mentioned recognition is able to justify the increase in the item in question.

Lastly, it should be noted that the change with respect to the previous year in “Financial assets mandatorily measured at fair value” is mainly due to the business combination represented by the acquisition of the insurance companies. The assets pertaining to these companies amount to 2,445.8 million and are mainly represented by UCIT units for 2,310.6 million. These assets are represented by 1,402.0 million of investments underlying the Unit-linked contracts as illustrated in detail in “Part B - Information on the consolidated balance sheet - Other information” of these Notes.

The table below presents the breakdown of UCIT units.

Items/Amounts	31/12/2022	31/12/2021
Share Funds	942,398	223,828
Balanced Funds	12,081	5,859
Bond Funds	2,080,100	608,554
Liquidity Funds	113,458	-
Flexible Funds	63,333	-
Hedge Funds	3,456	3,820
Real Estate Funds	71,116	49,976
Private Debt and similar funds	211,381	180,505
Total	**3,497,323**	**1,072,542**

"Private Debt and similar funds" refer to the share attributed to the Group as part of the multi-originator sale of non-performing loans, as illustrated in Part E, Section 2, "Risks of prudential consolidation", 1.1 "Credit risk", Sub-section D "Sale transactions", "D.3 Prudential consolidation - financial assets sold and fully derecognised", to which reference is made for further details.

2.6 Financial assets mandatorily at fair value: breakdown by debtor/issuer

	Total 31/12/2022	Total 31/12/2021
1. Equity instruments	**335,036**	**317,796**
of which: banks	-	-
of which: other financial companies	144,656	270,933
of which: non-financial companies	57,405	46,863
2. Debt securities	**79,852**	**89,121**
a) Central Banks	-	-
b) Public Administrations	-	-
c) Banks	22,647	23,565
d) Other financial companies	56,205	62,685
of which: insurance companies	15,416	17,036
e) Non-financial companies	1,000	2,871
3. UCIT units	**3,497,323**	**1,072,542**
4. Loans	**514,787**	**319,026**
a) Central Banks	-	-
b) Public Administrations	2,930	3,303
c) Banks	-	-
d) Other financial companies	99,000	108,000
of which: insurance companies	-	-
e) Non-financial companies	375,856	160,265
f) Households	37,001	47,458
Total	**4,426,998**	**1,798,485**

Section 3 - Financial assets measured at fair value through other comprehensive income – Item 30

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

Items/Amounts	Total 31/12/2022			Total 31/12/2021		
	L1	L2	L3	L1	L2	L3
1. Debt securities	12,477,891	62,952	-	10,283,038	52,684	-
1.1 Structured securities	-	6,218	-	6,564	-	-
1.2 Other debt securities	12,477,891	56,734	-	10,276,474	52,684	-
2. Equity instruments	9,745	113,525	162,578	29,027	113,525	196,805
3. Loans	-	-	-	-	-	-
Total	**12,487,636**	**176,477**	**162,578**	**10,312,065**	**166,209**	**196,805**

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

Exposure in debt securities amounted to a total of 12,540.8 million (10,335.7 million as at 31 December 2021) and was mainly represented by bonds issued by governments and banks. Note that the difference was affected by the business combination of the insurance companies; their contribution as at 31 December 2022 amounted to 3,446.2 million.

Subordinated assets amounted to 44.8 million (53.0 million in terms of nominal value) and refer to securities issued by banks and insurance companies. In greater detail, said assets are shown under the sub-item "1.2 Other debt securities", under level 1. In the previous year, those assets amounted to 114.2 million (107.0 million in terms of nominal value), classified under level 1.

The exposure held in equity instruments amounted to a total of 285.8 million (339.4 million as at 31 December 2021). More specifically:

- Level 2 equity instruments include the stakes held in the share capital of the Bank of Italy (4,541 shares), equal to 1.5137% of the entire share capital. The book value of 113.5 million is obtained by applying the value of 25,000 Euro to each share. Note that these shares derive from the capital increase operation carried out by Bank of Italy in 2013 as an effect of Decree Law 133 of 30 November 2013, converted with Law 5 of 29 January 2014, leading to the issuing of new shares, with a value of 25,000 euro per share;
- Level 3 equity instruments include shares held in C.R. Asti S.p.A. and Palladio Holding S.p.A. for 56.9 million and 34.1 million, respectively.

Equity instruments deriving from the recovery of impaired financial assets came to 29.6 million.

3.2 Financial assets measured at fair value through other comprehensive income: breakdown by debtor/issuer

Items/Amounts	Total 31/12/2022	Total 31/12/2021
1. Debt securities	**12,540,843**	**10,335,722**
a) Central Banks	-	-
b) Public Administrations	10,087,530	7,494,826
c) Banks	1,080,972	1,491,945
d) Other financial companies	926,007	967,075
of which: insurance companies	45,153	67,484
e) Non-financial companies	446,334	381,876
2. Equity instruments	**285,848**	**339,357**
a) Banks	170,478	174,671
b) Other issuers:	115,370	164,686
- other financial companies	49,918	63,337
of which: insurance companies	-	20
- non-financial companies	61,120	101,349
- other	4,332	-
3. Loans	**-**	**-**
a) Central Banks	-	-
b) Public Administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	**12,826,691**	**10,675,079**

3.3 Financial assets measured at fair value through other comprehensive income: gross value and total value adjustments

	Gross value					Total value adjustments				
	Stage 1	of which: Instruments with low credit risk	Stage 2	Stage 3	Acquired or originated impaired	Stage 1	Stage 2	Stage 3	Acquired or originated impaired	Total partial write-offs *
Debt securities	12,498,030	6,723,157	47,477	-	-	(3,814)	(850)	-	-	-
Loans	-	-	-	-	-	-	-	-	-	-
Total 31/12/2022	**12,498,030**	**6,723,157**	**47,477**	**-**	**-**	**(3,814)**	**(850)**	**-**	**-**	**-**
Total 31/12/2021	**10,272,950**	**7,486,752**	**65,899**	**-**	**-**	**(2,745)**	**(382)**	**-**	**-**	**-**

(*) Value to be shown for disclosure purposes.

3.3a Loans measured at fair value through other comprehensive income subject to Covid-19 support measures: gross value and total value adjustments

As at 31 December 2022, there were no loans measured at fair value through other comprehensive income subject to Covid-19 support measures. Therefore, the related table is omitted.

Section 4 – Financial assets at amortised cost – Item 40

4.1 Financial assets at amortised cost: breakdown by product for loans to banks

Transaction type/Amounts	Total 31/12/2022						Total 31/12/2021					
	Book value			Fair value			Book value			Fair value		
	Stage 1 and Stage 2	Stage 3	Acquired or originated impaired	L1	L2	L3	Stage 1 and Stage 2	Stage 3	Acquired or originated impaired	L1	L2	L3
A. Loans to Central Banks	**1,297,716**	**-**	**-**	**-**	**-**	**1,297,716**	**10,036,899**	**-**	**-**	**-**	**-**	**10,036,899**
1. Fixed-term deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Minimum reserve	1,297,716	-	-	X	X	X	10,036,899	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	-	-	-	X	X	X	-	-	-	X	X	X
B. Loans to banks	**4,194,522**	**-**	**-**	**1,213,783**	**60,478**	**2,880,451**	**2,737,091**	**-**	**-**	**837,726**	**79,028**	**1,848,444**
1. Loans	2,880,185	-	-	-	-	2,880,451	1,840,979	-	-	-	-	1,848,444
1.1 Current accounts	-	-	-	X	X	X	-	-	-	X	X	X
1.2. Fixed-term deposits	113,414	-	-	X	X	X	154,496	-	-	X	X	X
1.3. Other loans:	2,766,771	-	-	X	X	X	1,686,483	-	-	X	X	X
- Reverse repurchase agreements	792,744	-	-	X	X	X	293,490	-	-	X	X	X
- Loans for leases	372	-	-	X	X	X	666	-	-	X	X	X
- Other	1,973,655	-	-	X	X	X	1,392,327	-	-	X	X	X
2. Debt securities	1,314,337	-	-	1,213,783	60,478	-	896,112	-	-	837,726	79,028	-
2.1 Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt securities	1,314,337	-	-	1,213,783	60,478	-	896,112	-	-	837,726	79,028	-
Total	**5,492,238**	**-**	**-**	**1,213,783**	**60,478**	**4,178,167**	**12,773,990**	**-**	**-**	**837,726**	**79,028**	**11,885,343**

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

Item B.1.3 "Other loans – other" includes security deposits for "ISMA" and "CSA" contracts for 995.6 million (434.5 million in 2021), loans with medium/long-term repayment plans, loans for securities trading transactions not yet settled and receivables for discounts on bills.

The item in question also includes operating receivables in the amount of approximately 3.8 million, associated with revenues accruing in 2022 but not yet received as of the end of the year.

Item B.2 "Debt securities" includes subordinated securities for an amount of 36.9 million.

For details on non-performing assets, please see "Part E - Information on risks and related hedging policies, Section 2 - Risks of prudential consolidation, 1.1 Credit risk".

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

Transaction type/Amounts	Total 31/12/2022						Total 31/12/2021					
	Book value			Fair value			Book value			Fair value		
	Stage 1 and Stage 2	Stage 3	Acquired or originated impaired	L1	L2	L3	Stage 1 and Stage 2	Stage 3	Acquired or originated impaired	L1	L2	L3
1. Loans	**105,032,995**	**2,260,700**	**228,303**	**-**	**-**	**104,649,814**	**103,678,315**	**3,063,186**	**344,321**	**-**	**-**	**112,608,922**
1. Current accounts	8,367,448	170,260	34,156	X	X	X	8,223,489	240,496	78,652	X	X	X
2. Reverse repurchase agreements	1,883,322	-	-	X	X	X	3,658,922	-	-	X	X	X
3. Mortgage loans	80,358,094	1,554,835	106,840	X	X	X	77,212,146	1,911,505	162,190	X	X	X
4. Credit cards, personal loans and salary-backed loans	953,951	13,902	88	X	X	X	1,333,945	16,508	97	X	X	X
5. Loans for leases	532,078	245,953	2,155	X	X	X	702,296	516,984	3,450	X	X	X
6. Factoring	90,585	-	-	X	X	X	78,116	-	-	X	X	X
7. Other loans	12,847,517	275,750	85,064	X	X	X	12,469,401	377,693	99,932	X	X	X
2. Debt securities	**26,125,530**	**-**	**-**	**22,992,888**	**115,720**	**2,233,543**	**20,588,576**	**-**	**-**	**18,430,425**	**205,821**	**2,461,687**
1. Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2. Other debt securities	26,125,530	-	-	22,992,888	115,720	2,233,543	20,588,576	-	-	18,430,425	205,821	2,461,687
Total	**131,158,525**	**2,260,700**	**228,303**	**22,992,888**	**115,720**	**106,883,357**	**124,266,891**	**3,063,186**	**344,321**	**18,430,425**	**205,821**	**115,070,609**

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

Net loans to customers amounted to 133,647.5 million (127,674.4 million as at 31 December 2021). Excluding debt securities, the analysis of the portfolio by type shows mortgage loans accounting for the largest part, representing 76% of the total (74% in 2021), followed by current accounts totalling 8,571.9 million and accounting for 8%, in line with last year.

Item "1.7. Other loans" mainly includes loans for advances on bills, documents and similar instruments subject to collection, subsidies not settled in the current account, loans with medium-long term repayment plans and operating receivables associated with the provision of financial services. In particular, operating receivables include 218.5 million for fees and commissions accruing in 2022, against ordinary contacts with customers, which will be received during 2023 (mainly relative to securities placement for 86.7 million and the distribution of insurance products for third parties for 107.5 million). In 2021 these amounted to 213.0 million, almost fully collected during 2022. For further details, please refer to that set out at the bottom of Table "2.1 Fee and commission income: breakdown" of Part C – Information on the Consolidated Income Statement.

Stage 3 non-performing loans amounted to 2,260.7 million, marking a decrease compared to the previous year (3,063.2 million), also due to additional derisking transactions finalised during the year.

For more details about credit quality, please see Part E "Section 1 - Risks of the consolidated book - A. Credit quality" and "Section 2 - Risks of prudential consolidation, 1.1 Credit risk - A. Credit quality".

Item 2. Debt securities, classified under level 3, include securities issued as part of own securitisation transactions for 1,933.7 million (2,297.6 million in 2021) of which:

- 761.1 million (920.2 million in 2021) relating to senior securities issued by Red Sea SPV;
- 743.6 million (938.3 million in 2021) relating to senior securities issued by Leviticus SPV;
- 42.2 million (67.7 million in 2021) relating to senior securities issued by Tiberina SPV;
- 24.2 million (29.7 million in 2021) relating to senior securities issued by Titan SPV;
- 266.6 million (341.7 million in 2021) relating to senior securities issued by Aurelia SPV;
- 96 million relating to senior securities issued by Tevere SPV.

Third-party securitisations of 206 million (99.4 million in 2021) are also included.
For more details, please see the content of Part E, Section 1.1 Credit risk, "C. Securitisation transactions" above.

Securities lacking subordination clauses, issued by insurance companies, amounted to a total of 2.5 million.

4.3 Financial assets at amortised cost: breakdown by debtor/issuer of loans to customers

Transaction type/Amounts	Total 31/12/2022			Total 31/12/2021		
	Stage 1 and Stage 2	Stage 3	Acquired or originated impaired	Stage 1 and Stage 2	Stage 3	Acquired or originated impaired
1. Debt securities	**26,125,530**	**-**	**-**	**20,588,576**	**-**	**-**
a) Public Administrations	23,115,576	-	-	17,346,373	-	-
b) Other financial companies	2,779,572	-	-	2,966,254	-	-
of which: insurance companies	2,497	-	-	2,486	-	-
c) Non-financial companies	230,382	-	-	275,949	-	-
2. Loans to:	**105,032,995**	**2,260,700**	**228,303**	**103,678,315**	**3,063,186**	**344,321**
a) Public Administrations	1,873,998	360	17	1,679,631	1,163	17
b) Other financial companies	10,420,735	80,173	56	12,009,437	29,491	788
of which: insurance companies	86,401	-	-	104,645	-	-
c) Non-financial companies	58,496,660	1,536,722	195,805	56,542,173	2,214,909	302,039
d) Households	34,241,602	643,445	32,425	33,447,074	817,623	41,477
Total	**131,158,525**	**2,260,700**	**228,303**	**124,266,891**	**3,063,186**	**344,321**

4.4 Financial assets at amortised cost: gross value and total value adjustments

	Gross value					Total value adjustments				Total partial write-offs *
	Stage 1	of which: Instruments with low credit risk	Stage 2	Stage 3	Acquired or originated impaired	Stage 1	Stage 2	Stage 3	Acquired or originated impaired	
Debt securities	27,344,493	23,069,985	106,278	-	-	(10,206)	(698)	-	-	-
Loans	98,865,053	-	10,753,798	4,545,015	367,116	(150,089)	(257,866)	(2,284,315)	(138,813)	379,862
Total 31/12/2022	**126,209,546**	**23,069,985**	**10,860,076**	**4,545,015**	**367,116**	**(160,295)**	**(258,564)**	**(2,284,315)**	**(138,813)**	**379,862**
Total 31/12/2021	**125,730,401**	**17,319,355**	**11,759,529**	**5,928,733**	**604,373**	**(127,551)**	**(321,501)**	**(2,865,547)**	**(260,052)**	**427,545**

(*) Value to be shown for disclosure purposes.

The amount shown in the column “of which: Instruments with low credit risk”, of 23,070.0 million (17,319.4 million in 2021) mainly regards Italian and foreign government securities.

4.4a Loans at amortised cost subject to Covid-19 support measures: gross value and total value adjustments

	Gross value					Total value adjustments				
	Stage 1	of which: Instruments with low credit risk	Stage 2	Stage 3	Acquired or originated impaired	Stage 1	Stage 2	Stage 3	Acquired or originated impaired	Total partial write-offs*
1. Loans subject to forbearance measures compliant with GL	3,532	-	5,218	1,144	118	(4)	(207)	(184)	(47)	-
2. Loans subject to current moratorium measures no longer compliant with GL and not assessed as forborne	-	-	309	-	-	-	(14)	-	-	-
3. Loans subject to other forbearance measures	-	-	105,189	34,448	-	-	(864)	(11,073)	-	-
4. New loans	14,156,496	-	1,862,487	291,530	30	(6,010)	(7,155)	(71,057)	-	-
Total 31/12/2022	**14,160,028**	**-**	**1,973,203**	**327,122**	**148**	**(6,014)**	**(8,240)**	**(82,314)**	**(47)**	**-**
Total 31/12/2021	**16,271,137**	**-**	**3,826,472**	**304,009**	**17,763**	**(7,315)**	**(75,969)**	**(91,526)**	**(3,370)**	**-**

(*) Value to be shown for disclosure purposes.

Based on Bank of Italy communication of 21 December 2021, the table sets out several details (gross value by risk stage and related adjustments) relating to the Covid-19 support measures in force at the reporting date, represented by the loans subject to moratoria or other forbearance measures, or which constitute new liquidity granted with the support of government guarantees, which as at 31 December 2022, like last year, refer entirely to the Parent Company.

For an illustration of the content of the sub-items, for more details on the support measures granted by the Group and on the relative credit quality of those still active, please refer to the content of the paragraph entitled "Most significant aspects for 2022 financial statement valuations" in "Section 5 - Other aspects" in Part A of these Notes.

For further details on the credit quality of the exposures in question, refer to Tables A.1.3a and A.1.5a in Part E of these Notes, in the section dedicated to credit risk.

Section 5 - Hedging derivatives – Item 50

5.1 Hedging derivatives: breakdown by hedge type and by level

	Fair Value 31/12/2022			NV 31/12/2022	Fair Value 31/12/2021			NV 31/12/2021
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives								
1) Fair value	-	1,717,211	-	22,177,838	-	127,076	-	18,224,949
2) Cash flows	-	-	-	-	-	-	-	-
3) Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives								
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**1,717,211**	**-**	**22,177,838**	**-**	**127,076**	**-**	**18,224,949**

NV = notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3

5.2 Hedging derivatives: breakdown by portfolio hedged and type of hedge

Operations/Hedge type	Fair Value							Cash flows		Foreign investments
	Micro hedging						Macro hedging	Micro hedging	Macro hedging	
	debt securities and interest rates	equity instruments and share indices	currencies and gold	credit	commodities	other				
1. Financial assets measured at fair value through other comprehensive income	518,368	-	-	-	X	X	X	-	X	X
2. Financial assets at amortised cost	883,158	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	315,585	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**1,401,526**	**-**	**-**	**-**	**-**	**-**	**315,585**	**-**	**-**	**-**
1. Financial liabilities	39	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	61	X	-	X
Total liabilities	**39**	**-**	**-**	**-**	**-**	**-**	**61**	**-**	**-**	**-**
1. Expected transactions	X	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	-	X	-	-

Section 6 - Fair value change of financial assets in macro fair value hedge portfolios - Item 60

6.1 - Fair value change of hedged assets: breakdown by hedged portfolios

Fair value change of hedged assets/Amounts	Total 31/12/2022	Total 31/12/2021
1. Increase	**11,454**	**34,515**
1.1 of specific portfolios:	11,454	34,515
a) financial assets at amortised cost	11,454	34,515
b) financial assets measured at fair value through other comprehensive income	-	-
1.2 total	-	-
2. Decrease	**(499,857)**	**(31,640)**
2.1 of specific portfolios:	(499,857)	(31,640)
a) financial assets at amortised cost	(499,857)	(31,640)
b) financial assets measured at fair value through other comprehensive income	-	-
2.2 total	-	-
Total	**(488,403)**	**2,875**

The fair value change of financial assets in macro fair value hedge portfolios refers to fair value changes in certain specific portfolios of assets at amortised cost, due to interest rate fluctuations.

Fair value gains and losses relative to hedging derivatives and the portfolio hedged are indicated in item 90 “Fair value gains/losses on hedging derivatives”.

Section 7 - Interests in associates and joint ventures – Item 70

As at 31 December 2022, the book value of the item “Interests in associates and joint ventures” totalled 1,453.9 million (1,794.1 million as at 31 December 2021), relative to:

- significant interests of 1,231.4 million (1,391.6 million as at 31 December 2021), as shown in table 7.2 below, by individual interest;
- non-significant interests of 222.5 million (402.5 million as at 31 December 2021), as shown in table 7.4 below, as a whole.

The scope of “significant interests” was determined by considering the materiality of the book value of the investment and the stake held in the investee's assets with respect to the overall amounts indicated in the consolidated financial statements.

7.1 Interests in associates and joint ventures: information on investment relationships

Company name	Registered office	Operational headquarters	Type of relationship (a)	Investment relationship		Available
				Holder	% held	% votes
A. Companies subject to joint control						
N/A						
B. Companies subject to significant influence						
1. Agos Ducato S.p.A. Share capital € 638,655,160.00	Milan	Milan	1	Banco BPM	39.000%	39.000%
2. Alba Leasing S.p.A. Share capital € 357,953,058.13	Milan	Milan	1	Banco BPM	39.189%	39.189%
3. Anima Holding S.p.A. Share capital € 7,291,809.72	Milan	Milan	1	Banco BPM	20.622%	20.622%
4. Aosta Factor S.p.A. Share capital € 14,993,000.00	Aosta	Aosta	1	Banco BPM	20.690%	20.690%
5. Bussentina S.c.a.r.l. in liquidation (*) Share capital € 25,500.00	Rome	Rome	1	Banco BPM	20.000%	20.000%
6. Calliope Finance S.r.l. in liquidation Share capital € 600,000.00	Milan	Milan	1	Banco BPM	50.000%	50.000%
7. Gardant Liberty Servicing S.p.A. Share capital € 150,000.00	Rome	Rome	1	Banco BPM	30.000%	30.000%
8. Etica SGR S.p.A. (**) Share capital € 4,500,000.00	Milan	Milan	1	Banco BPM	19.444%	19.444%
9. GEMA Magazzini Generali BPV-BSGSP S.p.A. Share capital € 3,000,000.00	Castelnovo Sotto (RE)	Castelnovo Sotto (RE)	1	Banco BPM	33.333%	33.333%
10. SelmaBipiemme Leasing S.p.A. Share capital € 41,305,000.00	Milan	Milan	1	Banco BPM	40.000%	40.000%
11. S.E.T.A. Società Edilizia Tavazzano S.r.l. in liquidation Share capital € 20,000.00	Milan	Milan	1	Banco BPM	32.500%	32.500%
12. Vera Assicurazioni S.p.A. Share capital € 63,500,000.00	Verona	Verona	1	Banco BPM	35.000%	35.000%
13. Vera Vita S.p.A. Share capital € 219,600,005.00	Verona	Verona	1	Banco BPM	35.000%	35.000%
14. Vorvel SIM S.p.A. Share capital € 7,300,000.00	Milan	Milan	1	Banca Akros	20.000%	20.000%

(a) Type of relationship:
1= interest in share capital
(*) Company removed from the Companies' Register on 19 January 2023.
(**) Company subject to significant influence based on partnership agreements or shareholders' agreements with other shareholders.

7.2 Significant interests in associates and joint ventures: book value, fair value and dividends received

Company name	Book value	Fair value	Dividends received
A. Companies subject to joint control			
N/A			
B. Companies subject to significant influence			
Agos Ducato S.p.A.	755,849	-	85,410
Alba Leasing S.p.A.	165,811	-	-
Anima Holding S.p.A.	240,989	267,402	20,009
Vera Vita S.p.A.	68,792	-	-
Total	**1,231,441**	267,402	**105,419**

Note that dividends received during the year were recognised as decreasing the book value of the interest (as described in "Part A - Accounting policies" in these Notes), in that the profits which gave rise to them were indicated in the financial statements as at 31 December 2021, as a result of measuring the investment using the equity method.

7.3 Significant interests in associates and joint ventures: accounting information

The table below provides data obtained from the draft financial statements as at 31 December 2022 approved by the Boards of Directors and provided by associated companies or, when not available, the most recent balance sheets (relative to 100% of the interest and not the percentage held by the Group, as established under IFRS 12). Note that measurement using the equity method was performed on the basis of this data[1].

[1] For the interest held in 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.

Company name	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenues	Net interest income	Value adjustments and recoveries on property, plant and equipment and intangible assets	Profit (loss) before tax from continuing operations	Profit (loss) after tax from continuing operations	Profit (loss) after tax from discontinued operations	Net profit (loss) for the year (1)	Other income components after tax (2)	Comprehensive income (3) = (1) + (2)
A. Companies subject to joint control														
N/A														
B. Companies subject to significant influence														
Agos Ducato S.p.A.	X	16,330,129	2,197,120	15,959,513	328,689	1,983,103	X	X	395,571	265,111	-	265,111	1,018	266,129
Alba Leasing S.p.A.	X	5,193,432	106,706	4,663,585	212,506	229,606	X	X	12,608	8,577	-	8,577	219	8,796
Anima Holding S.p.A.	X	705,714	1,629,197	796,735	146,736	1,015,736	X	X	184,966	120,801	_	120,801	3,844	124,645
Vera Vita S.p.A.	X	7,090,369	411,841	7,536,649	95,296	941,919	X	X	(11,188)	(6,321)	-	(6,321)	(546,336)	(552,657)

Reconciliation of net assets and the book value of the investee in the financial statements

	Net assets (*)	% Investment stake	Net assets held	Adjustments	Book value
A. Companies subject to joint control					
N/A					
B. Companies subject to significant influence					
Agos Ducato S.p.A.	2,239,047	39.000%	873,228	(117,379)	755,849
Alba Leasing S.p.A.	424,047	39.189%	166,180	(369)	165,811
Anima Holding S.p.A.	1,391,440	20.622%	286,943	(45,954)	240,989
Vera Vita S.p.A.	(129,735)	35.000%	(45,407)	103,552	68,792

(*) The amount of net assets, equal to the sum of "Financial assets" and "Non-financial assets", minus "Financial liabilities" and "Non-financial liabilities" indicated in table 7.3, corresponds to the total shareholders' equity of the investee.

Agos Ducato is a financial company controlled by the international Crédit Agricole Group through Crédit Agricole Consumer Finance. The company works in the household loan sector within which it provides loans, mainly for the purchasing of goods and services, as well as personal loans.
Alba Leasing operates in the lease sector and originated from the restructuring of the former Banca Italease Group. The company offers financing in the form of lease contracts, placing its products through the banking channel, including Banco BPM network.
Anima Holding S.p.A. is a financial holding company that is the Parent Company of Anima Group, which carries out collective asset management by managing mutual investment funds and pension funds.
Vera Vita S.p.A. is an insurance company offering life insurance, controlled by Cattolica Assicurazioni, which belongs to the Generali Group. Outside of Banco BPM distribution network, it is the sole distributor of its life insurance products.

7.4 Non-significant interests in associates and joint ventures: accounting information

The table below provides accounting information, cumulative by type of investment relationship, with reference to non-significant companies subject to significant influence. The information is taken from the most recent financial statements or most recent accounting statement available and calculated with reference to the stake held by the Group, as established under IFRS 12.

	Book value of interests	Total assets	Total liabilities	Total revenues	Profit (loss) after tax from continuing operations	Profit (loss) after tax from discontinued operations	Net profit (loss) for the year (1)	Other income components after tax (2)	Comprehensive income (3) = (1) + (2)
A. **Companies subject to joint control**									
N/A									
B. **Companies subject to significant influence**	222,514	953,458	803,555	134,956	15,447	-	15,447	(14,104)	1,343

7.5 Interests in associates and joint ventures: annual changes

	31/12/2022	31/12/2021
A. Opening balance	**1,794,116**	**1,664,772**
B. Increases	**160,625**	**234,414**
B.1 Acquisitions	700	
B.2 Recoveries		
B.3 Revaluations		
B.4 Other changes	159,925	234,414
C. Decreases	**(500,786)**	**(105,070)**
C.1 Sales	(75,000)	(314)
C.2 Value adjustments		(18,673)
C.3 Write-downs		
C.4 Other changes	(425,786)	(86,083)
D. Closing balance	**1,453,955**	**1,794,116**
E. Total revaluations		-
F. Total adjustments	**(625,921)**	**(644,594)**

Acquisitions (item B.1) refer to the payment of the portion to hedge future losses and the subscription to the share capital increase of the investee Vorvel Sim (formerly HI-MTF), held by Banca Akros.

The other increases (item B.4) include the portion of profits for the year achieved by the investees pertaining to the Group for a total amount of 159.9 million (for details, please see "Section 17 - Gains (losses) of associates and joint ventures" in Part C of these Notes).

Sales (item C.1) refer to the sale of 39.5% of the interest in Factorit.

Other decreases (item C.4) include:

- the effect of the distribution of dividends on the capital of Agos Ducato (-85.4 million), Anima Holding (-20.0 million), Vera Assicurazioni (-10.5 million), Banco BPM Vita (-5.0 million), Gardant Liberty Servicing (-1.8 million), Etica SGR (-1.5 million) and Selmabipiemme (-1.3 million);
- the portion of losses for the year recorded by the investees pertaining to the Group, equal to -2.4 million;
- the effects pertaining to the Group of valuation reserves and other reserves of associates (-210.2 million);
- the effect of the transfer of the investee Banco BPM Vita S.p.A., consolidated on a line-by-line basis as from 1 July 2022 (-87.6 million).

7.6 Valuations and significant assumptions to establish the existence of joint control or significant influence

Significant influence exists when the power to participate in the entity's management and financial decisions is held, based on voting rights held or the in the presence of special contractual agreements, as better described in "Part A - Accounting policies" of these Notes. As at 31 December 2022, the scope of companies subject to significant influence involved companies in which 20% or more of voting rights is held, without, however, holding the right to exclusively direct the entity's significant activities, as can be seen in table 7.1 above.
With regard to Etica SGR, despite holding less than 20% of the shareholding, it is believed that there is significant influence by virtue of the shareholders' agreement signed with the other member banks containing corporate governance rules, as well as the placement agreements in place between Banco BPM Group and Etica SGR.

As at 31 December 2022 there were no companies under joint control, that is entities for which unanimous consent of all parties sharing control is required to make strategic financial and management decisions.

7.7 Commitments relative to interests in companies under joint control

There are no interests in companies under joint control.

7.8 Commitments relative to interests in companies subject to significant influence

Commitments deriving from agreements with Crédit Agricole for consumer loans

On 28 June 2019, in execution of the agreements signed at the end of 2018 by Banco BPM, Crédit Agricole Consumer Finance SA, Crédit Agricole SA and Agos Ducato, the reorganisation of the Group's consumer credit segment was completed. The reorganisation, which confirms the partnership between Banco BPM Group and Crédit Agricole for the next 15 years:

(i) formalised, inter alia: (a) a new Shareholders' Agreement, (b) a new Distribution Agreement, and (c) a new Funding Agreement;
(ii) resulted in the transfer of ProFamily to Agos Ducato, through the finalisation of a demerger of ProFamily's non-captive operations in favour of a newly established company, which retained the name ProFamily, 100%-owned by Banco BPM and subsequently merged into Banco BPM.

On 18 December 2020, an Amendment Agreement between the parties was signed, with a view to further consolidating the existing partnership related to the consumer finance activities in Italy of Agos Ducato, through which some changes were made to the agreements signed in 2018. Those amendments, inter alia, extend by an additional 24 months, and therefore, up to 31 July 2023, the term for the exercise of the put option referring to a 10% investment in the capital of Agos Ducato held by Banco BPM, at the previously agreed strike price of 150 million.

Those agreements also provide, in the event that an extraordinary transaction is finalised (understood as: acquisition of control of Banco BPM by a third party operator or several third party operators in concert; merger of Banco BPM with third party operators; acquisition by Banco BPM of another bank or other distribution channels; or acquisition by Banco BPM of a third party operator) the parties shall discuss in good faith, inter alia, depending on the case: i) the possible acquisition by Agos Ducato, at market value, of the entity which, due to the extraordinary transaction, works in the consumer credit segment; ii) the extension of the new Distribution Agreement to the third party operator's distribution network; or iii) the inclusion of the additional distribution channel acquired in the distribution network of Banco BPM Group.

Commitments deriving from bancassurance agreements with Cattolica

On 29 March 2018 - following on from the agreement for the establishment of a strategic partnership in life and non-life bancassurance signed on 9 November 2017 between Banco BPM and Società Cattolica di Assicurazione ("Cattolica") - the purchase of 50% + 1 share of Avipop Assicurazioni (Vera Assicurazioni, at the date of this report) and Popolare Vita (Vera Vita, at the date of this report) was finalised, bringing the interest of Banco BPM Group in the capital of the two insurance companies to 100%. On the same date, the sale to Cattolica of 65% of the total share capital held by the Group in the two insurance companies was finalised.

The Shareholders' Agreement signed on 29 March 2018 by Banco BPM S.p.A. and Cattolica, subsequently amended on 29 October 2018, envisages, among other things, the granting of a put option to Cattolica and a call option to Banco BPM, with regards to the entire interests held by Cattolica in Vera Vita and Vera Assicurazioni.

The triggering events that shall grant Banco BPM the right to exercise the call option include a change of control over Cattolica.
The execution on 23 October 2020 of the corporate and industrial deal between Assicurazioni Generali and Cattolica, announced to the market on 25 June 2020, led, in the opinion of Banco BPM, to a change in control over Cattolica. On the basis of that conviction, on 15 December 2020 the Bank notified Cattolica of the exercise of the call option on the controlling stakes held by Cattolica in the capital of the joint ventures. Cattolica contested the occurrence of a change of control and therefore that the Bank has a right to exercise the call option.

Following discussions between the parties, on 16 April 2021, following up on the agreement reached on 5 March 2021, Banco BPM and Cattolica entered into a new agreement which provides, in exchange for Banco BPM's waiving of the call already exercised, for the recognition to Banco BPM of a right of early exit from the partnership, originally due to end in 2033, which can be exercised in the period between 1 January 2023 and 30 June 2023, and may be extended by the Bank from six-month period to six-month period three times, until 31 December 2024.

In particular, the parties agreed to grant Banco BPM an unconditional purchase option on the 65% stake held by Cattolica in the JV Vera Vita and Vera Assicurazioni. The call option strike price was set at the own funds, excluding subordinated liabilities and including any earnings until the transfer date of the interests, to be calculated to the half-year prior to the exercise of the option. A fixed component of 60 million will be added to this value, of which 26 million against Cattolica's waiver to extend the distribution agreement to the branches currently served by another insurance partner. The agreement provides for protection mechanisms for both parties tied to the exercise price of the call ("caps" and "floors" on the value of own funds as calculated at the reference date) and price adjustments deriving from any retained profits, distributions of reserves/extraordinary dividends or share capital increases or joint venture capital payments.
If Banco BPM decides not to exercise the call option within the above-mentioned term, the Bank will pay to Cattolica the same 26 million against Cattolica's waiver to extend the distribution agreement to the branches currently served by another insurance partner and the partnership between Banco BPM and Cattolica will continue until 31 December 2030 (without prejudice to subsequent annual renewals), at the expiry of which Banco BPM may again exercise the call option on 65% of the capital of the joint ventures or, if the Bank does not exercise that option, Cattolica may exercise a put option on such shares. In this case, the call and put option strike price will remain linked to own funds (as defined above) as at 31 December 2030 with no additional components and without the application of protection mechanisms.
As regards the Non-Life/Protection business, following the competitive process aimed at evaluating possible partnership options, on 23 December 2022 Banco BPM signed a binding term-sheet with Crédit Agricole Assurances which provides for (i) the sale of the 65% stake in Banco BPM Assicurazioni's share capital and, subject to the repurchase by the Bank, of the 65% stake currently held by Cattolica Assicurazioni in the share capital of Vera Assicurazioni, which in turn wholly owns Vera Protezione, and (ii) the launch of a 20-year commercial partnership in the Non-Life/Protection sector.

Commitments deriving from bancassurance agreements with Covéa

As described in the section dedicated to significant events during the year in the Report on operations, after exercising the call option resolved on 12 April 2022 and obtaining the authorisations required by law from the competent Authorities, on 22 July 2022, Banco BPM completed the purchase from Covéa Coopérations S.A. of 81% of the share capital of Bipiemme Vita, which in turn holds 100% of the share capital of Bipiemme Assicurazioni, for a consideration of 309.4 million.
The insurance companies, Bipiemme Vita and Bipiemme Assicurazioni, which concurrently changed their company names to Banco BPM Vita and Banco BPM Assicurazioni, were consolidated on a line-by-line basis starting from the second half of 2022.
After gaining full control of the insurance companies, the Shareholders' Agreement in place prior to the completion of the transaction was terminated.

This transaction, concluded before the date of 31 December 2023 set out in the Strategic Plan, also served to obtain recognition of the status of a "financial conglomerate" to access benefits in the prudential treatment of the equity investment deriving from application of the so-called "Danish Compromise". As mentioned in "Section 4 - Events after the reporting date" of Part A of these Notes to the financial statements, on 7 March 2023 the European Central Bank announced that it had granted the status of "financial conglomerate" to Banco BPM.

Commitments arising from agreements with Anima on Asset Management

It should be noted that during 2017 and subsequent years, in execution of the agreements signed on 9 November 2017 between Banco BPM and Anima Holding, a series of agreements were signed to regulate:

- the sale to Anima Holding of Aletti Gestielle SGR;
- the long-term partnership in the asset management sector between Banco BPM Group and Anima Group;
- the sale by Banca Aletti to Anima SGR of the mandates for the exclusive management of certain insurance assets distributed through the Banco BPM network as part of the existing joint ventures between Banco BPM and the Cattolica Group.

These agreements, which have a total duration of 20 years from their origin, include: (i) exclusive preferential access by the Anima Group to Banco BPM Group's present and future distribution networks, with different characteristics between the "retail" network and the other networks, (ii) the distribution of products such as UCITs and Individual Portfolio Management and other products and services of the Anima Group, (iii) the essential economic terms relating to the Partnership, including the minimum expected levels and objectives and certain protection and guarantee mechanisms related to the failure to achieve them.

On 14 May 2020, Anima Group and Banco BPM Group (Banco BPM and Banca Aletti) renegotiated the framework partnership agreement, concerning both the redefinition of the expected target levels and the deadline for achieving them.

Provisions for risks and charges established to cover the commitments arising on the disposal of interests and any related partnership agreements are illustrated in paragraph 10.6.3 "Other provisions" below of Part B – liabilities of these Notes.

7.9 Significant restrictions

For interests subject to significant influence, no significant restrictions on the transfer of funds relative to companies in Banco BPM Group were identified, other than those associated with regulatory standards, which may require that a minimum amount of own funds be maintained, or those associated with the provisions of the Italian Civil Code with regards to profits and distributable reserves.

7.10 Other information

The associated company SelmaBipiemme Leasing ended its financial year on 30 June 2022. For the purposes of measuring it using the equity method, the income statement was reconstructed from the second half of the financial year, 1 July 2021 - 30 June 2022, and an income statement approved by the company relative to the half year 1 July 2022 - 31 December 2022.

Impairment testing to determine whether there has been a permanent loss in value

Analysis of potential impairment triggers

The negative performance of the financial markets and the ensuing capital losses on the securities portfolio had negative repercussions on shareholders' equity and on the regulatory capital of the interests in associates held in the life insurance companies, particularly those operating in the Life segment, such as Vera Vita. This circumstance was considered a potential impairment indicator, which therefore suggested the execution of a test aimed at ascertaining the recoverability of the book values. This test is in addition to that indirectly carried out on the interests held in Vera Assicurazioni, by testing the recoverability of the Bancassurance Protection CGU, as described in Section 10 "Intangible assets - Item 100", which should be referenced for further details.

The total book value of the interests held in the insurance companies is detailed in the following table:

millions of euro	Book value
Vera Vita	68.8
Vera Assicurazioni	86.0

Calculation methodology, cost of equity and results

For the methodology for calculating the recoverable value of the interest held in Vera Assicurazioni and the relative cost of equity (equal to 8.39%), reference is made to that illustrated for the Bancassurance Protection CGU in Section "10.1.1 Intangible assets with an indefinite life" and in particular in paragraph "B. Criteria used to determine the recoverable value of the CGUs and interests in insurance companies".
To estimate the recoverable value of Vera Vita, the company's Fair Value was considered, calculated as 35% of Own Funds (only the Tier 1 Unrestricted + Tier 3 capital components) as at 31 December 2022. This valuation method is aligned with market best practices, which identify Own Funds as the minimum value of an insurance company.

As a result of the checks carried out, for the interests in associates held in Vera Vita and Vera Assicurazioni, the impairment test conducted as at 31 December 2022 did not reveal the need to recognise any impairment, showing a positive margin between the recoverable value and the book value.

Section 8 - Technical reserves of reinsurers - Item 80

8.1 Technical reserves of reinsurers

	Total 31/12/2022
A. Non-Life business	**482**
A1. Premium reserves	166
A2. Claims reserves	316
A3. Other reserves	-
B. Life business	**2,605**
B1. Mathematical reserves	1,142
B2. Reserves for amounts payable	1,463
B3. Other reserves	-
C. Technical reserves where the investment risk is borne by the policyholders	**-**
C1. Reserves relating to contracts whose performance is linked to investment funds and market indices	-
C2. Reserves from pension fund management	-
D. Total technical reserves of reinsurers	**3,087**

8.2 Change in item 80 "Technical reserves of reinsurers"

	Non-Life Business	Life Business	Total
Opening balance	**-**	**-**	**-**
Business combinations	540	3,412	3,952
Other changes	(58)	(807)	(865)
Closing balance	**482**	**2,605**	**3,087**

The item Business combinations includes the balance as at 1 July of the technical reserves of reinsurers of Banco BPM Vita, following the line-by-line consolidation of the Company.

Section 9 - Property, plant and equipment – Item 90

Property, plant and equipment totalled 3,034.7 million as at 31 December 2022, compared with the amount of 3,278.2 million of the previous year.

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

Asset/Amounts	Total 31/12/2022	Total 31/12/2021
1. Owned assets	**74,386**	**87,001**
a) land	-	-
b) buildings	-	-
c) furniture	12,976	16,829
d) electronic systems	52,879	55,522
e) other	8,531	14,650
2. Rights of use acquired through leases	**640,501**	**708,373**
a) land	-	-
b) buildings	605,978	698,160
c) furniture	34,115	9,067
d) electronic systems	-	-
e) other	408	1,146
Total	**714,887**	**795,374**
of which: obtained through the enforcement of guarantees received	-	-

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

As the Group does not hold property, plant and equipment for investment purposes, the relative table is omitted.

9.3 Property, plant and equipment used in operations: breakdown of revalued assets

Asset/Amounts	Total 31/12/2022			Total 31/12/2021		
	L1	L2	L3	L1	L2	L3
1. Owned assets	**-**	**-**	**1,364,519**	**-**	**-**	**1,377,092**
a) land	-	-	994,246	-	-	1,004,302
b) buildings	-	-	317,304	-	-	322,690
c) furniture	-	-	-	-	-	-
d) electronic systems	-	-	-	-	-	-
e) other	-	-	52,969	-	-	50,100
2. Rights of use acquired through leases	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-
c) furniture	-	-	-	-	-	-
d) electronic systems	-	-	-	-	-	-
e) other	-	-	-	-	-	-
Total	**-**	**-**	**1,364,519**	**-**	**-**	**1,377,092**
of which: obtained through the enforcement of guarantees received	-	-	20,385	-	-	24,500

Revalued owned assets refer to the owned properties used for business operations of the Group companies and valuable works of art.

9.4 Property, plant and equipment held for investment purposes: breakdown of assets measured at fair value

Asset/Amounts	Total 31/12/2022			Total 31/12/2021		
	L1	L2	L3	L1	L2	L3
1. Owned assets	**-**	**-**	**955,283**	**-**	**-**	**1,105,779**
a) land	-	-	670,863	-	-	791,671
b) buildings	-	-	284,420	-	-	314,108
2. Rights of use acquired through leases	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-
Total	**-**	**-**	**955,283**	**-**	**-**	**1,105,779**
of which: obtained through the enforcement of guarantees received	-	-	475,977	-	-	587,324

Owned assets measured at fair value are represented by the owned properties not used for business operations of Banco BPM Group.
In that regard, it is specified that the Group does not hold investment assets represented by the rights of use acquired through leases. Instead, property held for investment purposes granted through operating leases amounted to 491.1 million.

9.5 Inventories of property, plant and equipment governed by IAS 2: breakdown

The Group does not hold any property, plant and equipment classified as inventories pursuant to IAS 2.

9.6 Property, plant and equipment used in operations: annual changes

	Land	Buildings	Furniture	Electronic systems	Other	Total
A. Gross opening balance	**1,004,302**	**1,434,623**	**486,985**	**876,212**	**350,345**	**4,152,467**
A.1 Total net impairment	-	(413,773)	(461,089)	(820,690)	(284,449)	(1,980,001)
A.2 Net opening balance	**1,004,302**	**1,020,850**	**25,896**	**55,522**	**65,896**	**2,172,466**
B. Increases:	**5,692**	**62,247**	**41,562**	**18,432**	**4,935**	**132,868**
B.1 Acquisitions	172	15,525	41,562	18,432	1,725	77,416
- of which business combinations	-	719	53	31	-	803
B.2 Capitalised expenses for improvements	-	2,688	-	-	64	2,752
B.3 Recoveries	-	-	-	-	-	-
B.4 Positive changes in fair value recognised to	1,894	10,273	-	-	3,138	15,305
a) shareholders' equity	1,823	9,627	-	-	3,138	14,588
b) income statement	71	646	-	-	-	717
B.5 Exchange gains	-	11	-	-	7	18
B.6 Transfers from property held for investment purposes	3,626	1,562	X	X	X	5,188
B.7 Other changes	-	32,188	-	-	1	32,189
C. Decreases:	**(15,748)**	**(159,815)**	**(20,367)**	**(21,075)**	**(8,923)**	**(225,928)**
C.1 Sales	-	(85)	-	-	-	(85)
- of which business combinations	-	-	-	-	-	-
C.2 Depreciation	-	(115,461)	(20,367)	(21,075)	(8,207)	(165,110)
C.3 Losses on impairment recognised to	-	(2,322)	-	-	-	(2,322)
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	(2,322)	-	-	-	(2,322)
C.4 Negative changes in fair value recognised to	(15,716)	(7,411)	-	-	(269)	(23,396)
a) shareholders' equity	(6,391)	(642)	-	-	(269)	(7,302)
b) income statement	(9,325)	(6,769)	-	-	-	(16,094)
C.5 Exchange losses	-	-	-	-	-	-
C.6 Transfers to:	(32)	(2)	-	-	(66)	(100)
a) property, plant and equipment held for investment purposes	(32)	(2)	X	X	X	(34)
b) non-current assets and disposal groups held for sale	-	-	-	-	(66)	(66)
C.7 Other changes	-	(34,534)	-	-	(381)	(34,915)
D. Net closing balance	**994,246**	**923,282**	**47,091**	**52,879**	**61,908**	**2,079,406**
D.1 Total net impairment	-	(481,936)	(482,148)	(840,318)	(290,199)	(2,094,601)
D.2 Gross closing balance	**994,246**	**1,405,218**	**529,239**	**893,197**	**352,107**	**4,174,007**
E. Measurement at cost	369,229	496,453	-	-	10,935	876,617

To ensure better understanding of the changes in the assets in question, it must be specified that:

- the changes refer to owned property, plant and equipment and the rights of use acquired through leases;
- the sub-items "B.4 Positive changes in fair value" and "C.4 Negative changes in fair value" include the effects of the fair value measurement of the Group's real estate assets and valuable works of art, negative overall for 8.1 million. Said effects are reported in the statement of comprehensive income for 7.3 million and in the income statement item "260. Fair value gains (losses) on property, plant and equipment and intangible assets" for negative 15.4 million;
- sub-items "B.7 – Other changes" and "C.7 – Other changes", for the column "buildings" represent the increases and decreases, respectively, correlated with the rights of use of several properties, resulting from the renegotiations finalised during the year;
- sub-item "C.3 Losses on impairment" includes the economic effects of the measurement of impairment of the rights of use of real estate leases.

For the details of the movements in the rights of use acquired through leases, refer to Table 9.6 bis below.

Lastly, sub-item "E. Measurement at cost" represents the amount that would result from the measurement at cost of property, plant and equipment (property and works of art) that are measured in the financial statements using the restatement approach, in compliance with the instructions set out in Bank of Italy Circular no. 262.

9.6 bis Property, plant and equipment used in operations - Rights of use acquired through leases: annual changes

The changes during the year in the rights of use acquired through leases, already included in table 9.6 above, are shown below, referring to that previously illustrated for the related dynamics.

	Land	Buildings	Furniture	Electronic systems	Other	Total
A. Gross opening balance	**-**	**1,019,274**	**14,425**	**-**	**3,839**	**1,037,538**
A.1 Total net impairment	-	(321,114)	(5,358)	-	(2,693)	(329,165)
A.2 Net opening balance	**-**	**698,160**	**9,067**	**-**	**1,146**	**708,373**
B. Increases:	**-**	**43,358**	**39,721**	**-**	**30**	**83,109**
B.1 Acquisitions	-	8,499	39,721	-	-	48,220
- of which business combinations	-	719	-	-	-	719
B.2 Capitalised expenses for improvements	-	2,660	-	-	-	2,660
B.3 Recoveries	-	-	-	-	-	-
B.4 Positive changes in fair value recognised to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Exchange gains	-	11	-	-	3	14
B.6 Transfers from property held for investment purposes	-	-	X	X	X	-
B.7 Other changes	-	32,188	-	-	27	32,215
C. Decreases:	**-**	**(135,540)**	**(14,673)**	**-**	**(768)**	**(150,981)**
C.1 Sales	-	-	-	-	-	-
- of which business combinations	-	-	-	-	-	-
C.2 Depreciation	-	(98,685)	(14,673)	-	(737)	(114,095)
C.3 Losses on impairment recognised to	-	(2,322)	-	-	-	(2,322)
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	(2,322)	-	-	-	(2,322)
C.4 Negative changes in fair value recognised to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) property, plant and equipment held for investment purposes	-	-	X	X	X	-
b) non-current assets and disposal groups held for sale	-	-	-	-	-	-
C.7 Other changes	-	(34,533)	-	-	(31)	(34,564)
D. Net closing balance	**-**	**605,978**	**34,115**	**-**	**408**	**640,501**
D.1 Total net impairment	-	(419,867)	(20,003)	-	(2,670)	(442,540)
D.2 Gross closing balance	**-**	**1,025,845**	**54,118**	**-**	**3,078**	**1,083,041**
E. Measurement at cost	-	-	-	-	-	-

9.7 Property, plant and equipment held for investment purposes: annual changes

	Total	
	Land	Buildings
A. Opening balance	**791,671**	**314,108**
B. Increases	**52,823**	**56,069**
B.1 Acquisitions	5,628	39,246
- of which business combinations	-	-
B.2 Capitalised expenses for improvements	398	483
B.3 Positive changes in fair value	41,565	12,765
B.4 Recoveries	-	-
B.5 Exchange gains	-	-
B.6 Transfers from properties used in operations	32	2
B.7 Other changes	5,200	3,573
C. Decreases	**(173,631)**	**(85,757)**
C.1 Sales	(1,139)	(615)
- of which business combinations	-	-
C.2 Depreciation	-	-
C.3 Negative changes in fair value	(85,226)	(62,076)
C.4 Losses on impairment	-	-
C.5 Exchange losses	-	-
C.6 Transfers to:	(86,329)	(23,054)
a) properties used in operations	(3,626)	(1,562)
b) non-current assets and disposal groups held for sale	(82,703)	(21,492)
C.7 Other changes	(937)	(12)
D. Closing balance	**670,863**	**284,420**
E. Measurement at fair value through profit and loss	-	-

As at 31 December 2022, assets held for investment purposes, fully represented by owned properties at fair value, amounted to 955.3 million (1,105.8 million as at 31 December 2021).

For the purpose of understanding the changes in the assets in question, it is specified that:

- the changes attributable to changes in the estimate of fair value, equal to the mismatch between sub-items B.3 and C.3, which totals a negative amount of 93.0 million, are recognised under the income statement item “260. Fair value gains (losses) on property, plant and equipment and intangible assets";
- the sub-item “E. Measurement at fair value through profit and loss”, to be completed for properties for investment purposes measured at cost, is blank as all the properties are measured at fair value.

9.8 Inventories of property, plant and equipment governed by IAS 2: annual changes

The Group does not hold any property, plant and equipment classified as inventories pursuant to IAS 2.

9.9 Commitments to purchase property, plant and equipment

At the reporting date, there were no commitments for the purchase of property, plant and equipment of a significant amount.

Section 10 - Intangible assets – Item 100

10.1 Intangible assets: breakdown by type of asset

Asset/Amounts	Total 31/12/2022		Total 31/12/2021	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	X	**56,709**	X	**54,858**
A.1.1 attributable to the Group	X	56,709	X	54,858
A.1.2 attributable to non-controlling interests	X	-	X	-
A.2 Other intangible assets	**725,753**	**504,272**	**654,592**	**504,272**
of which: software	398,022	**-**	**352,092**	**-**
A.2.1 Assets at cost:	725,753	504,272	654,592	504,272
a) Internally generated intangible assets	-	-	-	-
b) Other assets	725,753	504,272	654,592	504,272
A.2.2 Assets at fair value:	-	-	-	-
a) Internally generated intangible assets	-	-	-	-
b) Other assets	-	-	-	-
Total	**725,753**	**560,981**	**654,592**	**559,130**

Intangible assets with a finite life include, in addition to software amounting to 398.0 million, the value of "Client Relationships" acquired as part of the business combinations of BPM Group and Banca Popolare Italiana Group for a total of 271.2 million and the "Value of Business Acquired" (so-called VoBA) generated through the acquisition of the controlling interest of the insurance companies Banco BPM Vita S.p.A. and Banco BPM Assicurazioni S.p.A. for 55.7 million.

Intangible assets with an indefinite life recognised in the financial statements are comprised:

- by goodwill of 42.9 million resulting from the combination of Banca Popolare Italiana (Bancassurance CGU), after the recognition of 8.1 million in impairment;
- by goodwill of 3.8 million resulting from the acquisition of control of Oaklins Italy S.r.l. by Banca Akros (Oaklins CGU);
- by goodwill of 10.0 million attributed to the Banco BPM CGU following the completion of the process of the Purchase Price Allocation (PPA) of the acquisition of control of the insurance companies Banco BPM Vita S.p.A. and Banco BPM Assicurazioni S.p.A. by the Parent Company in July 2022, as illustrated in more detail in "Part G - Business combinations regarding companies or divisions" in these Notes;
- by business trademarks of 504.3 million 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).

Intangible assets with a finite life - Client Relationship

The Client Relationship identifies the activities linked to measuring the relationship with customers that arise on Purchase Price Allocation (PPA) following business combinations recorded pursuant to IFRS 3.
Those assets, which are part of intangible assets with a finite life, represent the ability of the relationships existing at the date of the business combination to generate income flows over the expected residual life of those relationships.
In line with guidelines of IFRS 3, to measure the Client Relationship, only those relationships established prior to the acquisition date are considered. Therefore, the generation capacity of new relationships is not measured.
The measurement method used to estimate the value of the Client Relationship at the date of PPA is based on the discounting of net future cash flows over the period that expresses the estimated residual duration of the relationships existing at the date the business combination occurred.
Each intangible asset representing a Client Relationship is assigned a useful life, defining the percentage of amortisation represented by the estimated rate of decay in volumes.
Thus, amortisation is estimated based on the useful life, which takes account of the decay curves physiologically observable over the historical time period deemed significant.
Intangible assets with a finite life are also subject to impairment when the presence of indicators of loss are present that deem it impossible to recover the value recorded in the financial statements.

That being said, the Client Relationships recognised in the financial statements of Banco BPM Group represent the assets attributable to customer relationships, for Asset Management/Assets Under Custody (AuM/AuC) and for Core Overdrafts/Core Deposits, recognised as part of the following business combinations:

- acquisition of Banca Popolare Italiana Group by Banca Popolare di Verona, effective on 1 July 2007, through which intangible assets were identified attributable to Core Overdrafts/Core Deposits and Asset Management/Assets Under Custody (AuM/AuC). As at 31 December 2022, the residual value of said assets amounted to 107.8 million, following the recognition of the amortisation for the year of 13.2 million;
- acquisition of Banca Popolare di Milano Group by Banco Popolare, effective on 1 January 2017, which gave rise to intangible assets exclusively referring to Asset Management/Assets Under Custody (AuM/AuC). As at 31 December 2022, the residual value of said assets amounted to 163.4 million, following the recognition of the amortisation for the year of 18.0 million.

The respective measurement and amortisation criteria for the types of Client Relationships arising following the aforementioned business combinations are illustrated below.

Core Deposits/Core Overdrafts

The recognition of an intangible asset related to Core Deposits and Core Overdrafts depends on the fact that core deposits generally have an economic duration that is longer than the contractual duration, thereby resulting more cost-effective for the Bank than alternative sources of financing or investments.
Those assets were measured based on the evolution of the estimated amounts, considering the probability of closing the accounts. That estimate, which is based on historic data, makes it possible to identify a physiological decay curve which will reflect on the amortisation process. This entails variable charges based on preset annual percentages.
In measuring the assets, in addition to the estimated evolution of the amounts, revenues (in terms of interest and net fee and commission income), certain operating expenses, costs relating to credit risk (only for core overdrafts) and a figurative tax effect, with a discount rate determined based on the risk profile of the assets measured were considered. Lastly, the valuation included the Tax Amortisation Benefit, which expresses the tax benefit for a potential third party buyer connected with the deductibility of amortisation of the asset in the event of a transaction settled in cash.

Asset Management/Assets Under Custody (AuM/AuC)

The assets linked to asset management and assets under custody are linked to the relationship that the Bank establishes with customers, through contracts that envisage specific services, which are assigned an economic duration higher than the contractual duration, which is measured through net fee and commission income of the Bank from the products and services of asset management and assets under custody that are provided to customers.
The measurement of those assets is based on the discounting of future net cash flows referring to indirect funding, and takes account of the evolution of assets under administration and managed over the time horizon estimated, considering the probability of closing the accounts, based on a physiological decay curve which will reflect on the amortisation process. This entails variable charges based on preset annual percentages.
In measuring the assets, in addition to the estimated evolution of the amounts, revenues in terms of net fee and commission income, certain operating expenses and a figurative tax rate, with a discount rate determined based on the risk profile of the assets measured were considered. Lastly, the valuation included the Tax Amortisation Benefit, which expresses the tax benefit for a potential third party buyer connected with the deductibility of amortisation of the asset in the event of a transaction settled in cash.

Amortisation of the Client Relationship

With regard to the situation as at 31 December 2022, the Client Relationship recognised in the financial statements amounts to 271.2 million, of which 71.6 million in core deposits, fully referring to the PPA of Banca Popolare Italiana Group, and 199.6 million in AuM/AuC.
These assets are recognised in the financial statements of Banco BPM for 237.2 million, of which 104.2 million attributable to the PPA of BPI Group and 133.0 million to the PPA of BPM Group. The remaining assets, amounting to 34.0 million, related to the subsidiary Banca Aletti, following the company reorganisation processes, and in particular refer to 3.6 million for the PPA of BPI Group and 30.4 million to the PPA of BPM Group.
The amortisation charge for the year, recorded under the item "Amortisation and impairment losses on intangible assets", amounts to 31.2 million, gross of tax effects.
The residual useful life of the Client Relationship of the PPA relating to Banca Popolare Italiana Group, estimated based on a curve of termination of relationships, amounts to 14 years (expiry 2036). Considering the decreasing

trend of the curve of termination of relationships, it must be noted that more than half of the residual value recorded as at 31 December 2022 will be amortised by 2028.
The residual useful life of the Client Relationships attributable to the PPA of Banca Popolare di Milano Group, estimated based on the curve of termination of relationships, is 19 years (expiry 2041). Considering the decreasing trend of the curve of termination of relationships, it must be noted that more than half of the residual value recorded as at 31 December 2022 will be amortised by 2029.

(in millions of euro)	BPI PPA			BPM PPA	Total
	Core Deposits	Core Overdrafts	AuM/AuC	AuM/AuC	
A. Opening balance	**343.4**	**30.6**	**154.5**	**298.6**	**827.1**
A.1 Total net impairment	(263.3)	(30.6)	(113.6)	(117.2)	(524.7)
A.2 Net opening balance	**80.1**	**-**	**40.8**	**181.4**	**302.4**
B. Increases	-	-	-	-	-
C. Decreases	(8.5)	-	(4.7)	(18.0)	(31.2)
of which: amortisation	(8.5)	-	(4.7)	(18.0)	(31.2)
D. Net closing balance	**71.6**	**-**	**36.2**	**163.4**	**271.2**
D.1 Total net adjustments	(271.8)	(30.6)	(118.3)	(135.2)	(555.9)
E. Closing balance	343.4	30.6	154.5	298.6	827.1

Sensitivity Analysis

For the Client Relationships (Core Deposit and AuM/AuC) of Banco BPM, a sensitivity analysis was conducted with respect to the growth rate of the terminal value (g) and the cost of capital (Ke). The results of those analyses are summarised in the table below, which shows the differential (in absolute value and percentage) between the recoverable value and the reference book value, in the case of an increase or decrease in the Ke and/or the growth rate (g) with respect to the data effectively used. In addition, the table shows that, even in a stress scenario (Ke +200 bps), the margins are positive.

The cost of equity Ke of the Client Relationships, estimated using a 3-month and 6-month average Risk-Free rate, would be 9.74% and 9.40%, respectively, both lower than the rate that eliminates the margin.

Client Relationship Core Deposit Banco BPM: 2022 financial statements scenario probability: baseline (50%), best (20%), adverse (30%)
Growth rates of terminal value "g"/Discount rates "ke"
(difference between recoverable value and reference value in millions of euro)
(percentage impact on the central recoverable value)

		Ke			
		8.62%		10.62%	
(g)	1.5%	3,141	95.4%	2,795	84.8%
	2.0%	3,223	97.8%	2,862	86.9%
	2.5%	3,308	100.4%	2,931	89.0%

Client Relationship AuM/AuC Banco BPM: 2022 financial statements scenario probability: baseline (50%), best (20%), adverse (30%) Growth rates of terminal value "g"/Discount rates "Ke" (difference between recoverable value and reference value in millions of euro) (percentage impact on the central recoverable value)					
		Ke			
		8.62%		10.62%	
(g)	1.5%	1,178	85.0%	1,015	73.3%
	2.0%	1,219	88.0%	1,049	75.7%
	2.5%	1,263	91.2%	1,084	78.3%

Intangible assets with a finite life - Value of Business Acquired

In 2022, following the acquisition of control of the insurance companies Banco BPM Vita and Banco BPM Assicurazioni, wholly owned by the former, new intangible assets emerged typical of the insurance business called Value of Business Acquired (VoBA), not previously recognised in the financial statements of insurance companies.
As described in part G "Business combinations concerning companies or divisions" of these Notes to the Financial Statements to which reference is made, on 22 July 2022, following IVASS authorisation, by exercising a call option, Banco BPM acquired 81% of Banco BPM Vita (and consequently of Banco BPM Assicurazioni) thus assuming exclusive control.
Following the Purchase Price Allocation (PPA) process, in addition to the recognition of residual unallocated differences of 10.0 million, which were allocated to goodwill, the VoBA was recognised for a total amount of 81.7 million (of which 61.1 million for Banco BPM Vita and 20.6 million for Banco BPM Assicurazioni). Both assets were allocated to the Banco BPM Vita CGU.
The VoBA represents the ability of contracts with customers, in place at the time of acquisition, to generate revenues over the residual useful life of the acquired relationships. Therefore, this is an intangible asset strictly linked to the specific contractual relationship with the acquired customers (insurance policies) which, by its nature, has a fixed duration and is therefore subject to amortisation over the estimated residual life of the relationships acquired on the acquisition date.
This intangible asset was valued on the date of acquisition of the insurance companies, by discounting the flows representing the profit margins over the residual duration, contractual or estimated, of the relationships in place on the date of the business combination, identified as 1 July 2022.
The amortisation charge, recognised in the income statement under item "220. Amortisation and impairment losses on intangible assets", for the intangible asset in question amounted to 6.9 million before tax (4.8 million net), of which 5.4 million relating to Banco BPM Vita and 1.5 million to Banco BPM Assicurazioni. This portion, referring to the second half of 2022, is based on an amortisation plan based on coverage units for Banco BPM Vita and duration for Banco BPM Assicurazioni.
The VoBA in place as at 31 December 2022 relating to Banco BPM Assicurazioni was reclassified as "Non-current assets held for sale", as required by accounting standard IFRS 5, following the agreement for the sale of 65% of the insurance company to Crédit Agricole Assurances S.A. as part of the partnership and relative reorganisation process of the non-life/protection bancassurance sector.
For further details, please refer to Part A (Section "5. Other aspects"- Other significant aspects relating to Group accounting policies) and in part B (Section 12 "Non-current assets and disposal groups held for sale and associated liabilities - Asset item 120 and liability item 70").
As at 31 December 2022, the residual value of the VoBA amounted to 55.7 million.

Intangible assets with an indefinite life are represented by goodwill and trademarks, for which an impairment test was performed, as indicated in paragraph 10.1.1 below.

Intangible assets with an indefinite life - Trademarks

A trademark defines a set of intangible assets that are complementary to each other, linked to marketing activities (in addition to the name and logo, the expertise, trust of consumers, quality of services, etc.).
The recognition of an intangible asset linked to the trademark derives from the fact that elements such as the ability to attract customers and maintain their loyalty or the commercial name may be assigned differentiated expected economic benefits (in terms of net cash flows) that can be reliably measured. A trademark is an identifiable

intangible asset, as it can be separated from the company as a whole, and can be associated with a significant ability to attract customers and maintain their loyalty.
This is an intangible asset with an indefinite useful life, as it is deemed that that intangible component may contribute for an indefinite period to the formation of income flows. As such, it is subject to annual impairment testing, for which reference is made to that set out below.

That being said, in the consolidated financial statements as at 31 December 2022 of Banco BPM Group, trademarks are recorded for a total amount of 504.3 million (of which 485.6 million in the Parent Company’s financial statements), recognised:

- for 222.2 million following the acquisition of Banca Popolare Italiana Group by Banca Popolare di Verona, effective on 1 July 2007;
- for 282.1 million following the acquisition of Banca Popolare di Milano Group by Banco Popolare, effective on 1 January 2017.

10.1.1 Intangible assets with an indefinite life: impairment testing

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. The Group decided to conduct the impairment test with reference to 31 December of each year and, in any event, each time indicators of loss are present.
The impairment test as at 31 December 2022 took the following into account:

- the provisions of the reference international accounting standard IAS 36;
- the recommendations issued through the joint letter of the Bank of Italy, CONSOB and IVASS of 3 March 2010;
- the suggestions of the Italian Measurement Body (O.I.V.) contained in the documents “Goodwill impairment test under situations of real and financial crises" dated 14 June 2012, "Guidelines for impairment testing after the effects of the Covid-19 pandemic" dated 16 March 2021, "Impairment testing of non-financial assets (IAS 36) following the war in Ukraine" dated 28 July 2022;
- various statements published by the ESMA on the topic, most recently that dated 28 October 2022 "European common enforcement priorities for 2022 annual financial reports” (ESMA32-63-1320);
- the recommendations issued by CONSOB in communication no. 3907 of 19 January 2015, as well as drawing attention to several points of the disclosure, in line with the above-mentioned documents of the ESMA.

Also note that, as requested by the cited Supervisory Authorities, the procedure and parameters for assessing the impairment test for goodwill and other intangible assets with indefinite useful lives were approved by the Board of Directors, independently and in advance with respect to approval of the draft 2022 Financial Statements.

That said, for the purposes of impairment testing of the assets in question, IAS 36 requires that their recoverable value be determined as the higher of fair value and value in use. If it is not possible to directly determine the recoverable value of a specific intangible asset recognised in the financial statements, it is necessary to determine the recoverable value of the cash generating units to which the asset belongs (hereinafter “CGU - Cash Generating Unit”). In order to identify the CGUs to which the assets undergoing impairment tests are allocated, the potentially identified units must generate incoming cash flows in amounts that are clearly independent from those deriving from other identified units.

With specific reference to the verification of the recoverability of goodwill acquired in a business combination, paragraph 80 of the aforementioned accounting standard specifies that it must be allocated, from the acquisition date, to each cash generating unit or groups of cash generating units, which can benefit from the synergies created by the business combination, regardless of whether other assets or liabilities of the business acquired are assigned to said units or groups of units.
Each unit or group of units to which goodwill is thus allocated must:

a) represent the minimum level within the entity for which the goodwill is monitored for the purposes of internal management control;
b) not be larger than an operating segment, as determined in accordance with IFRS 8.

Based on the regulatory references illustrated above, as at 31 December 2022, the CGUs identified for which intangible assets, with an indefinite life (trademarks and goodwill as specified below) to be tested for impairment, were allocated are as follows:

- Retail CGU, comprised of Private Customer and Retail Business segments, based on the revision of current customer portfolios in place at the end of 2022, consistent with 2022 Segment Reporting, to verify the trademarks recognised following the business combination with the former Banca Popolare Italiana Group in 2007 (222.2 million) and with the former Banca Popolare di Milano Group in 2017 (263.5 million);
- Banca Akros CGU, consisting of Banca Akros S.p.A., coinciding with the Investment Banking segment of Segment Reporting excluding the Oaklins impact, to test the corresponding trademark following the business combination with the former Banca Popolare di Milano Group in 2017 (18.6 million);
- Oaklins CGU, set up by Oaklins, wholly owned by Banca Akros S.p.A. acquired in 2021 (3.8 million);
- Bancassurance Protection CGU, consisting of the investee Vera Assicurazioni S.p.A. for the purposes of the goodwill impairment test relative to this operating segment, following the business combination with the former Banca Popolare Italiana Group in 2007 and which amounted to 42.9 million as at 31 December 2022 following the impairment of 8.1 million recognised in the first half of 2022;
- Banco BPM Vita CGU: coinciding with Banco BPM Vita, for the purposes of impairment testing goodwill (10.0 million) referring to this operating segment, following the outcome of the PPA conducted on the investment following the acquisition of full control by Banco BPM during the current year.

Evidence is provided below of the method used to conduct the impairment test of the assets under review, the related results and sensitivity analysis.

A. Method for calculating the book value of the single CGUs

The book value of the Retail CGU, in line with the 2021 financial statements, was determined according to management metrics based on regulatory capital absorption. In particular, the reference book value is obtained by considering the Common Equity Tier 1 (CET1) capital allocated to the CGU, i.e. the capital allocated on a management basis in relation to its risk-weighted assets. In detail, the allocated capital is obtained by multiplying the risk-weighted assets of the CGU by the "CET1 fully-phased" capital ratio, the target of long-term forecasts resulting from the latest ICAAP update (13.08% for 2022, 12.74% for 2023, 13.69% for 2024 and 14.06% for 2025) and adding any shortfall component, defined in terms of "CET1 plan target", as it is considered to be the expressive measure of the actual capital used, under ordinary conditions. Goodwill and other intangible assets with an indefinite and finite useful life associated with the CGU are also added to the capital thus attributed.
For the Bancassurance Protection CGU and for the Banco BPM Vita CGU which correspond respectively to the legal entity Vera Assicurazioni and Banco BPM Vita, the relative value was specifically identified as the sum of the book values of the balance sheet assets and liabilities of the cited entities and of the goodwill allocated to the same, just like the controlling interest held by Banca Akros in Oaklins.
With regard to the "Banca Akros" trademark, in line with previous years, the approach adopted is based on the royalties method. This method makes it possible to directly verify the recoverability of the book value of the trademark, without it being necessary to determine the recoverable value of the entire CGU to which this intangible asset is allocated.
The following table shows the reference book values of the CGUs, as determined above, including goodwill and trademarks to be tested for impairment (values prior to any impairment determined).

CGU	Reference book value	of which: goodwill	of which: trademarks
Retail	3,169		486
Banca Akros (*)	19		19
Oaklins	6	4	
Bancassurance Protection	129	43	
Banco BPM Vita	322	10	
Total	**3,645**	**57**	**504**

(*) In line with the royalties valuation model, the values of the Banca Akros CGU shall be understood as referring only to the "Banca Akros" trademark.

These CGU reference values are in line with the methods used to determine the respective recoverable values, as illustrated below.

B. Criteria used to determine the recoverable value of the CGUs

On the basis of IAS 36, the amount of any impairment is determined as the difference between the book value of the CGU, identified on the basis of the criteria already described, and its recoverable value, if lower. The recoverable value is defined as the higher of:

- The Value in Use, i.e. the present value of future cash flows expected to arise from the continuous use of a specific asset or from a CGU;
- The Fair Value, less costs to sell, or the amount which could be obtained by selling an asset, in a free transaction between knowledgeable and willing parties.

For the Retail CGU, for the Bancassurance Protection CGU and for the Banco BPM Vita CGU, the impairment test was conducted using the Value in Use, obtained through the application of the Dividend Discount Model (DDM).
According to the Dividend Discount Model, the value of a business is based on the dividend flows that it is capable of generating on a forward-looking basis. In the case in question, the method used is the Excess Capital variant of the DDM, which assumes that the economic value of a business is equal to the sum of the present value of future cash flows (Expected Dividends) generated over the selected planning time horizon and distributable to shareholders while maintaining an adequate level of capitalisation to guarantee the expected future development, and the perpetual capitalisation of the normalised dividend of the last year of the forecast, based on a pay-out ratio, depending on fully phased profitability. The application of the DDM entails the use of the following formula:

$$\mathrm{W} = \sum_{t=0}^{n} \frac{\mathrm{D_t}}{(1+\mathrm{Ke})^t} + \mathrm{TV} + \mathrm{SA}$$

where:
W = General value of economic capital
Ke = Cost of equity (Ke)
Dt = Dividends distributable in the explicit period, with a level of capitalisation consistent with current regulations
n = Number of years in the explicit period
TV = Terminal Value determined as the present value of perpetual income represented by the average sustainable dividend for the years following the explicit planning period
SA = Value of any surplus assets.

In analytical terms, the Terminal Value is calculated as follows:

$$\mathrm{TV} = \frac{Dn+1}{Ke-g}(1+Ke)^{-n}$$

where:
Dn+1 = Average sustainable dividend expected after the explicit planning period
g = Expected long-term growth rate of the dividend after the explicit planning period. This rate is placed in relation to the nominal growth rate of the economy over the long term. In fact, it is prudently assumed that over the long term each sector and each company in the sector will converge toward a growth rate equal to that of the economy as a whole
Ke = Cost of equity.

For the Banca Akros CGU, the methodological approach used to measure the trademark involved valuing the intangible asset on the basis of the royalties, which the owner of the trademark would receive following its sale for use to third parties. The present value of the trademark is therefore expressed as the present value of future royalties, estimated with reference to specific parameters (royalty rate, percentage of revenues) after the relative tax effects.
The valuation also included the Tax Amortisation Benefit, i.e. the tax benefit for a potential third party buyer connected with the deductibility of amortisation of the asset in the event of a transaction settled in cash. In detail, the following formula has been used to enhance the trademark:

$$W = \left[\frac{\sum_{t=1}^{n} S_t \cdot r \cdot (1-T)}{(1+ke)^t} + TV \right] + \text{TAB}$$

where:
W = Value of the trademark
St = Operating income 2022-2024
R = Royalty rate
T = Tax rate
Ke = Discount rate
TV = Terminal Value obtained through capitalisation in perpetuity of the expected royalty flows during the period following the last forecast, considering a long-term growth rate
TAB = Tax Amortisation Benefit

For the Oaklins CGU, the impairment test was conducted using the Value in Use, obtained through the application of the income-based approach.
The income-based approach estimates the value of economic capital by considering the profitability that the company is capable of generating on a forward-looking basis, identifying the fundamental driver of value in the contrast between revenues and costs for the year. With the income-based approach, "over a defined time period and with terminal value", the expected income flows are discounted year by year, until the end of the time horizon of the explicit forecast period and estimating a TV.
The application of the income-based approach entails the use of the following formula:

$$W = \sum_{t=0}^{n} \frac{R_t}{(1+Ke)^t} + TV$$

where:
W = General value of economic capital
Ke = Discount rate
Rt = Expected income in the period
n = Number of years in the explicit period
TV = Terminal Value determined as the present value of the average income of the plan for the years following the explicit planning period

B.1 - Estimates of cash flows

The estimates of cash flows underlying the determination of the Value in Use is normally made using the latest publicly available plan or alternatively through the formulation of a forecast plan developed internally by management.

The Retail CGU encompasses the Retail activities (consisting of households and businesses with turnover of less than 75 million), in line with the 2022 segment reporting.

In accordance with that suggested by the practice for evaluation exercises to be conducted in contexts characterised by extreme uncertainty, it was considered appropriate to adopt a "multi scenario" approach, in continuity with that used for 2021 impairment testing. The cash flow projections have therefore been prepared using three separate macroeconomic scenarios, which have been attributed with the respective probabilities of occurrence, in line with the other significant company valuation processes, (probability test of DTAs and expected losses on performing loans).
Alongside a scenario assumed as more likely ("baseline"), a more favourable scenario was developed ("benign") and a worse one ("adverse"), to which the following respective probabilities of occurrence were assigned: 50% baseline scenario, 30% adverse scenario and 20% benign scenario, in line with the IFRS 9 process.

The projection is based on preliminary evidence from the Commercial Network and the Retail macro-segment for 2023, estimating volumes and spreads for 2024 and 2025 consistent with the growth at consolidated level approved by the Board of Directors on 20 December 2022. The projection of the Retail macro-segment shows operating income for 2023-24 higher than those calculated at the time for the 2021 impairment test (consistent with the 2021-24 strategic plan), due to the scenario of significantly higher rates, partially offset by higher adjustments to loans that factor in a macro-prudential scenario (with expectations of a significant slowdown in the economy in 2023).
Long-term profitability was then estimated using a reference long-term business growth rate of 2%, taken as equal to the nominal growth rate of the economy, in line with the inflation objective in the context of the ECB's long-term monetary stability policy.
The distributable cash flows in the explicit period (Dt) were thus determined starting with 2023-25 projections, as illustrated above, taking into consideration a minimum estimated capital level based on a Common Equity Tier 1 (CET1), representing the minimum capital level that the ECB has asked Banco BPM Group to meet on an ongoing basis upon completion of the Supervisory Review and Evaluation Process (SREP), which is 8.7%. The choice of this value is considered to be consistent with the DDM, as it represents the minimum capital threshold below which dividends cannot be distributed.

The projections for the three-year period 2023-25 used to verify the recoverability of the “Banca Akros” trademark and for Oaklins were developed in line with the three-year projections of the Group and with the preliminary figures of the 2023 budget. In particular, for Banca Akros a compound annual growth in operating income of 5.5% was calculated against substantially stable costs.
For Oaklins, a compound annual growth in operating income of 11.5% was calculated against substantially stable costs. As for the Retail CGU, the projections for the Banca Akros and Oaklins CGUs are based on three different scenarios, one more probable, one favourable and one adverse.

For the Banco BPM Vita CGU, the 2023-2025 projections were prepared by the company on the basis of scenario and new business growth indications shared with the Parent Company. The business mix confirms the trend of 2022 with a clear predominance of Class I and with a product catalogue aligned with the existing offer. The 2023-2025 projections include an increase in costs to also take into account the investments for the adoption of the new accounting standards (IFRS 17) and for the extraordinary activities linked to the insourcing of the Life insurance business in Banco BPM Group.
For the purposes of estimating distributable dividends, the maintenance of a target Solvency Capital Ratio (SCR) of 140% was considered as a constraint.

For the Bancassurance Protection CGU, the economic and financial forecasts for determining the Value in Use were prepared using as a basis the business plan included in the binding Term Sheet signed with Crédit Agricole Assurance regarding the implementation of the strategic partnership on Non-Life and Protection bancassurance.
For the purposes of estimating distributable dividends, the maintenance of a target Solvency Capital Ratio (SCR) of 130% was considered as a constraint.

<u>B.2 - Cash flow discount rates</u>

For the discounting of dividends distributable to shareholders, a cost of capital was used in line with the requested return for investments with characteristics equivalent to those being assessed. The cost of capital (Ke) was determined on the basis of the Capital Asset Pricing Model (CAPM), based on which the return of a risk asset is equal to the sum of a Risk-free rate (Rf) and a risk premium (MRP), determined taking account of the specific risk of the asset:

$$K_e = R_f + \beta \times (MRP)$$

In detail, the risk-free (Rf) component, which in any case encompasses the so-called "Country risk" is determined, using the same methodological approach followed for the Financial Report as at 31 December 2021, by using the 1-year average yield on 10-year Italian government BTPs (3.13% is the value as at 31 December 2022).
With reference to the beta coefficient (ß) - which measures the riskiness of the specific business or operating sector in terms of correlation between the effective return of a share and the overall return of the reference market - the following was used:

a) for the Retail CGU, an indicator relative to a sample of comparable companies (listed Italian banks) obtained from Bloomberg. As at 31 December 2022, the coefficient ß was 1.06;

b) for the Banca Akros and Oaklins CGUs, an average indicator relative to a sample of companies in the Investment Banking sector, obtained from Bloomberg. As at 31 December 2022 the coefficient ß was 1.12;
c) for the Bancassurance Protection CGU and the Banco BPM Vita CGU, an indicator relating to a comparable sample of companies active in the insurance sector surveyed by Bloomberg. As at 31 December 2022 the coefficient ß was 1.01.

The above coefficients have been measured, on a weekly basis, over a time horizon of 5 years.
Lastly, the risk premium requested from the market (MRP - Market Risk Premium) was determined to be 5.2%, based on the use of sources in line with measurement practices.

C. Summary of methodologies used and the main measurement parameters

In light of that illustrated above, the following table summarises the methodologies used to determine the recoverable value and the quantities of the main parameters represented by the cost of capital (Ke) and the income flows receivables factor (g) for each CGU:

CGU	Criteria used to determine the recoverable value	Discount rate "Ke"	Growth rate "g"
Retail	Value in use – Dividend Discount Model	8.62%	2.00%
Banca Akros	Fair Value – Royalty Rate	8.92%	2.00%
Oaklins	Value in use - Income	8.92%	2.00%
Bancassurance Protection	Value in use – Dividend Discount Model	8.39%	2.00%
Banco BPM Vita	Value in use – Dividend Discount Model	8.39%	2.00%

D. Summary of results

Based on the guidelines illustrated, the impairment test as at 31 December 2022 showed no need to recognise any impairment of intangible assets with an indefinite useful life. In this regard, it should be noted that the parameters and assumptions underlying the determination of the value in use are significantly influenced by the macroeconomic framework assumed.
As also specified in the paragraph "Most significant aspects for 2022 financial statement valuations" contained in "Section 5 - Other aspects" in Part A of these Notes, given the special and uncertain situation relative to the overall macroeconomic framework, it cannot be excluded that the assumptions adopted, however reasonable and prudential, might not be confirmed by future scenarios in which the Group may have to operate. In particular, any worsening of the macroeconomic scenario could adversely affect the projections of estimated cash flows, the cost of capital and the growth factor, resulting in different results from those estimated for the purposes of this Annual Financial Report.

E. Sensitivity Analysis

In compliance with the dictates of IAS 36, for each CGU a sensitivity analysis of the recoverable value was conducted, in order to calculate the variability of this value in relation to reasonable changes in the underlying parameters.

In particular, the figures shown in the tables below represent the differential (in absolute value and percentage) between the recoverable value and the reference book value, in the hypothesis of an increase or decrease in the growth rate (g) and/or the cost of capital (Ke) with respect to the rates effectively used, keeping all the remaining assumptions unchanged. Specifically, the tables show the level that the "Ke" rate should take on in order to decrease to zero the positive delta between the recoverable value and the book value, if the growth rate "g" is kept constant at 2%.
In particular, for the Retail CGU, the table below shows that an increase in the cost of capital at a value of 19.74%, combined with a decrease in the growth rate of the terminal value at 1.5% would result in a scenario of impairment.

Retail CGU: scenario probability: baseline (50%), best (20%), adverse (30%) Growth rates of terminal value "g"/Discount rates "ke" (difference between recoverable value and reference value in millions of euro) (percentage impact on the central recoverable value)					
			(Ke)		
		8.62%		19.74%	
(g)	1.50%	4,044	53.0%	-45	-0.6%
	2.00%	4,462	58.5%	-	0.0%
	2.50%	4,948	64.8%	48	0.6%

The cost of equity Ke of the Retail CGU, estimated using a 3-month and 6-month average Risk-Free rate, would be 9.74% and 9.40%, respectively, both lower than the rate that eliminates the margin.

In addition, for the Retail CGU, a sensitivity analysis was conducted with respect to cash flow projections and the cost of equity (Ke). The results of those analyses are summarised in the table below, which shows the differential (in absolute value and percentage) between the recoverable value and the reference book value, in the case of an increase or decrease in the Ke and/or the net profit with respect to the data effectively used. Specifically, the table shows the percentage reduction that there should be in the profit, with the same Ke, to eliminate the positive delta between the recoverable value and the book value (-62%). The table also shows the existence of an impairment scenario equal to the value of the Trademarks allocated to the CGU in the event of an increase in the cost of equity (Ke) of 9.99%, combined with a decrease in forecast profits of -62%.

Retail CGU (2022 financial statements scenario probability: baseline (50%), best (20%), adverse (30%) % Change in net profit/Discount rates "Ke" (difference between recoverable value and reference value in millions of euro) (percentage impact on the central recoverable value)					
			Ke		
		8.62%		9.99%	
PROFIT	5%	4,822	63.2%	3,533	46.3%
	0%	4,462	58.5%	3,233	42.4%
	-5%	4,102	53.8%	2,933	38.4%
	-62%	0	0%	-486	-6.4%

For the Banca Akros CGU, the table below shows that an increase in the cost of capital at a value of 26.3% combined with a decrease in the growth rate of the terminal value at 1.5% would result in a scenario of impairment.

Banca Akros CGU: scenario probability: baseline (50%), best (20%), adverse (30%) Growth rates of terminal value "g"/Discount rates "ke" (difference between recoverable value and reference value in millions of euro) (percentage impact on the central recoverable value)					
			(Ke)		
		8.92%		26.3%	
(g)	1.50%	43	65.8%	-0.2	-0.4%
	2.00%	47	71.8%	-	0.0%
	2.50%	52	78.6%	0.3	0.4%

The cost of equity Ke of the Akros CGU, estimated using a 3-month and 6-month average Risk-Free rate, would be 10.04% and 9.71%, respectively, both lower than the rate that eliminates the margin.
For Oaklins, the table below shows that an increase in the cost of equity at a value of 22.0% combined with a decrease in the growth rate of the terminal value at 1.5% would result in a scenario of impairment.

Oaklins: scenario probability: baseline (50%), best (20%), adverse (30%) Growth rates of terminal value "g"/Discount rates "ke" (difference between recoverable value and reference value in millions of euro) (percentage impact on the central recoverable value)					
			(Ke)		
		8.92%		22.0%	
(g)	1.50%	10	60.5%	-0.1	-0.5%
	2.00%	11	66.6%	-	0.0%
	2.50%	12	73.5%	0.1	0.7%

The cost of equity Ke of Oaklins estimated using a 3-month and 6-month average Risk-Free rate would be 10.04% and 9.71% respectively, both lower than the rate that eliminates the margin.

For the Bancassurance Protection CGU, the table below shows that an increase in the cost of equity at a value of 10.42%, combined with a decrease in the growth rate of the terminal value at 1.5%, would result in a scenario of impairment.

Bancassurance Protection CGU Growth rates of terminal value "g"/Discount rates "ke" (difference between recoverable value and reference value in millions of euro) (percentage impact on the central recoverable value)					
			(Ke)		
		8.39%		10.42%	
(g)	1.50%	35	19.9%	-6	-3.4%
	2.00%	46	26.2%	-	0.0%
	2.50%	59	33.5%	7	3.9%

The cost of equity Ke of the Bancassurance Protection CGU, estimated using a 3-month and 6-month average Risk-Free rate, would be 9.51% and 9.17% respectively, both lower than the rate that eliminates the margin.

For the Bancassurance Protection CGU, a sensitivity analysis was also conducted with respect to cash flow projections and the cost of equity (Ke). The results of those analyses are summarised in the table below, which shows the differential (in absolute value and percentage) between the recoverable value and the reference book value, in the case of an increase or decrease in the Ke and/or the net profit with respect to the data effectively used. Specifically, the table shows the percentage reduction that there should be in the profit, with the same Ke, to eliminate the positive delta between the recoverable value and the book value (-26.7%). The table also shows the existence of an impairment scenario in the event of an increase in the cost of equity (Ke) to 10.42%, combined with a decrease in forecast profits .

Bancassurance Protection / Vera Assicurazioni CGU Change in flows/Discount rates "Ke" (difference between recoverable value and reference value in millions of euro) (percentage impact on the central recoverable value)					
			(Ke)		
		8.39%		10.42%	
Profit	10%	63	36%	13	7.2%
	0%	46	26.2%	0	0%
	-5%	37	21.3%	-6	-3.6%
	-26.7%	0	0%	-34	-19.2%

For the Banco BPM Vita CGU, the table below shows that an increase in the cost of equity at a value of 11.54% combined with a decrease in the growth rate of the terminal value at 1.5% would result in a scenario of impairment.

Banco BPM Vita CGU: scenario probability: baseline (50%), best (20%), adverse (30%) Growth rates of terminal value "g"/Discount rates "ke" (difference between recoverable value and reference value in millions of euro) (percentage impact on the central recoverable value)					
		(Ke)			
		8.39%		11.54%	
(g)	1.50%	117	25.0%	-13	-2.7%
	2.00%	146	31.3%	-	0.0%
	2.50%	181	38.6%	14	3.0%

The cost of equity Ke of the Banco BPM Vita CGU, estimated using a 3-month and 6-month average Risk-Free rate, would be 9.51% and 9.17% respectively, both lower than the rate that eliminates the margin.

In addition, for the Retail CGU, a sensitivity analysis was conducted with respect to the projected income flows and the CET 1 ratio constraint for dividend distribution, while for the Bancassurance Protection CGU and the Banco BPM Vita CGU, a sensitivity analysis was conducted with respect to the cost of equity and the constraint on dividend distribution equal to the Solvency Capital Ratio (hereinafter "SCR") target. The results of those analyses are summarised in the tables below, which show the differential (in absolute value and percentage) between the recoverable value and the reference book value, in the hypothesis of an increase or decrease in the CET 1 or the Solvency Ratio and/or net profit with respect to the data effectively used. Specifically, the tables show the levels that the CET 1/% change of the profit or Solvency Ratio would have to assume to decrease to zero the positive delta between the recoverable value and the book value.
In particular, for the Retail CGU, the table below shows that in the event of a need to increase the target CET 1 to 44.25% combined with a decrease in the forecast profits by over 5%, this would result in impairment scenarios.

Retail CGU: scenario probability: baseline (50%), best (20%), adverse (30%) % change in net profit/target CET 1 constraint (difference between recoverable value and reference value in millions of euro) (percentage impact on the central recoverable value)					
		CET 1			
		8.70%		44.25%	
PROFIT	5.00%	4,822	63.2%	363	4.8%
	0.00%	4,462	58.5%	-	0.0%
	-5.00%	4,102	53.8%	-363	-4.8%

For the Bancassurance Protection CGU, the table below shows that an increase in the target SCR at a value of 381%, combined with an increase in the cost of equity at 8.39%, would result in a scenario of impairment.

Bancassurance Protection CGU Change in ke/Target SCR (difference between recoverable value and reference value in millions of euro) (percentage impact on the central recoverable value)					
		SCR			
		130%		381%	
Ke	8.1%	55	31.3%	12	6.6%
	8.39%	46	26.2%	-	0.0%
	10.42%	0	0.0%	-58	-33.0%

For the Banco BPM Vita CGU, the table below shows that an increase in the target SCR at a value of 357%, combined with an increase in the cost of capital at 8.39%, would result in a scenario of impairment.

Banco BPM Vita CGU Change in ke/Target SCR (difference between recoverable value and reference value in millions of euro) (percentage impact on the central recoverable value)					
		SCR			
		140%		357%	
Ke	8.1%	168	35.8%	30	6.4%
	8.39%	146	31.3%	-	0.0%
	10.42%	0	0.0%	-205	-43.7%

F. External signs of impairment

The measurements expressed for the purposes of preparing these financial statements are the result of an extrapolation of the economic value of the CGUs based on their specific profit capacities, not fully recognised by the financial markets. That measurement takes shape over a longer period than the one assumed by the financial community, and is not based on the particular characteristics of the current economic and financial context, though this has been duly considered.

As at 31 December 2022, Group consolidated shareholders' equity amounted to 11.4 billion (net of equity instruments), against stock capitalisation of 5.1 billion (based on the stock market prices recorded at the end of December 2022). This is by no means a new situation insofar as it also arose in previous years; in fact, stock prices indicate significant discounts for all Italian banks, even with respect to tangible shareholders' equity. The justifications are attributable to the structural misalignment between the valuations of the financial community (which, by their nature, are focused on short term objectives and estimates), as well as the methods usually used to perform impairment tests, which give a significant value to medium/long-term growth potential. In fact, the measurements expressed for the purposes of preparing these financial statements are the result of an extrapolation of the economic value of the CGUs based on their specific profit capacities, using a much longer time horizon than that used by the financial community.

10.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: generated internally		Other intangible assets: other		Total
		FIN	INDEF	FIN	INDEF	
A. Opening balance	**4,607,572**	**-**	**-**	**2,792,307**	**504,272**	**7,904,151**
A.1 Total net impairment	(4,552,714)	-	-	(2,137,715)	-	(6,690,429)
A.2 Net opening balance	**54,858**	**-**	**-**	**654,592**	**504,272**	**1,213,722**
B. Increases	**9,983**	**-**	**-**	**204,669**	**-**	**214,652**
B.1 Acquisitions	9,983	-	-	204,285	-	214,268
B.2 Increases in internal intangible assets	X	-	-	-	-	-
B.3 Recoveries	X	-	-	-	-	-
B.4 Positive changes in fair value	-	-	-	-	-	-
- shareholders' equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
B.5 Exchange gains	-	-	-	6	-	6
B.6 Other changes	-	-	-	378	-	378
C. Decreases	**(8,132)**	**-**	**-**	**(133,508)**	**-**	**(141,640)**
C.1 Sales	-	-	-	-	-	-
C.2 Value adjustments	(8,132)	-	-	(133,508)	-	(141,640)
- Amortisation	X	-	-	(128,778)	-	(128,778)
- Write-downs	(8,132)	-	-	(4,730)	-	(12,862)
+ shareholders' equity	X	-	-	-	-	-
+ income statement	(8,132)	-	-	(4,730)	-	(12,862)
C.3 Negative changes in fair value:	-	-	-	-	-	-
- shareholders' equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
C.4 Transfers to non-current assets held for sale	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	-	-
C.6 Other changes	-	-	-	-	-	-
D. Net closing balance	**56,709**	**-**	**-**	**725,753**	**504,272**	**1,286,734**
D.1 Total net adjustments	(4,560,846)	-	-	(2,277,875)	-	(6,838,721)
E. Gross closing balance	**4,617,555**	**-**	**-**	**3,003,628**	**504,272**	**8,125,455**
F. Measurement at cost	-	-	-	-	-	-

FIN: finite life
INDEF: indefinite life

With regard to the main changes recorded during 2022:

- sub-item "B.1 Acquisitions" includes the goodwill resulting from the acquisition of 81% of Banco BPM Vita and (indirectly) Banco BPM Assicurazioni; the acquisitions of other intangible assets mostly refer to software;
- sub-item "C.2 Value adjustments – Amortisation", which mostly regards the amortisation of software, includes the amortisation charge relating to the Client Relationship acquired through business combinations, for an amount of 31.2 million and the amortisation charge of the Value of Business Acquired generated by the acquisition of the insurance companies for 6.9 million;
- sub-item "C.2 Value adjustments – Write-downs" includes the impairment of the goodwill of the Bancassurance Protection CGU (8.1 million) and impairment of software no longer used (4.7 million).

10.3 Other information

As at 31 December 2022, there were no commitments relative to intangible assets.

Section 11 - Tax assets and liabilities – Item 110 of the assets and Item 60 of the liabilities

Disclosure on Deferred Tax Assets (DTA), convertible DTAs and checks on recoverability

Below is an illustration of the main categories of DTAs recognised in the financial statements as at 31 December 2022 and the checks performed to support their recoverability.

A.Deferred tax assets – breakdown

As at 31 December 2022, total DTAs amounted to 4,357.3 million (4,293.6 million as at 31 December 2021), of which 3,917.5 million had an impact on the income statement, while 439.8 million was recorded as a balancing entry in shareholders' equity, in accordance with the entries referred to. For a review of the breakdown of these DTAs, please see the table "11.1 Deferred tax assets: breakdown".

In greater detail, as at 31 December 2022, the deferred tax assets that meet the requirements of Italian Law no. 214 of 22 December 2011 ("Law 214/2011") for convertibility into tax credit amounted to 2,278.2 million (2,472.8 million as at 31 December 2021). The provisions under this law and, subsequently, under Italian Law 147/2013 (2014 Stability Law), provide for the conversion of DTAs into tax credits in the case of a "statutory loss", a "tax loss" for IRES purposes and a "net negative value of production" for IRAP purposes. For the purposes of these regulations, write-downs on loans not yet deducted based on temporal limits in effect at the time pursuant to Article 106, paragraph 3 of the Italian Consolidated Tax Law (TUIR) are included, as are negative components relative to goodwill and other intangible assets, not yet deducted according to the temporal limits in effect at the time (known as "qualified DTAs").
Specifically, as at 31 December 2022, the Group's eligible DTAs derive from:

- temporary deductible differences relative to write-downs on loans exceeding immediate deductibility limits envisaged in the tax regulations solely with reference to credit and financial entities for 1,613.4 million (1,797.8 million as at 31 December 2021);
- temporary deductible differences relative to goodwill and other intangible assets recognised in previous years for 664.8 million (675.0 million as at 31 December 2021).

It should be specified that, specifically with reference to these DTAs, their continued convertibility to tax credits is subordinate to the payment of the fee pursuant to Decree Law 59 of 3 May 2016, amended and converted into law with Law no. 119 of 30 June 2016. Italian Law no. 15 of 17 February 2017, converting the "Salva risparmio" Decree Law postponed the period for which the fee is due to 31 December 2030. In order to guarantee the convertibility of DTAs into tax credit and avoid the negative impacts that would otherwise result on Own Funds, Banco BPM Group availed of the option by paying said fee.
The fee for 2022 amounts to 27.7 million.

As at 31 December 2022, residual deferred tax assets (non-convertible DTAs) amounted to 2,079.0 million (1,820.8 million as at 31 December 2021), of which 874.9 million deriving from IRES tax losses, which can be carried forward (904.7 million as at 31 December 2021) and 1,204.1 million deriving from costs and value adjustments deductible in years subsequent to those of recognition in the financial statements (916.2 million as at 31 December 2021).
Note that not all ineligible DTAs were recognised in the financial statements by Banco BPM and its subsidiaries. The amount of DTAs not posted as at 31 December 2022 in relation to the absence of the relative assumptions came to 27.9 million, all of which refers to the Parent Company, of which 5.8 million of IRES DTAs and 22.1 million of IRAP DTAs.

A-1 Deferred tax assets - recoverability checks

In compliance with the provisions of IAS 12 and the ESMA communication of 15 July 2019, Banco BPM Group recognised Deferred Tax Assets (DTAs), after verifying that the values recognised were supported by judgements that it was probable they could be recovered. In order to make these judgements, the current tax provisions were taken into consideration, in particular with reference to rules regarding whether certain deferred tax assets can be converted into tax credits, and the Group's capacity to generate future taxable income, also taking the "tax consolidation" option into account.

As regards eligible DTAs that can be converted into tax credits, equal to 2,278.2 million - corresponding to 52.3% of the total DTAs posted in the financial statements as at 31 December 2022 - the tax regulations introduced by Italian Law 214/2011, along with the exercise of the option for the annual fee regime illustrated above make their recoverability certain. This treatment is in line with the indications contained in the Bank of Italy/CONSOB/ISVAP document no. 5 of 15 May 2012 "Accounting treatment of deferred tax assets deriving from Italian Law 214/2011".
The recognition and subsequent maintenance in the financial statements of the remaining tax assets (non-convertible DTAs), totalling 2,079.0 million, strictly depends on the ability of the Group and/or the single companies to generate future taxable income ("tax capability").

To that end non-convertible DTAs were subject to three separate recoverability tests, based on a model that predicts future taxable income, as illustrated below:

- IRES taxable income resulting from the consolidated financial statements for the ordinary IRES tax rate (24%);
- IRES taxable income at individual level for Banco BPM, for the purpose of the additional IRES tax rate applicable to banks (3.5%);
- IRAP value of production at individual level for Banco BPM, for the purposes of IRAP.

The recoverability test was conducted based on the following information and assumptions:

- Banco BPM and its subsidiaries that have recorded DTAs reflected in the consolidated financial statements operate in Italy and, as a result, reference was made to the tax regulations in force in that country;
- said tax regulations do not establish time limits on the recovery of the IRES tax loss (Art. 84, paragraph 1 of Presidential Decree 917 of 22 December 1986);
- IAS 12 does not set out a maximum time horizon for forecasting taxable income;
- the estimates of future taxable income have been made using a multi-scenario approach, by taking as a reference the most recent cash flow projections of Banco BPM Group or Banco BPM for the 2023 - 2025 period;
- the estimates referred to in the previous point have been adjusted to take account of the uncertainty that characterises the actual realisation of long-term forecasts, applying a discount factor defined on the basis of a risk premium (so-called Risk-adjusted profit approach), in line with the recommendations set out by ESMA in the aforementioned Communication of 15 July 2019;
- Deferred Tax Liabilities (DTLs) were offset by DTAs in the event that their reversal over time is expected to occur in the same year.

Below is detailed information on the assumptions used for probability testing, their outcomes and sensitivity analysis.

B.1 Estimated future taxable income

The estimate of future taxable income was based on the most recent income projections of Banco BPM and the Group for 2023-2025, approved by the Board of Directors 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.

Considering the current context of uncertainty, these projections have been made with reference to three separate macroeconomic scenarios at the date on which the above-mentioned scenarios were developed, to which a different probability of occurrence has been attributed. In detail, alongside a baseline scenario, an adverse scenario and a favourable scenario were drawn up, to which probabilities of occurrence of 50%, 30% and 20% respectively were assigned, consistent with the other valuation processes.
As at 31 December 2021, the above-mentioned probabilities were 50%, 30% and 20% respectively.
For long-term profitability, starting from 2026, we took as reference the expected income in 2025, determined by weighting the three scenarios indicated, appropriately normalised to take account of a number of components considered non-recurring. This income has been projected, starting from 2026, with an annual growth rate (g) of 2%, equal to the nominal growth forecasts of the national economy.

B.2 Adjustment of future taxable income

In order to take into account the uncertainty that characterises the actual realisation of long-term forecasts, a discount factor of 5.49% has been introduced. This factor has been defined as a function of the risk premium required by the market (MRP - Market Risk Premium), equal to 5.2%, multiplied by the Beta coefficient (ß), equal to 1.056%, i.e. the coefficient that expresses the specific riskiness of the Group's business.
In more detail, the adjustment of taxable income is obtained by discounting each year's forecasts for the discount factor of 5.49%, applied according to the compound capitalisation formula, from 2026 onwards. This formula therefore makes it possible to adjust future forecasts according to an increasing abatement factor depending on the time horizon of the estimated taxable flows.

The growth rate (g), and the parameters to factor in the uncertainty of forecasts (MRP and ß) are consistent with those considered for the impairment test of intangible assets with an indefinite life; related to the Retail CGU, as illustrated in more detail in the previous "Section 10 - Intangible assets - item 100".

B.3 Outcomes of the probability test and sensitivity analysis

Based on the valuation exercise conducted using the model described in points B.1 and B.2 above, the results are illustrated below, distinguishing between the consolidated IRES DTAs at an ordinary tax rate of 24%, IRES DTAs with an additional tax rate of 3.5% at the individual level of Banco BPM and IRAP DTAs at the individual level of Banco BPM, which represent almost all of the DTAs recognised in the consolidated financial statements.
The IRES DTAs recognised based on the ordinary tax rate of 24% as at 31 December 2022, which can be recovered through the income generated by all the companies participating in the tax consolidation, amount to 1,685.8 million. Full recovery of those DTAs is expected by the end of 2033 (11 years), in line with the results as at 31 December 2021. In the event that the projections of taxable income are not adjusted using the adjusting factor set out in point B.2 above, the full recovery of the DTAs in question would be completed in 2032 (10 years).
The IRES DTAs recognised based on the additional tax rate of 3.5% as at 31 December 2022, which can be recovered through the income generated in the separate financial statements of Banco BPM, amount to 254.8 million. The full recovery of the DTAs in question is expected to take place by the end of 2035 (13 years), one year prior to what emerged from the test as at 31 December 2021.

In the event that the projections of taxable income are not adjusted using the adjusting factor set out in point B.2 above, the full recovery of the DTAs in question may occur by the end of 2032 (10 years), highlighting a reduction of one year with respect to 31 December 2021.
Lastly, referring to the IRAP DTAs of Banco BPM in place as at 31 December 2022, which can be recovered through income generated individually by Banco BPM, of 126.0 million, the projections of taxable income show, for each year, full recovery of the DTAs from temporary differences which shall reverse in that year.

Sensitivity analysis of the consolidated IRES DTAs based on the tax rate of 24%

The model used includes assumptions and hypotheses that could significantly affect the assessments of the recoverability of the DTAs, for the IRES DTAs recognised based on the rate of 24% (1,685.8 million, equal to 87% of the total non-convertible IRES DTAs).
To this end, a sensitivity analysis was conducted on the main hypotheses and assumptions relating to the recovery time horizon; in particular, the sensitivity analyses were developed on the basis of the following factors:

- discount rate of forecasts of future taxable income: any 1.5% increase/decrease in the adjusting factor (6.99% and 3.99% respectively) would result respectively in an extension of the time horizon by 1 year (2034) and a confirmation of recovery by the end of 2033, respectively;
- long-term income growth rate (g): a reduction of 0.5% (from 2% to 1.5%) would not have significant impacts on the horizon for recovery, which would be confirmed as by the end of 2033;
- a "normalised" taxable income expected from 2026 onwards: a 10% reduction in that income would lengthen the expected return of the DTAs by 1 year.

Furthermore, as previously discussed in the event that the projections of taxable income developed based on income flows not adjusted using the adjusting factor were confirmed by the results that the Group will generate in the future, the full recovery of the DTAs, including those relating to previous years' tax losses, would be quicker, finishing in 2031 (9 years).

For the DTAs in question, the following table summarises the different time horizons for the return of DTAs in the various alternative scenarios illustrated above, compared with the recovery forecasts as at 31 December 2022 drawn up on the basis of the assumptions and hypotheses described in points B.1 and B.2 above.

Expected time horizon of return of the IRES DTAs based on the tax rate of 24%	**Risk-adjusted profit approach**					**Income projections (without discount factor)**
	Forecasts as at 31/12/2022	**Sensitivity**				
		Discount factor	**Discount factor**	**Growth factor g**	**Expected taxable income at the end of the explicit period**	
		(+1.5%)	**(-1.5%)**	**(-0.5%)**	**(-10%)**	
31/12/2027 (5 years)	36.6%	36.2%	36.9%	36.5%	35.0%	38.0%
31/12/2031 (9 years)	83.1%	79.9%	86.7%	82.3%	75.6%	100.0%
31/12/2032 (10 years)	95.3%	90.9%	99.9%	94.1%	86.4%	
31/12/2033 (11 years)	100.0%	99.7%	100.0%	100.0%	95.0%	
31/12/2034 (12 years)		100.0%			100.0%	

B.4 Considerations on DTAs relating to IRES tax losses that can be carried forward

Note that as at 31 December 2022, the DTAs deriving from IRES tax losses that can be carried forward amount to 874.9 million, compared to 904.7 million as at 31 December 2021.
With specific reference to said DTAs posted in previous years, they were recorded following the exact identification of the causes that generated the tax losses and the assessment that they would not repeat in the future on a recurring basis, in line with the provisions of IAS 12. The origin of the tax losses recorded up until 2019 is specifically attributable to the significant loan losses deemed extraordinary, recognised as part of the process of reducing the amount of non-performing loans and, to a lesser extent, to the other extraordinary charges attributable to the business combination that gave rise to Banco BPM Group (e.g. charges relating to the reduction of redundant personnel, the integration of IT systems, the rationalisation of the territorial network) or deriving from the need to favour the rescue of other banks external to the Group in order to protect the stability of the banking system. Also the loss recognised in 2020, which originated from the circumstances of the Covid-19 pandemic, was deemed to be extraordinary, as also confirmed by the extraordinary measures set in place as a reaction to said circumstance.

11.1 Deferred tax assets: breakdown

	IRES	IRAP	Other taxes	31/12/2022	31/12/2021
A) As balancing entry in the Income Statement					
A.1) Convertible DTAs pursuant to Italian Law 214/2011	**2,019,304**	**258,924**	**-**	**2,278,228**	**2,472,820**
Write-downs of loans deductible in subsequent years	1,475,010	138,400	-	1,613,410	1,797,823
Costs deductible in subsequent years deriving from the tax relief on goodwill and other intangible assets	544,294	120,524	-	664,818	674,997
A.2) DTAs - Other types	**1,574,041**	**65,225**	**-**	**1,639,266**	**1,732,318**
Tax losses that can be carried forward	874,920	-	-	874,920	904,653
ECL adjustments of FTAs pursuant to IFRS 9 on loans to customers deductible in the subsequent years	219,504	44,380	-	263,884	304,585
Provisions and value adjustments deductible in subsequent years	102,136	-	-	102,136	112,045
Personnel expenses and provisions for employee severance pay deductible in subsequent years	95,244	1,133	-	96,377	152,104
Value adjustments to real estate deductible in subsequent years	249,648	15,260	-	264,908	217,099
Book values lower than the recognised tax values resulting from value adjustments to goodwill and other intangible assets	18,957	3,864	-	22,821	24,869
Book values lower than the recognised tax values resulting from fair value measurement of financial assets	1,116	48	-	1,164	1,182
Other cases of misalignment between book and tax values	12,516	540	-	13,056	15,781
Total A	**3,593,345**	**324,149**	**-**	**3,917,494**	**4,205,138**
B) As a balancing entry in Shareholders' Equity					
Book values lower than the recognised tax values deriving from fair value measurement of financial assets measured as a balancing entry in shareholders' equity	310,332	68,634	-	378,966	24,803
Other cases of misalignment between book and tax values	51,006	9,809	-	60,815	63,687
Total B	**361,338**	**78,443**	**-**	**439,781**	**88,490**
Total (A+B)	**3,954,683**	**402,592**	**-**	**4,357,275**	**4,293,628**

11.2 Deferred tax liabilities: breakdown

	IRES	IRAP	Other taxes	31/12/2022	31/12/2021
A) As balancing entry in the Income Statement:					
Book values exceeding the recognised tax values following the process of tax amortisation or value adjustments to goodwill and other intangible assets	100,609	20,343	-	120,952	123,562
Recoveries in fair value of real estate taxable in coming years	47,326	1,647	-	48,973	38,141
Book values exceeding the recognised tax values resulting from fair value measurement of financial instruments	8,315	4,463	-	12,778	17,461
Book values exceeding the recognised tax values resulting from fair value measurement of loans to customers	9,624	1,870	-	11,494	16,651
Book values exceeding the recognised tax values following the Purchase Price Allocation at the time of business combinations	15,203	4,321	-	19,524	-
Deferred taxes on profits of investees taxable in subsequent years	-	-	-	-	-
Other cases of misalignment between book and tax values	8,843	139	-	8,982	9,548
Total A	**189,920**	**32,783**	**-**	**222,703**	**205,363**
B) As a balancing entry in Shareholders' Equity					
Book values exceeding the recognised tax values resulting from fair value measurement of owned properties and works of art	35,679	7,214	-	42,893	42,707
Book values exceeding the recognised tax values resulting from fair value measurement of financial assets measured as a balancing entry in shareholders' equity	9,081	3,334	-	12,415	45,595
Other cases of misalignment between book and tax values	321	41	-	362	257
Total B	**45,081**	**10,589**	**-**	**55,670**	**88,559**
Total (A+B)	**235,001**	**43,372**	**-**	**278,373**	**293,922**

11.3 Changes in deferred tax assets (balancing entry in the income statement)

	31/12/2022	31/12/2021
1. Opening balance	**4,205,138**	**4,446,899**
2. Increases	**125,194**	**193,108**
2.1 Deferred tax assets recognised during the year	65,429	100,200
a) relative to previous years	14,426	11,433
b) due to changes in accounting criteria	-	-
c) recoveries	-	-
d) other	51,003	88,767
2.2 New taxes or increases in tax rates	12,015	-
2.3 Other increases	47,750	92,908
3. Decreases	**(412,838)**	**(434,869)**
3.1 Deferred tax assets cancelled during the year	(368,260)	(352,948)
a) reclassifications	(352,337)	(345,495)
b) write-downs due to unrecoverability	(4,609)	-
c) due to changes in accounting criteria	-	-
d) other	(11,314)	(7,453)
3.2 Decreases in tax rates	(1)	(1)
3.3 Other decreases:	(44,577)	(81,920)
a) conversion into tax credits pursuant to Law 214/2011	(8,175)	(36,655)
b) other	(36,402)	(45,265)
4. Closing balance	**3,917,494**	**4,205,138**

11.4 Changes in deferred tax assets pursuant to Law 214/2011

	Total 31/12/2022	Total 31/12/2021
1. Opening balance	**2,472,820**	**2,576,352**
2. Increases	**-**	**-**
3. Decreases	**(194,592)**	**(103,532)**
3.1 Reclassifications	(186,417)	(66,878)
3.2 Conversion into tax credits	(8,175)	(36,654)
a) deriving from losses for the year	(8,175)	(5,863)
b) deriving from tax losses	-	(30,791)
3.3 Other decreases	-	-
4. Closing balance	**2,278,228**	**2,472,820**

11.5 Changes in deferred tax liabilities (balancing entry in the income statement)

	Total 31/12/2022	Total 31/12/2021
1. Opening balance	**205,363**	**212,338**
2. Increases	**55,756**	**127,544**
2.1 Deferred tax liabilities recognised during the year	7,766	10,767
a) relative to previous years	-	-
b) due to changes in accounting criteria	-	-
c) other	7,766	10,767
2.2 New taxes or increases in tax rates	4,690	-
2.3 Other increases	43,300	116,777
3. Decreases	**(38,416)**	**(134,519)**
3.1 Deferred tax liabilities cancelled during the year	(38,414)	(134,462)
a) reclassifications	(33,748)	(41,093)
b) due to changes in accounting criteria	-	-
c) other	(4,666)	(93,369)
3.2 Decreases in tax rates	-	-
3.3 Other decreases	(2)	(57)
4. Closing balance	**222,703**	**205,363**

11.6 Changes in deferred tax assets (balancing entry in shareholders' equity)

	Total 31/12/2022	Total 31/12/2021
1. Opening balance	**88,490**	**20,304**
2. Increases	**396,957**	**88,451**
2.1 Deferred tax assets recognised during the year	349,408	40,259
a) relative to previous years	-	-
b) due to changes in accounting criteria	-	-
c) other	349,408	40,259
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	47,549	48,192
3. Decreases	**(45,666)**	**(20,265)**
3.1 Deferred tax assets cancelled during the year	(16,815)	(1,536)
a) reclassifications	(16,559)	(1,525)
b) write-downs due to unrecoverability	-	-
c) due to changes in accounting criteria	-	-
d) other	(256)	(11)
3.2 Decreases in tax rates	-	-
3.3 Other decreases	(28,851)	(18,729)
4. Closing balance	**439,781**	**88,490**

11.7 Changes in deferred tax liabilities (balancing entry in shareholders' equity)

	Total 31/12/2022	Total 31/12/2021
1. Opening balance	**88,559**	**246,560**
2. Increases	**10,618**	**95,802**
2.1 Deferred tax liabilities recognised during the year	10,472	43,811
a) relative to previous years	-	-
b) due to changes in accounting criteria	-	-
c) other	10,472	43,811
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	146	51,991
3. Decreases	**(43,507)**	**(253,803)**
3.1 Deferred tax liabilities derecognised during the year	(43,241)	(164,645)
a) reclassifications	(43,241)	(164,645)
b) due to changes in accounting criteria	-	-
c) other	-	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases	(266)	(89,158)
4. Closing balance	**55,670**	**88,559**

11.8 Other information

Group tax situation

For an examination of the risks associated with existing disputes with the Tax Authorities and the relative developments during 2022 (new disputes arising or disputes concluded and/or settled), please see that found in Section 10 - Provisions for risks and charges - Item 100 of the Liabilities, which provide details of provisions carried out against liabilities judged to be probable, pursuant to that required under the reference accounting standard IAS 37.

Consolidated tax regime on a national basis

Banco BPM and the subsidiaries listed below exercised the right to make use of the Group taxation regime (pursuant to Art. 117 et seq. of Presidential Decree 917/1986 - TUIR - Italian Consolidated Tax Law). This option refers to all the companies in the Group which meet the requirements established under the cited law, specifically:

1. Aletti Fiduciaria S.p.A.
2. Banca Aletti S.p.A.
3. Banca Akros S.p.A.
4. BRF Property S.r.l.
5. Ge.Se.So. S.r.l.
6. Lido dei Coralli S.r.l.
7. P.M.G. S.r.l.
8. Sirio Immobiliare S.r.l.
9. Tecmarket Servizi S.p.A.
10. Terme Ioniche S.r.l.
11. Terme Ioniche Società Agricola S.r.l.
12. Oaklins Italy S.r.l.

There are no associated companies which opted for the tax transparency regime pursuant to Art. 115 et seq. of Presidential Decree 917/86.

Banco BPM VAT Group

By resolution of the Board of Directors on 25 September 2018, Banco BPM decided to establish the Banco BMP VAT Group, pursuant to Articles 70-bis to 70-duodecies of Presidential Decree 633 of 26 October 1972 ("VAT Law") and the related Implementing Ministerial Decree of 6 April 2018, effective from 1 January 2019.
In 2022 the participating companies were as follows:

1. Banco BPM S.p.A.
2. Banca Aletti S.p.A.
3. Aletti Fiduciaria S.p.A.
4. Banca Akros S.p.A.
5. BP Covered Bond S.r.l.
6. BPM Covered Bond 2 S.r.l.
7. BPM Covered Bond S.r.l.
8. BRF Property S.p.A.
9. Consorzio AT1 (**)
10. GE.SE.SO Gestione Servizi Sociali S.r.l.
11. Lido dei Coralli S.r.l.
12. Release S.p.A. (*)
13. Sirio Immobiliare S.r.l.
14. Tecmarket Servizi S.p.A.
15. Oaklins Italy S.r.l.

(*) The company was incorporated into Banco BPM in 2022.
(**) The company was excluded in 2022 due to its placement in liquidation.

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

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

	Total 31/12/2022	Total 31/12/2021
A. Assets held for sale		
A.1 Financial assets	51,860	123,943
A.2 Interests in associates and joint ventures	-	-
A.3 Property, plant and equipment	132,993	106,028
of which: obtained through the enforcement of guarantees received	78,272	23,868
A.4 Intangible assets	20,166	-
A.5 Other non-current assets	9,718	-
Total A	**214,737**	**229,971**
of which at cost	30,047	123,943
of which at fair value level 1	51,860	-
of which at fair value level 2	-	-
of which at fair value level 3	132,830	106,028
B. Discontinued operations		
B.1 Financial assets at fair value through profit and loss	-	-
- Financial assets held for trading	-	-
- Financial assets designated at fair value	-	-
- Other financial assets mandatorily measured at fair value	-	-
B.2 Financial assets measured at fair value through other comprehensive income	-	-
B.3 Financial assets at amortised cost	-	-
B.4 Interests in associates and joint ventures	-	-
B.5 Property, plant and equipment	-	-
of which: obtained through the enforcement of guarantees received	-	-
B.6 Intangible assets	-	-
B.7 Other assets	-	-
Total B	**-**	**-**
of which at cost	-	-
of which at fair value level 1	-	-
of which at fair value level 2	-	-
of which at fair value level 3	-	-
C. Liabilities associated with assets classified as held for sale		
C.1 Payables	(19,655)	-
C.2 Securities	-	-
C.3 Other liabilities	(12,076)	-
Total C	**(31,731)**	**-**
of which at cost	(31,731)	-
of which at fair value level 1	-	-
of which at fair value level 2	-	-
of which at fair value level 3	-	-
D. Liabilities associated with discontinued operations		
D.1 Financial liabilities at amortised cost	-	-
D.2 Financial liabilities held for trading	-	-
D.3 Financial liabilities designated at fair value	-	-
D.4 Provisions	-	-
D.5 Other liabilities	-	-
Total D	**-**	**-**
of which at cost	-	-
of which at fair value level 1	-	-
of which at fair value level 2	-	-
of which at fair value level 3	-	-

As at 31 December 2022, assets held for sale included the following types:

- owned properties for which sales negotiations in progress as at 31 December 2022 render probable the completion of the sales during the next year (indicated under item A.3 “Property, plant and equipment”);
- net assets attributable to the investee Banco BPM Assicurazioni S.p.A., for which a term-sheet was signed with Crédit Agricole Assurances SA for the sale of 65% of the interest, represented by assets of 81.9 million and liabilities of 31.7 million.

For further details on the accounting treatment of the sales transactions of Banco BPM Assicurazioni S.p.A., refer to the paragraph entitled “Other significant aspects relating to Group accounting policies” contained in “Section 5 - Other aspects" in Part A.1 these Notes to the consolidated financial statements.

As at 31 December 2021, assets held for sale included the following types:

- loans to customers relating to the portfolio of "salary-backed loans" disbursed by the former ProFamily and subject to sale to third parties, resolved by the competent Corporate Bodies, which was finalised in 2022 (shown in item A.1 Financial Assets);
- owned properties for which sales negotiations in progress as at 31 December 2021 rendered probable the completion of the sales during 2022 (indicated under item A.3 “Property, plant and equipment”).

For assets and liabilities indicated in correspondence with the sub-items “of which at fair value level 1/level 2/level 3”, please see that set out in “Part A.4 - Fair value disclosure”.

12.2 Other information

There is no other information worthy of note.

Section 13 - Other assets – Item 130

13.1 Other assets: breakdown

	Total 31/12/2022	**Total 31/12/2021**
Receivables due from group companies relating to the tax consolidation	-	-
Receivables due from tax authorities (not classifiable among tax assets)	3,027,302	1,919,539
Receivables for sales of goods and provision of services	18,066	21,792
Other income to be received	1,942	3,438
Cash and other values on hand	7,103	6,037
Items being processed	586,449	582,231
Items in transit between branches	6,241	9,724
Illiquid items for portfolio transactions	683	407
Securities and coupons to be settled	65,922	50,104
Other transactions to be settled	3,440	6,698
Leasehold improvements	-	-
Accrued income and prepayments not included under their own item	30,559	33,005
Other items	60,584	56,114
Total	**3,808,291**	**2,689,089**

The item “Receivables due from tax authorities” mainly includes:

- receivables resulting from claims for the refund of direct taxes totalling 311.8 million concerning:
  - receivables of 210.4 million relating to 2018, the refund of which was requested in 2019;
  - IRPEG/ILOR receivables of 94.5 million relating to 1995 of the former Banca Popolare di Novara, the refund of which was denied by the Tax Authorities - Novara Provincial Office. With regard to the dispute initiated by the former Banco Popolare, both the Provincial Tax Commission and the Regional Tax Commission accepted the appeals presented, ordering the Tax Authority to also pay legal expenses. The Tax Authority’s appeal to the Supreme Court is pending;
  - IRES and IRAP receivables of 3.6 million attributed following the liquidation of Group companies;

- receivables of 3.8 million, for which Bipielle Real Estate has requested a refund, purchased in 2003 by Fondazione Cassa di Risparmio di Pescara e Loreto Aprutino as the part payment of the transfer price of the ownership of several properties. The company has repeatedly solicited the payment by the Tax Authority of the refund of the receivables. Even though the Tax Authority initially stated that it was willing to pay them, it recently changed its position, sustaining that documentation needed to be provided proving fulfilment of the requirements for the tax subsidies reserved to bank foundations set forth in Articles 10 bis of Italian Law no. 1745/1962 and 6 of Italian Presidential Decree no. 601/1973 identified by the most recent rulings of the Supreme Court. Banco BPM, as the incorporating company of Bipielle Real Estate, again filed a petition to the Tax Authority, also assessing, based on an analysis of the deed of sale by the Foundation, any recourse against the same. On this basis, it had been considered prudent to allocate a bad debt provision last year of 50% of the amount of receivables, namely 1.9 million;
- IRES and IRAP receivables of 1.4 million relating to Banco BPM Vita, of which 1.1 million arising from declarations relating to 2018 and 2019 and 0.3 million relating to the request for reimbursement for withholdings incurred in 2005;

- IRES receivables due to non-deduction of IRAP of 0.8 million, of which 0.5 million relating to Banco BPM and 0.3 million relating to Banco BPM Vita. The receivable of Banco BPM relates to the residual amount not repaid, equal to 1.2 million of the receivable due to the former Banco Popolare. For this receivable, an appeal has been presented to the Provincial Tax Commission. Considering that critical elements emerged from the examination of the counter-arguments of the Tax Authority to the appeal submitted, a specific bad debt provision of 0.7 million had been recognised last year;
- receivables resulting from claims for the refund of VAT and indirect taxes totalling 17.6 million concerning:
  - 7.4 million relating to tax years 1998, 1999 and 2000 of the former Banca Italease S.p.A.. The dispute, initiated for a total receivable of 179.9 million, was repaid during the year in the amount of 162.2 million, following the ruling during the resumption of the proceedings of the Regional Tax Commission of 9 November 2020, filed on 17 September 2021. With the aforementioned judgement, the Commission accepted the Bank’s appeal with the exception of:
    - the amount of 1.7 million, relating to the VAT credit for the year 2000, for which the objection raised by the Office according to which there is no proof of the reimbursement due was considered valid;
    - the interest accrued on the VAT credit for the year 1999, for which the Commission denied the reimbursement of 7.7 million, considering that it concerned late payment interest. In the present case, according to the Commission, the Office should not be considered in default having requested additional documentation from the counterparty (documents relating to pending proceedings). The Bank’s defence based on the irrelevance of this documentation for the purpose of proving the existence of the VAT credit was not accepted.

      Prudentially for the amounts not recognised, a specific bad debt provision of 9.4 million had been recognised as at 31 December 2021.

      The additional amount of 7.4 million is made up of interest accrued and not yet repaid. A further appeal was filed with the Court of Cassation;
  - 7.6 million referring to the dispute of the former Mercantile Leasing S.p.A. relating to the partial refusal of the VAT refund for the first and second quarters of 2007. Of this amount, 4.4 million was requested as a refund in the declaration and is not disputed. For the amount of 6.8 million, against the refusal of the reimbursement by the Tax Authority for the amount of 3.7 million, the Bank prudentially had recognised a specific bad debt provision of the same amount in the financial statements of the previous year, although filing the dispute in any event;
  - 2.6 million refers to the compliance proceedings against the Municipality of Rome regarding the challenge to a payment injunction for INVIM (tax on increases in value of real estate) purposes relating to a real estate purchase made in 1976; awaiting refund;
- receivables recorded as balancing entries to the provisional payments made pending the final judgement of the pending tax disputes, for a total of 210.3 million, of which 201.9 million relating to the dispute concerning the claimed non-deductibility of the costs incurred in 2005 by the former Banca Popolare Italiana attributable to the attempted takeover of Banca Antonveneta;
- receivables deriving from excess advance stamp duty payments and substitute taxes applied to customers during the year and which will be recovered through offsetting in the total amount of 263.1 million;
- various receivables due from the Tax Authorities of 57.6 million mainly relating to the payment of the advance of substitute tax on capital gains;

- tax receivables connected with the interest accrued on loans disbursed to customers resident in areas hit by earthquakes for 83.0 million;
- tax credits connected with the VAT payment for 7.3 million;
- credits for Ecobonus of 1,966.9 million: the difference in these receivables compared to 31 December 2021 (817.4 million) can almost entirely explain the change in receivables due from Tax Authorities classified under "Other assets". For the accounting treatment relating to this case, refer to paragraph "Other significant aspects relating to Group accounting policies" contained in Part A - Accounting policies in the Notes to the consolidated financial statements;
- receivables for IMU of 0.4 million, of which 0.2 million relates to the merged company Release S.p.A. Prudently, last year the Bank had set aside a bad debt provision of 0.3 million; in 2022, 0.1 million of receivables were written off using this provision;
- other receivables for withholdings incurred in a higher amount than that established by the Conventions on the avoidance of double taxation on share dividends, for which refunds are expected from foreign governments of 0.6 million, net of the bad debt provision of 0.4 million that had been prudently made by Banca Aletti;
- tax receivables due from Foreign tax authorities on dividends paid of 1.6 million;
- tax credits on mathematical reserves (Law 265/02) of 106 million relating to Banco BPM Vita;
- tax credits on insurance (Law 282/04) of 0.3 million relating to Banco BPM Vita.

In light of the above, the gross value of the tax credits is 3,043.6 million and the write-downs made amount to 16.3 million. Therefore, the net value of receivables due from the Tax Authority recognised in the financial statements is 3,027.3 million.

The item "Items being processed" essentially contains sums awaiting definitive assignment and various suspended items, the amounts to be settled in clearing houses, as well as charges received from external companies relative to the payment of utilities to be settled using customer current accounts.

LIABILITIES

Section 1 – Financial liabilities at amortised cost – Item 10

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

Transaction type/Amounts	Total 31/12/2022				Total 31/12/2021			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Due to central banks	**26,332,411**	X	X	X	**39,041,403**	X	X	X
2. Due to banks	**6,304,095**	X	X	X	**6,650,175**	X	X	X
2.1 Current accounts and demand deposits	250,742	X	X	X	421,964	X	X	X
2.2 Fixed-term deposits	279,818	X	X	X	398,035	X	X	X
2.3 Loans	4,714,191	X	X	X	5,428,926	X	X	X
2.3.1 Repurchase agreements	4,526,453	X	X	X	5,062,398	X	X	X
2.3.2 Other	187,738	X	X	X	366,528	X	X	X
2.4 Payables for commitment to repurchase own capital instruments	-	X	X	X	-	X	X	X
2.5 Lease payables	683	X	X	X	6,546	X	X	X
2.6 Other payables	1,058,661	X	X	X	394,704	X	X	X
Total	**32,636,506**	**-**	**-**	**32,636,506**	**45,691,578**	**-**	**-**	**45,691,578**

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

"Due to central banks" contains all refinancing operations with the European Central Bank. As at 31 December 2022, there were TLTRO III long-term refinancing operations for a nominal value of 26.7 billion (39.2 billion in the financial statements as at 31 December 2021).

For more details, please see the section "Other significant aspects relating to Group accounting policies", found in Part A of these Notes.

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

Transaction type/Amounts	Total 31/12/2022				Total 31/12/2021			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	103,410,941	X	X	X	104,038,158	X	X	X
2. Fixed-term deposits	288,335	X	X	X	990,688	X	X	X
3. Loans	1,984,183	X	X	X	1,216,023	X	X	X
3.1 Repurchase agreements	1,460,568	X	X	X	627,845	X	X	X
3.2 Other	523,615	X	X	X	588,178	X	X	X
4. Payables for commitment to repurchase own capital instruments	-	X	X	X	-	X	X	X
5. Lease payables	627,238	X	X	X	667,326	X	X	X
6. Other payables	1,996,370	X	X	X	876,024	X	X	X
Total	**108,307,067**	**-**	**-**	**108,307,067**	**107,788,219**	**-**	**-**	**107,788,219**

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

Sub-item 3.1 "Repurchase agreements" includes transactions with Cassa Compensazione e Garanzia of 669.0 million (last year, they amounted to 309.1 million).

1.3 Financial liabilities at amortised cost: breakdown by product for debt securities in issue

Type of securities/Amounts	Total 31/12/2022				Total 31/12/2021			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. bonds	12,922,521	8,866,975	3,697,759	-	13,060,538	12,153,100	1,175,513	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	12,922,521	8,866,975	3,697,759	-	13,060,538	12,153,100	1,175,513	-
2. other securities	8,000	-	-	8,000	20,811	-	-	20,810
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	8,000	-	-	8,000	20,811	-	-	20,810
Total	**12,930,521**	**8,866,975**	**3,697,759**	**8,000**	**13,081,349**	**12,153,100**	**1,175,513**	**20,810**

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

Debt securities in issue include the covered bonds issued by Banco BPM Group with a book value totalling 6,809.4 million (compared to 6,066.8 million as at 31 December 2021).

1.4 Breakdown of subordinated debt/securities

At the reporting date, the only subordinated liabilities calculable for supervisory purposes, issued by the Group, classified under debt securities in issue at amortised cost, refer to 5 issues of securities for a book value of 1,863.6 million (in the previous year, 7 issues occurred, for a book value of 2,632.4 million).
In 2022, the Parent Company exercised the early redemption option on a “preference share” instrument (104.9 million) since, by virtue of the so-called “grandfathering”, it was no longer included in the calculation of own funds from 1 January 2022 and two subordinated securities were repaid on maturity, both with a ten-year duration and a single repayment: the first for a nominal amount of 500 million (computable as at 31 December 2021 for 57.8 million) and the second for a nominal 500 million (computable as at 31 December 2021 for 500 million).
In January 2022, a new, 10-year subordinated security was issued for a nominal value of 398 million, with a redemption option after five years, which is eligible for calculation in Tier 2 capital.

In addition to the above financial liabilities at amortised cost, the financial statement item “140. Equity instruments” includes four issues of instruments that can be calculated in additional Tier 1 capital for a total of 1,389.8 million (in the previous year, three issues were made for a total of 1,092.8 million).
The amount of additional regulatory capital was increased through a new issue of 297 million (eligible for calculation) placed in April 2022, with perpetual duration and a five-year redemption option subject to authorisation by the competent authorities.

During the year, no liability management operations were carried out referring to securities that can be calculated in regulatory capital.

Trading of own subordinated instruments was eliminated, as a consequence of the rules introduced under Delegated Regulation no. 241/2014 of the European Commission and the latest authorisation granted by the ECB to Banco BPM Group.

The features of subordinated liabilities used in calculations for regulatory purposes are indicated in the document Disclosure to the Public by Entities - Pillar III, to which reference should be made.

1.5 Breakdown of structured debt

As at 31 December 2022, as in the previous year, there were no payables which required the separation of incorporated derivatives (“structured debt”).

1.6 Lease payables

Breakdown of flows from lease contracts based on contractual duration	31/12/2022		31/12/2021	
	Due to banks	Due to customers	Due to banks	Due to customers
Up to 3 months	162	27,607	401	41,981
From 3 months to 1 year	458	83,100	1,004	104,501
From 1 year to 5 years	198	468,739	2,059	214,824
Over 5 years	-	95,811	3,738	357,636
Total	**818**	**675,257**	**7,202**	**718,942**
Time effect	**(135)**	**(48,019)**	**(656)**	**(40,681)**
Present value of lease payables	**683**	**627,238**	**6,546**	**678,261**

Section 2 - Financial liabilities held for trading – Item 20

2.1 Financial liabilities held for trading: breakdown by product

Transaction type/Amounts	Total 31/12/2022					Total 31/12/2021				
	NV	Fair Value			Fair Value *	NV	Fair Value			Fair Value *
		L1	L2	L3			L1	L2	L3	
A. On-balance sheet liabilities										
1. Due to banks	5,314,482	43,544	4,492,767	-	4,536,311	2,724,699	250,042	2,583,165	-	2,833,207
2. Due to customers	1,280,733	33,248	1,034,244	-	1,067,492	6,791,146	21,085	7,131,741	-	7,152,826
3. Debt securities	1,918,962	-	1,803,459	-	1,780,321	2,168,171	-	2,188,458	-	2,156,082
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	1,918,962	-	1,803,459	-	1,780,321	2,168,171	-	2,188,458	-	2,156,082
3.2.1 Structured	1,918,962	-	1,803,459	-	X	2,168,171	-	2,188,458	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total (A)	**8,514,177**	**76,792**	**7,330,470**	**-**	**7,384,124**	**11,684,016**	**271,127**	**11,903,364**	**-**	**12,142,115**
B. Derivative instruments										
1. Financial derivatives	-	104,146	2,670,142	-	-	-	114,755	1,841,534	-	-
1.1 Held for trading	X	104,146	2,349,902	-	X	X	114,755	1,782,756	-	X
1.2 Connected with the fair value option	X	-	320,148	-	X	X	-	58,709	-	X
1.3 Other	X	-	92	-	X	X	-	69	-	X
2. Credit derivatives	-	-	142	-	-	-	-	2,151	-	-
2.1 Held for trading	X	-	142	-	X	X	-	2,151	-	X
2.2 Connected with the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total (B)	**X**	**104,146**	**2,670,284**	**-**	**X**	**X**	**114,755**	**1,843,685**	**-**	**X**
Total (A+B)	**X**	**180,938**	**10,000,754**	**-**	**X**	**X**	**385,882**	**13,747,049**	**-**	**X**

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

The items “1. Due to banks” and “2. Due to customers” refer to technical overdrafts on securities listed on active markets, classified as level 1, and repurchase agreements classified as level 2.

Item 3.2.1 "Other securities - structured", which as at 31 December 2022 totalled 1,803.5 million, is represented by certificates issued by Banca Akros, which include protection for the premium paid by the customer or a portion of the same, unconditional with respect to the trend in the financial parameters to which they are indexed. As at 31 December 2021, the balance of these issues was 2,188.5 million.
For those issues, the change in the Group's credit risk compared to the issue date resulted in the recognition of cumulative capital losses of 23.1 million (corresponding to the difference between the fair value in the financial statements and that on the date indicated in the column "Fair value*"). As at 31 December 2021, the recognition of cumulative capital losses came to 32.4 million.
In addition, for certificates classified under financial derivatives (143.0 million as at 31 December 2022 and 168.3 million as at 31 December 2021), the cumulative effect of the change in the Group's credit risk, like in December 2021, was negative for 0.1 million. Specifically, these are conditionally protected certificates or certificates with a portion of protection of less than 50% of the premium paid.

2.2 Breakdown of "Financial liabilities held for trading": subordinated liabilities

As at 31 December 2022, technical overdrafts on securities included subordinated securities for 167 thousand euro.

2.3 Breakdown of "Financial liabilities held for trading": structured debt

As at 31 December 2022, as well as in the previous year, there were no payables which required the separation of incorporated derivatives.

Section 3 - Financial liabilities designated at fair value – Item 30

3.1 Financial liabilities designated at fair value: breakdown by product

Transaction type/Amounts	Total 31/12/2022					Total 31/12/2021				
	NV	Fair value			Fair value *	NV	Fair value			Fair value *
		L1	L2	L3			L1	L2	L3	
1. Due to banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Structured	-	-	-	-	X	-	-	-	-	X
1.2 Other	-	-	-	-	X	-	-	-	-	X
of which:										
- commitments to disburse funds	-	X	X	X	X	-	X	X	X	X
- financial guarantees given	-	X	X	X	X	-	X	X	X	X
2. Due to customers	**1,460,125**	**-**	**1,441,830**	**18,295**	**1,441,830**	**-**	**-**	**-**	**-**	**-**
2.1 Structured	-	-	-	-	X	-	-	-	-	X
2.2 Other	1,460,125	-	1,441,830	18,295	X	-	-	-	-	X
of which:										
- commitments to disburse funds	-	X	X	X	X	-	X	X	X	X
- financial guarantees given	-	X	X	X	X	-	X	X	X	X
3. Debt securities	**2,645,465**	**-**	**2,478,393**	**-**	**2,457,650**	**1,419,293**	**-**	**1,405,190**	**-**	**1,397,901**
3.1 Structured	2,635,465	-	2,467,534	-	X	1,409,293	-	1,394,416	-	X
3.2 Other	10,000	-	10,859	-	X	10,000	-	10,774	-	X
Total	**4,105,590**	**-**	**3,920,223**	**18,295**	**3,899,480**	**1,419,293**	**-**	**1,405,190**	**-**	**1,397,901**

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

Item "2. Due to customers "refers for 1,441.8 million to liabilities of the insurance companies in connection with the issue of Unit-linked policies and for 18.3 million to liabilities for assets sold and not derecognised, as illustrated above for both cases in "Part A - Accounting policies". The aforementioned liabilities refer to transactions completed in 2022, therefore as at 31 December 2021, the amount of the item was zero.

Item "3. Debt securities:" refers to several bond issues and protected capital certificates, the latter recognised under sub-item 3.1 "Debt securities: structured", as illustrated in paragraph 16 "Other information – financial liabilities designated at fair value" of Part A.2 of these Notes to the consolidated financial statements. For those issues, the change in the Group's credit risk compared to the issue date resulted in the recognition of cumulative capital losses of 20.7 million (equal to the difference between the fair value in the financial statements and the figure indicated in the column "Fair value*"), mainly referring to certificates. Cumulative capital losses as at 31 December 2021 were equal to 7.3 million.

3.2 Breakdown of item 30 "Financial liabilities designated at fair value": subordinated liabilities

As at 31 December 2022, as well as in the previous year, there were no subordinated liabilities.

Section 4 - Hedging derivatives – Item 40

4.1 Hedging derivatives: breakdown by hedge type and by level

	Fair value 31/12/2022			NV 31/12/2022	Fair value 31/12/2021			NV 31/12/2021
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives	**-**	**948,424**	**-**	**15,803,637**	**-**	**227,972**	**-**	**13,234,612**
1) Fair value	-	872,305	-	15,599,657	-	167,825	-	13,030,953
2) Cash flows	-	74,664	-	175,000	-	59,016	-	175,000
3) Foreign investments	-	1,455	-	28,980	-	1,131	-	28,659
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**948,424**	**-**	**15,803,637**	**-**	**227,972**	**-**	**13,234,612**

NV = notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3

4.2 Hedging derivatives: breakdown by portfolio hedged and type of hedge

Operations/Hedge type	Fair Value							Cash flows		Foreign investments
	Micro hedging									
	Debt securities and interest rates	Equity instruments and share indices	Currencies and gold	Credit	Commodities	Other	Macro hedging	Micro hedging	Macro hedging	
1. Financial assets measured at fair value through other comprehensive income	247	-	-	-	X	X	X	-	X	X
2. Financial assets at amortised cost	-	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	4,465	X	74,664	X
4. Other transactions	-	-	-	-	-	-	X	-	X	1,455
Total assets	**247**	**-**	**-**	**-**	**-**	**-**	**4,465**	**-**	**74,664**	**1,455**
1. Financial liabilities	130,981	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	736,612	X	-	X
Total liabilities	**130,981**	**-**	**-**	**-**	**-**	**-**	**736,612**	**-**	**-**	**-**
1. Expected transactions	X	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	-	X	-	-

Section 5 Fair value change of financial liabilities in macro fair value hedge portfolios - Item 50

5.1 Fair value change of hedged financial liabilities

Fair value change of hedged liabilities/Group components	31/12/2022	31/12/2021
1. Positive fair value change of financial liabilities	6,292	34,996
2. Negative fair value change of financial liabilities	(1,179,370)	(82,808)
Total	**(1,173,078)**	**(47,812)**

Section 6 - Tax liabilities – Item 60

This section is commented in Section 11 of the balance sheet assets, in Part B - Information on the Balance sheet in these Notes.

Section 7 - Liabilities associated with assets classified as held for sale - Item 70

The information in this section is commented in Section 12 of the balance sheet assets, in Part B - Information on the Balance sheet, in these Notes.

Section 8 - Other liabilities – Item 80

8.1 Other liabilities: breakdown

	31/12/2022	31/12/2021
Due to tax authorities (not classifiable under tax liabilities)	170,054	133,573
Due to personnel	6,443	4,247
Due to social security institutions	55,513	56,977
Due to suppliers	197,182	233,916
Items in transit between branches not attributable to specific accounts	32,807	90,679
Sums on hand to be paid to third parties	284,399	320,187
Bank transfers for clearance	1,069,297	618,554
Items related to securities transactions	462,152	56,298
Other items being processed	888,538	769,264
Adjustments for illiquid items in portfolio	24,829	1,042,158
Accrued expenses and deferred income not included under their own item	46,353	42,420
Other items	193,417	245,695
Total	**3,430,984**	**3,613,968**

"Due to tax authorities (not classifiable under tax liabilities)" includes net tax liabilities such as VAT payable, substitute tax on loans, withholdings on interest expense and income from employed work and similar, withholdings and other tax items not recognised under item 60 "Tax liabilities".

"Due to social security institutions" is mainly composed of charges relating to mandatory social security contributions.

"Bank transfers for clearance" mainly regard bank transfers to be credited.

"Items related to securities transactions" is comprised of securities cash purchase and sale transactions made between the end of one year and the beginning of the next, and amounts awaiting final allocation.

"Other items being processed" relate to transactions pending clearing or settlement.

"Adjustments for illiquid items in portfolio" includes mismatches of bills in the portfolio ("Portfolio of non-controlling interests" and "Own portfolio").

"Other items" is mainly comprised of liabilities relating to collections of F24 tax form mandates and other residual items linked to normal banking operations.

Section 9 - Provisions for employee severance pay - Item 90

9.1 Provisions for employee severance pay: annual changes

	Total 31/12/2022	Total 31/12/2021
A. Opening balance	**320,303**	**369,498**
B. Increases	**36,396**	**7,415**
B.1 Allocations for the year	6,168	2,141
B.2 Other changes	30,228	5,274
- of which business combinations	1,562	42
C. Decreases	**(98,242)**	**(56,610)**
C.1 Settlements	(23,722)	(54,154)
C.2 Other changes	(74,520)	(2,456)
- of which business combinations	(317)	-
D. Closing balance	**258,457**	**320,303**
Total	**258,457**	**320,303**

The sub-item B.1 "Allocation for the year" refers to charges recognised in item 190 a) administrative expenses - personnel expenses, sub-item 1.e) provisions for employee severance pay" in the income statement.

Among the increases, sub-item B.2 "Other changes" includes actuarial losses of 28.7 million (4.5 million as at 31 December 2021), while among decreases, sub-item C.2 "Other changes" includes actuarial gains of 70.0 million. Actuarial gains and losses are recognised as a balancing entry to the related valuation reserve of shareholders' equity "Actuarial gains (losses) on defined benefit plans" and are reported in the statement of comprehensive income.

9.2 Other information

As described in "Part A - Accounting policies", "16 Other information – Provisions for employee severance pay and other employee benefits", following the reform of supplementary pension plans, the provisions for employee severance pay recognised in the present item refer only to the portion accruing since 31 December 2006, for companies with an average of at least 50 employees in 2006, which refers to almost all Group companies.
For said companies, the provision does not include benefits that, as a result of said reform, have been paid into supplementary pension plans or the INPS Treasury Fund. The employee severance pay accruing from 1 January 2007 is considered a "defined benefit plan" and is recognised in personnel costs, based on the contributions owed, without actuarial calculations, as a balancing entry to the balance sheet item "Other liabilities" or for the outflow of cash:

- under the sub-item "severance indemnities" if paid to the INPS Treasury fund;
- under the sub-item "payments to external supplementary pension funds - defined contribution" if paid to supplementary pension funds.

Main actuarial assumptions

Actuarial measurement of provisions for employee severance pay is performed by independent external actuaries, on the basis of "accrued benefit" methodology, using the Projected Unit Credit criteria, as established in IAS 19. The table below indicates the main demographic and economic/financial assumptions used as the basis for the measurement as at 31 December 2022, compared to that as at 31 December 2021.

Main actuarial assumptions for measuring provisions for employee severance pay	
Demographic assumptions (2022-2021):	
Employee mortality rate	IPS55 with Age-Shifting demographic basis for annuity insurance
Frequency and amount of advances on employee severance pay	0.50%
Frequency of turnover	1.50%
Probability of retirement	According to the latest legislative provisions, upon reaching the first pension qualifying condition, based on the provisions of Compulsory General Insurance
Financial assumptions (2022-2021):	
Yearly discount rate	weighted average of the rates in the Eur Composite AA curve (*) 31.12.2022: from 3.71% to 3.98% 31.12.2021: from 0.43% to 1.27%
Yearly inflation rate	weighted average of the rates in the European Zero-Coupon Inflation-Indexed Swap curve (**) 31.12.2022: 2.80% 31.12.2021: 2.20%

(*) weighted average of the rates of the Eur Composite AA curve on the reporting date, using as weights the ratios of the amount paid and advanced for each maturity to the total amount to be paid and advanced up to the discharge of the population considered;
(**) weighted average rate taken as the weighted average of the rates of the European Zero-Coupon-Inflation-Indexed Swap curve on the reporting date, using as weights the ratios of the amount paid and advanced for each maturity to the total amount to be paid and advanced up to the discharge of the population considered (with reference to all the Companies in Banco BPM Group)

Actuarial gains/losses recognised in the statement of comprehensive income

As illustrated in paragraph 9.1 above, the changes to certain actuarial assumptions for the valuation of employee severance pay as at 31 December 2022, with respect to the previous year, led to an overall decrease in the provisions of 41.3 million, equal to the combined effect of the following elements:

- changes in financial assumptions, for an overall positive net effect of 62.4 million. In detail, these are gains relating to the change in the discount rate by 69.5 million and losses relating to the change in the inflation rate of 7.1 million;
- changes in other actuarial assumptions, for a net negative effect of 21.1 million. In detail, these regard actuarial losses of 21.7 million attributable to the differences between the previous demographic actuarial assumptions used and what actually occurred, and gains relating to a change in the demographic assumptions of 0.7 million.

With regards to the discount rate, which is one of the most important assumptions used in measuring obligations associated with defined benefit plans, reference was made to the returns for companies with an "AA" rating, considered to be the best expression of returns for high quality companies. In fact, the reference accounting standard IAS 19 specifies that this rate must reflect the time value of money, but not the specific credit risk of the entity, nor the actuarial or investment risk, nor the risk that, in the future, the actual figures may differ with respect to the actuarial assumptions used. Additionally, the standard states that this rate must be calculated in reference to market yields of the securities of primary companies in the country in which the entity operates (or, the High Quality Corporate Bond yield), as at the annual reporting date, and alternatively, if there is no market for such securities, with reference to market yields on government securities. Banco BPM Group uses as the discount rate the Eur Composite AA curve, using as weights the ratios of the amount paid and advanced for each maturity to the total amount to be paid and advanced up to the discharge of the population considered. In detail, only securities issued by corporate issuers included in the "AA" rating class, issued by companies in various sectors, including Utilities, Telephony, Financial, Banking and Industrial companies, were considered. As regards geographical area, reference was made to the Eurozone. The curve was taken from the information provider Bloomberg.
The increase of the discount rates is therefore attributable solely to changes in the market, since the reference parameter as at 31 December 2022, for equal plans, was the same as that seen the previous year and reflected the overall interest rate trend.

Sensitivity Analysis

As required under IAS 19, a sensitivity analysis was performed for the obligation relative to provisions for employee severance pay, with the hypothesis of a 50 basis point increase or decrease in the discount rate and the inflation rate. The purpose of the analysis is to identify how much the liability would vary in relation to reasonably possible fluctuations in this actuarial assumption.

	Change in employee severance pay in absolute terms (*)	Change in employee severance pay in percentage terms
Change in actuarial assumption:		
- Discount rate:		
+0.5%	(8,783)	(3.42%)
-0.5%	9,262	3.60%
- Inflation rate:		
+0.5%	5,723	2.23%
-0.5%	(5,569)	(2.17%)

(*) the amounts in parentheses indicate a decrease in the provision.

Section 10 - Provisions for risks and charges – Item 100

10.1 Provisions for risks and charges: breakdown

Items/Components	Total 31/12/2022	Total 31/12/2021
1. Provisions for credit risk relating to commitments and financial guarantees given	55,933	42,361
2. Provisions for other commitments and guarantees given	88,231	88,747
3. Company pension funds	99,330	124,879
4. Other provisions	486,901	620,656
4.1 legal and tax disputes	83,695	99,404
4.2 personnel expenses	263,535	382,622
4.3 other	139,671	138,630
Total	**730,395**	**876,643**

10.2 Provisions for risks and charges: annual changes

	Provisions for other commitments and guarantees given	Pension funds	Other provisions	Total
A. Opening balance	**88,747**	**124,879**	**620,656**	**834,282**
B. Increases	**11,607**	**13,618**	**147,357**	**172,582**
B.1 Allocation for the year	11,581	182	144,692	156,455
B.2 Changes due to the passage of time	-	471	104	575
B.3 Changes due to discount rate variations	-	-	-	-
B.4 Other changes	26	12,965	2,561	15,552
C. Decreases	**(12,123)**	**(39,167)**	**(281,112)**	**(332,402)**
C.1 Use during the year	-	(11,929)	(225,985)	(237,914)
C.2 Changes due to discount rate variations	-	(26,370)	(2,226)	(28,596)
C.3 Other changes	(12,123)	(868)	(52,901)	(65,892)
D. Closing balance	**88,231**	**99,330**	**486,901**	**674,462**

Item C.1 "Use during the year" includes uses executed as a balancing entry to payments for personnel expenses and amounts deriving from the settlement of clawbacks and other disputes for which specific provisions were allocated.
Item C.3 "Other changes" in other provisions is mainly attributable to recoveries relating to personnel expenses (recognised in item 190 a) "personnel expenses") and other provisions (included in item 200 b) "Net provisions for risks and charges – other net provisions").

10.3 Provisions for credit risk relating to commitments and financial guarantees given

	Provisions for credit risk relating to commitments and financial guarantees given				
	Stage 1	**Stage 2**	**Stage 3**	**Acquired or originated impaired**	**Total**
Commitments to disburse funds	21,143	7,039	15,871	299	44,352
Financial guarantees given	1,419	4,141	6,021	-	11,581
Total	**22,562**	**11,180**	**21,892**	**299**	**55,933**

10.4 Provisions for other commitments and guarantees given

Provisions for other commitments and guarantees given amounted to 88.2 million (88.7 million at the end of the previous year) and mainly refer to commercial sureties issued for customers.

10.5 Defined benefit company pension funds

Pension funds identified in the financial statements represent the liabilities relative to defined benefit plans for a value of 99.3 million and all relate to external funds.

1. Illustration of fund characteristics and associated risks

For defined benefit supplementary pension funds, determination of actuarial values, as required in application of IAS 19 "Employee Benefits", is done by independent actuaries, as illustrated in "Part A - Accounting Policies, 16 Other Information - Provisions for employee severance pay and other employee benefits".

As at the reporting date, the funds in question amounted to 99.3 million (124.9 million as at 31 December 2021). Charges for the year were allocated for 0.6 million to item 160 a) - "Personnel expenses" in the income statement and for 14.3 million as increase of the shareholders' equity valuation reserve "Actuarial gains (losses) on defined benefit plans".

Below are pension funds, identifying those of the former Banco Popolare Group and former Banca Popolare di Milano Group.

Internal funds refer to:

a) Funds included under "Banco Popolare Group defined benefit pension fund", which as of 1 April 2017 was identified as the "container" of the defined benefit pension funds relative to the former Banco Popolare Group, with guarantees from the Bank. The rules governing the amounts transferred are, nonetheless, specific details of each form:
    - commitments pursuant to the former Banca Popolare Italiana (BPI) Fund, now the Banco Popolare Group's defined benefit pension fund: this represents the value of commitments relative to 98 beneficiaries of the former Banca Popolare di Lodi, consisting of pension payments in addition to those required by law for their personnel. This fund is governed by the Regulation of 17 June 1992. As a result of the provisions of Italian Legislative Decree 124/1993, the Bank transformed the Fund with an agreement on 6 October 2000, in order to allow adhesion by personnel hired after 27 April 1993, and from 1 April 2017 the Fund was identified as the "container" for the defined benefit pension funds relative to the former Banco Popolare Group with guarantees from the Bank;
    - commitments pursuant to the former Chiavari Fund: the fund was established through an agreement with the trade union on 11 December 1986, and ensures its participants and their heirs a payment in addition to pensions provided by INPS. As at the reporting date this fund had 2 beneficiaries;

- commitments pursuant to the former Banca Industriale Gallaratese (BIG) Fund: this represents commitments to the personnel of the former Banca Industriale Gallaratese. It was established on 25 February 1986 and guarantees additional payments with respect to those required under the law in favour of those who were working for the former B.I.G. as of the stated date and is governed by the Regulations issued at the time the fund was established. On 21 August 1992, the former B.I.G. was merged by incorporation with Banca Popolare di Lodi and subsequently, those registered with the fund were given the option to transfer their position to the Banca Lodi pension fund or keep it with the original fund. As at the reporting date, there were 51 beneficiaries of the treatment;
- commitments pursuant to the former Bipielle Adriatico Fund: this is a fund integrating INPS payments for obligatory payments for invalidity, old age and heirs relative to employees of Bipielle Adriatico (former Cassa di Risparmio di Imola), established with Regulation of 29 December 1954, later amended on 29 July 1997. As at the reporting date, there were 4 beneficiaries of the treatment;
- commitments pursuant to the former BPL Fund Regulation 1961 and 1973: this represents the additional social security payment for personnel of the former Banca Popolare di Lodi, as established under the regulations of 18 April 1961 and 12 December 1973. As at the reporting date, the beneficiaries respectively totalled 5 and 11;
- commitments pursuant to the former Banca Popolare Cremona pension fund: this represents social security payments in addition to those required under the law for employees of the former Banca Popolare di Cremona, as established under the regulations of 17 June 1972. As at the reporting date, there were 4 beneficiaries;
- commitments pursuant to the former Cassa di Risparmio di Lucca Fund: this represents a fund for additional payments relative to INPS and is governed by the regulation of 2 October 1986, subsequently amended on 16 December 1988. As at the reporting date, there were 41 beneficiaries;
- commitments pursuant to the Cassa di Risparmio di Pisa Fund: this involves the commitments associated with the fund providing additional social security payments, governed with regulations of 20 April 1959. As at the reporting date, there were 19 beneficiaries;
- commitments pursuant to the former Cassa di Risparmio di Livorno Fund: this represents a fund for additional payments relative to INPS and is governed by the regulation of 3 April 1991. As at the reporting date, there were 54 beneficiaries;
- commitments relative to 33 former employees of the former ICCRI-BFE, the Bank guarantees additional INPS payments for general obligatory invalidity, old age and heir insurance pursuant to the Agreement of 19 April 1994;
- commitments to 28 beneficiaries of the additional fund for INPS payments for obligatory invalidity, old age and heir insurance for the former Banca Italease;
- commitments to 17 former employees relative to the additional fund for INPS payments for obligatory invalidity, old age and heir insurance for retired personnel of the former Banca S. Geminiano e S. Prospero, established with an agreement of 30 July 1976, with the aim of granting an additional pension to Bank employees;
- commitments to 14 former employees relative to the defined benefit fund for retired personnel of the former Banca Popolare di Verona – Banco S. Geminiano e S. Prospero, governed by the Articles of Association - Regulation pursuant to the collective understandings in effect from 1 January 1999, with the aim of providing an additional pension over that of the general obligatory insurance for Bank personnel;
- commitments to 105 beneficiaries of the former Credito Bergamasco for the provision of pension payments defined under company agreements previously stipulated with the company union representatives (additional company payment - TIA).

b) Other funds for the former Banco Popolare Group
   - commitments to 4 former executives relative to the additional fund for INPS payments for obligatory invalidity, old age and heir insurance for retired executives of the former Banca S. Geminiano e S. Prospero, established with a company agreement of 10 October 1996, with the aim of granting an additional pension over that of the general obligatory insurance to its employees;
   - commitments to 3 former executives relative to the additional fund for INPS payments for obligatory invalidity, old age and heir insurance for retired executives of the former Banca Popolare di Verona, established with an agreement of 30 July 1976, with the aim of granting an additional pension to Bank employees;

- commitments to 162 pensioners retiring prior to 1 January 1988, relative to adjustment cheques in favour of retired personnel of the former Banca Popolare di Verona e Novara and a former executive;
- commitments to employees and pensioners of the former Credito Bergamasco: this represents the value of commitments relative to 3 former employees, who receive a social security payment established under a company agreement of 10 October 1996 and company largesse approved by the Board of Directors on 29 April 1985.

c) Former Banca Popolare di Milano Group funds
   - former Banca Popolare di Bologna e Ferrara pension fund
     This is a defined benefit fund associated with the commitment made by the incorporated former Banca Popolare di Bologna e Ferrara to pay a defined benefit to employees retiring as of 31 December 1995, in line with their level of service. As at the reporting date, there were 83 beneficiaries;
   - former Banca Agricola Milanese pension fund
     This represents the commitment made by the incorporated former Banca Agricola Milanese to provide an additional pension to employees retiring as of 31 December 1972. As at the reporting date, there was only one beneficiary;
   - additional social security payment for the former Banca Popolare di Milano
     In application of the additional social security payment regulations, the commitment consists of: the recognition of an additional pension to former retired employees whose INPS pension is lower than a pre-established percentage of their salary at the same level of service (referred to as employees with integrated pensions); or, in the case the INPS pension exceeds this percentage, a monthly payment to all pensioners of 50% of a scale frozen at the values of 31 December 1991. These benefits are not paid to employees who began service after 28 April 1993 and those hired in the context of mergers. As at the reporting date, there were 4,948 beneficiaries;
   - former Cassa di Risparmio di Alessandria pension fund
     This is a defined benefit fund without legal personality and capital independence, additional (substitute only for certain special situations) to the INPS pension payment. Those enrolled with the Fund consist solely of former employees who are now retired or their heirs. As at the reporting date, there were 204 beneficiaries.

Internal funds also include the liability relating to S.I.PRE. for 0.2 million.

Statements for Banco BPM's internal funds are annexed to the Parent Company's separate financial statements.

2. Changes during the year in net defined benefit liabilities (assets) and in repayment rights

	31/12/2022
A. Opening balance	**124,879**
B. Increases	**13,618**
B.1 Social security costs relative to past work provided (CSC)	182
B.2 Financial charges due to the passage of time	471
B.3 Other actuarial losses	12,965
B.4 Losses due to discount rate variations	-
B.5 Other increases	-
C. Decreases	**(39,167)**
C.1 Use during the year	(11,929)
C.2 Gains due to discount rate variations	(26,370)
C.3 Other actuarial gains	(862)
C.4 Other decreases	(6)
D. Closing balance	**99,330**

Net actuarial gains totalled 14.3 million and were attributable to the following:
- the change in the inflation rate, which led to an actuarial loss of 3.6 million, included under item B.3 "Other actuarial losses";

- the change in the discount rate, as illustrated in Section 9 "Provisions for employee severance pay", above, which led to an actuarial gain of 26.4 million, corresponding to sub-item "C.2 Gains due to discount rate variations";
- other actuarial assumptions that led to a net loss of 8.4 million recognised for 9.3 million under sub-item B.3 "Other actuarial losses", and for 0.9 million under sub-item C.3 "Other actuarial gains".

3. Fair value disclosure on plan assets

Based on IAS 19, plan assets are those held by an entity (a fund) that is legally separate from the entity which prepares the financial statements (external fund) and which can be used solely to pay or fund employee benefits and which are therefore not available to the creditors of the entity which prepares the financial statements. On the basis of this definition, as at 31 December 2022, as well as at 31 December 2021, there were no plan assets.
For the sake of completeness, we note that certain insurance policies exist, classified under item 20 c) "Financial assets at fair value through profit and loss - Other financial assets mandatorily measured at fair value", with the objective of providing the funding needed to pay the indemnities of the plans entered into with certain executives (known as the "S.I.PRE. Plan"), for which the fair value as at 31 December 2022 totalled 0.3 million.

4. Description of main actuarial assumptions

Below are the demographic, financial and economic actuarial assumptions used for the main funds.

Main demographic and actuarial assumptions used to measure pension funds	
Demographic assumptions (2022-2021):	
Probability of death of retired or active employees	IPS55 with Age-Shifting demographic basis for annuity insurance
Financial assumptions (2022-2021):	
Yearly discount rate	weighted average of the rates in the Eur Composite AA curve (*): 2022: from 3.49% to 3.69% depending on the plan 2021: from 0.14% to 0.535% depending on the plan
Yearly inflation rate	weighted average of the rates in the European Zero-Coupon Inflation-Indexed Swap curve (**): **2022**: 2.90% **2020**: 2.30%

(*) Weighted average of the rates of the Eur Composite AA curve on the reporting date, using as weights the ratios of the amount paid and advanced for each maturity to the total amount to be paid and advanced up to the discharge of the population considered;
(**) Weighted average rate taken as the weighted average of the rates of the European Zero-Coupon-Inflation-Indexed Swap curve on the reporting date, using as weights the ratios of the amount paid and advanced for each maturity to the total amount to be paid and advanced up to the discharge of the population considered (with reference to all the Companies in Banco BPM Group).

5. Information on amounts, timing and uncertainties of cash flows

As required under IAS 19, a sensitivity analysis was performed for the obligation relative to provisions for employee severance pay, with the hypothesis of a 50 basis point increase or decrease in the discount rate and the inflation rate. The purpose of the analysis is to identify how much the liability would vary in relation to reasonably possible fluctuations in this actuarial assumption.

	Changes in defined benefit funds in absolute terms (*)	**Changes in defined benefit funds in percentage terms**
discount rate +0.5%	(3,022)	(3.04%)
discount rate -0.5%	3,216	3.24%
inflation rate +0.50%	1,738	1.75%
inflation rate -0.50%	(1,659)	(1.67%)

(*) the amounts in parentheses indicate a decrease in the provision.

6. Multi-employer plans

There are no plans of this type.

7. Defined benefit plans that share risks between entities under common control

There are no plans of this type.

10.6 Provisions for risks and charges - other provisions

10.6.1 Other provisions - legal and tax disputes

The Group operates in a legal and regulatory context that exposes it to a wide range of legal disputes, connected, for example, with the terms and conditions applied to its customers, to the nature and characteristics of the financial products and services provided, administrative errors, bankruptcy clawback actions and labour law disputes.
Banco BPM, the companies whose merger gave rise to the Group, the incorporated subsidiaries and the subsidiaries also underwent various audits by the Tax Authorities. Those activities regarded the determination of the taxable income reported for the purposes of income taxes, VAT, registration tax and, more generally, the methods of applying tax regulations in force at the specific time. As a result of those audits, Banco BPM Group is involved in several disputes.

Legal and tax disputes are specifically analysed by the Group, in order to distinguish those whose settlement is expected to require the use of resources embodying economic benefits and, as a result, will require the recognition of provisions, from the rest of the "contingent liabilities". "Contingent liabilities" are those disputes which correspond to the following, for which no provisions are recognised:

i) possible obligations, meaning that it has not been confirmed whether the entity has a current obligation that may result in the use of resources embodying economic benefits;
ii) actual obligations which, however, do not meet all the conditions for recognition set out in IAS 37 (because it is not likely that resources embodying economic benefits will be required to settle the obligation, or because no sufficiently reliable estimate may be made of the amount of the obligation).

It is noted that the information provided below regarding the claims connected with the main disputes represent the maximum risk exposure, irrespective of the opinion expressed by the Group regarding the relative degree of adverse outcome. For several of these disputes, the Group deems that there are limited risk profiles and, thus, as these are contingent liabilities, it has not allocated any provisions.

For disputes for which the entity is retained to have a current obligation that may lead to the use of resources embodying economic benefits, the disclosure on the amount of the allocation to provisions for risks and charges is not provided for single dispute in order not to cause harm to the Group in the evolution of the dispute with the counterparty, either in court or by way of settlement. In any event, the total amount of the allocations broken down by type of dispute is provided where the disputes can be grouped into categories of similar nature.
Furthermore, as permitted by paragraph 92 of the reference international accounting standard (IAS 37), the disclosure set out below does not include the information whose provision could harm the position of the Group banks involved in the actions to protect their position in the situation in the pending disputes.
As indicated in the paragraph "Significant accounting policies and uncertainties regarding the use of estimates in the preparation of consolidated financial statements", to which reference is made, the complexity of the situations and corporate transactions that form the basis of the disputes entail significant elements of judgement which may involve the existence and the amount, and the related timing for the liabilities to arise. In that regard, to the extent that the estimates made by the Group are deemed reliable and compliant with the reference accounting standards, it cannot be ruled out that the charges which may arise from the settlement of disputes may differ, also by significant amounts, from the amount of the provisions allocated.

The provisions allocated against all existing legal and tax disputes, including cases associated with clawback actions, total 83.7 million.

Legal disputes with customers

The high number of disputes prevents us from providing a detailed list, while their diverse nature makes it extremely difficult, if not impossible, to group them into categories of similar nature.
Below, a brief description is provided of the developments during 2022 of the main legal disputes, whose settlement is deemed could entail a probable or possible use of financial resources.

- On 10 July 2019 a customer, along with several of his family members, summoned Banco BPM before the court to obtain total compensation for damages of around 21 million for having allowed a proxy/delegate of the customer to carry out a series of unauthorised transactions on various current accounts and securities portfolios. With its ruling of 11 January 2023, the Milan Court of Appeal confirmed the decision in favour of the bank handed down by the Court of Milan in 2020. The terms for the appeal to the Court of Cassation are pending.
- On 18 July 2019, the heirs of a customer summoned Banco BPM before the court to request the cancellation of several transactions, mainly financial in nature, which were allegedly carried out on accounts held by the customer without authorisation and in violation of the MiFID regulations. The counterparties requested that the Bank be ordered to return a total amount of around 37 million. The lawsuit is pending before the Court of Milan.
- On 28 October 2019 Società Cooperativa Agricola Centro Lazio summoned Banco BPM before the court to verify the liability of the Bank which, based on the reconstruction by the adversary, allegedly demanded excess guarantees in providing several agricultural loans, initiated repayment of one of the loans granted in advance and forced the company to cease operating its own plant. The counterparty also submitted claims for damages for 40 million relating to the alleged damages incurred due to the claimed negligent business conduct carried out and requested that the loan contracts and related mortgages be declared null and void. In December 2022, proceedings were terminated without any economic impact for Banco BPM as a result of a settlement agreement.
- On 20 December 2019 Banco BPM was summoned, along with a pool of banks, by the receivership of Privilege Yard for the alleged unlawful granting of credit which, according to the counterparty, was granted based on a business plan defined as unlikely, due to the clear inability to repay the loan, and the lack of suitable guarantees. The receivership requested that the liability of the banks be verified for collusion in the mala gestio (poor management) by the directors of Privilege Yard, ordering them to jointly pay compensation for the damages of around 97 million (Banco BPM share 27 million). The lawsuit is pending in the initial stage before the Court of Rome. On 11 October 2022, the conviction ruling was issued for the banks jointly and severally for the all-inclusive sum of 57.1 million; following the injunction served to all the losing parties, Banco BPM paid an amount including legal costs of 11.6 million. The Bank, in agreement with all the other banks mentioned, challenged the ruling by filing an appeal to the Court of Appeal of Rome on 6 December 2022.
- On 4 February 2020, Malenco S.r.l. summoned Banco BPM before the court, together with another bank that led the pooled operations, in relation to the granting of loans for the construction and completion of a property complex. The company requested that the invalidity of the loans be ascertained for allegedly exceeding the usury threshold rate and the invalidity of the derivative contracts taken out to hedge the loans granted, with a request to order Banco BPM to pay the sum of 31 million, 10 million of which together with the other bank. The Court of Rome, with ruling of 21 November 2022, fully rejected the claims of Malenco. The appeal proceedings are pending.
- Società Agricola La Meridiana S.r.l. in liquidation, with sole shareholder Realfin Group S.p.A., now bankrupt, summoned Banco BPM before the court on 17 January 2022, disputing the alleged unjustified granting of a loan of 14 million in 2006 secured by a mortgage. It is argued that the purpose of the loan was to cause the appearance of a restructuring of the company for the sole purpose of re-evaluating the value of the shareholding of the sole shareholder Realfin Group, so as not to have to write down the receivable from the latter. The loan allegedly worsened the financial situation of Società Agricola La Meridiana, which seeks the Bank's sentencing to provide compensation for damages of 18 million. The Court of Milan, with final ruling of 13 October 2022, rejected the counterparty's claims in full.
- The Companies I.F.I.T. S.r.l. and S.I.R.O. S.r.l. on 14 February 2022 summoned Banco BPM before the court to obtain the revocation of a pledge made by the other two defendants in the case, Luigi Servidati and Fabio Planamente, former managers of the group, as a guarantee for a loan of 23 million granted to the company Cantiere del Pardo S.p.A. The plaintiffs claim damages of approximately 15.2 million, an amount for which they obtained a precautionary seizure against the same two former managers (later

shareholders), for having transferred ownership of Cantiere del Pardo to third parties. The lawsuit is pending in the initial stage before the Court of Bologna.

- On 23 December 2022, the extraordinary receivers of Società Italiana per Condotte d'Acqua S.p.A. summoned the members of its Management and Supervisory Boards, the auditing firm and the banking class, including Banco BPM, and some insurance companies to court, to obtain a joint and several sentence of all defendants to pay the sum of over 389 million. The amount is requested by way of compensation for the alleged damages also caused by the abusive granting of credit by the banking class, which would have allowed the company to continue to operate despite the crisis situation, also causing the serious impoverishment of the company's net assets.
- The subsidiary Partecipazioni Italiane in liquidation, as the former owner of land located in Pavia that was the industrial site of the former Necchi S.p.A., (which ceased business operations many years ago), was the subject of an order of the Province of Pavia which requested that the subsidiary, as the party "historically" responsible, along with another party, carry out the reclamation and containment of that area, which for many years now has been owned by third parties outside Banco BPM Group.
  The Lombardy Regional Administrative Court rejected the appeal of the subsidiary against the order of the Province; the ruling on the appeal before the Council of State is pending, for which the public hearing on the merits has not yet been scheduled.
  Within the parallel environmental proceedings, both some of the current owners of the various portions of the former Necchi site and Partecipazioni Italiane submitted autonomous area characterisation plans. Considering the various positions of the parties, new administrative proceedings arose which are currently pending before the Lombardy Regional Administrative Court, with the involvement of the Municipality of Pavia, the Province of Pavia and the Lombardy Regional Environmental Protection Agency as well, and for which the public hearing on the merits has not yet been scheduled.
  With regard to one of the portions of the site, on 7 March 2022, a settlement agreement was finalised with one of the current owners, regarding the reclamation of the portion of the former Necchi area it owns. The agreement envisages, inter alia, the contribution of Partecipazioni Italiane to bearing the reclamation costs for an amount of 1.4 million plus VAT (half of which already paid at the time of finalisation of the agreement and half to be paid to the counterparty on announcement of the start of the reclamation activities), already accounted for in the financial statements as at 31 December 2021.
  For the portion of the former Necchi area owned by INAIL and currently occupied by the Pavia Police Headquarters, through the technical consultant WSP Italia S.r.l. (formerly Golder Associates S.r.l.), the subsidiary completed the characterisation activities of the portion of the area, as per Characterisation Plan approved by decision of the Municipality of Pavia on 21 March 2022. As a result of the above-mentioned activities, WSP Italia estimated the costs for the probable future activities and for the reclamation as 160 thousand euro plus VAT, recognised in the financial statements as at 31 December 2022.
  For the other two areas into which the site is divided, given the uncertainty of the interventions to be carried out, it is not possible to reliably estimate any expenses borne by the investee, even within a certain range.

In light of the successful outcomes in the courts of first instance and/or the existence of valid grounds on which to challenge the claims made by the claimants with regard to proceedings under way, the claims classified as possible but unlikely amount to a total of 334.8 million.
Claims classified as probable amount to a total of 248.8 million, against which 59.6 million has been allocated under the item Provisions for risks and charges.

<u>Clawbacks - lawsuits initiated for bad loans</u>

The high number of disputes prevents us from providing a detailed list, while their diverse nature makes it extremely difficult, if not impossible, to group them into categories of similar nature.
Below, a brief description is provided of the developments during 2022 of the main legal disputes, whose settlement is deemed could entail a probable or possible use of financial resources.

- CE.DI.SISA Centro Nord S.p.A. (in liquidation) – On 5 August 2020 the Bank was summoned for a liability action against Directors, Statutory Auditors, the Independent Auditors and consultants of the bankrupt company and the banks that colluded with the management body in aggravating liabilities. The Bank, which never granted loans but operated through advances on invoices, lodged a preliminary objection to the statute of limitations of the claim formulated. The total remedy sought against all the banks is 120 million. The hearing for the examination of the court-appointed expert is scheduled for 24 January 2024.

- Presidency of the Council of Ministers/Left-wing Democrats: following the appeal by means of an injunction requested against Left-wing Democrats (bad loans) and the Presidency of the Council of Ministers (guarantors of the Left-wing Democrats by virtue of sureties) for 3 pooled loans (of which one leading bank Efibanca and a further two investees) for a total of 26.5 million, opposition to the injunction was submitted in 2015; the courts of the first and second instance rules in favour of the Banks, at the same time rejecting the challenges of the injunction. The ruling of the appeal was not challenged in the Supreme Court by the parties, but for the Barletta section of the Left-wing Democrats, the decision is still pending, with the next hearing set for 19 January 2024.
- La Redenta Società Cooperativa Agricola - The Bank received a summons for 4 September 2018 for a liability action, together with the Directors, Statutory Auditors and another 6 banks, who were alleged to have acted in complicity to increase liabilities. The total remedy sought against all the banks is 20 million. The court of the first instance ruled in the Bank's favour, and rejected the claims of the plaintiff. An appeal was filed against the ruling by the counterparty; at the hearing for closing arguments held on 28 September 2022, the judge took the case under advisement.
- Ecorecuperi S.r.l. in liquidation - In August 2014, the Bank received a summons, together with another 4 banks and the Directors for contractual liability and compensation of damages in favour of the Receivership for 17.8 million (equal to total bankruptcy liabilities) due to loans granted. The courts of the first and second instance ruled in favour of the Banks, and rejected the claims of the plaintiff; the ruling on appeal was challenged with an Appeal in the Supreme Court. The judgement in the Supreme Court ended with a ruling filed on 14 February 2022 which declared inadmissible the appeal of the receivership against the ruling of the Court of Appeal of Perugia.
- Compagnia Finanza e Servizi (Co.fi.se.) S.r.l., Tabellini Paolo - On 8 November 2016, the Banks received a summons, together with Alba Leasing, for contractual liability, causation and increasing the damages suffered by the company for a total of 15 million. The court of the first instance and appeal proceedings concluded with rulings in the Bank's favour, which rejected the claims of the plaintiff. The ruling on appeal was challenged by the counterparty with an Appeal in the Supreme Court. Banco BPM is waiting for a hearing to be scheduled.

In light of the successful outcomes in the courts of first instance and/or the existence of valid grounds on which to challenge the claims made by the claimants with regard to proceedings under way, the claims classified as possible but unlikely amount to a total of 18.6 million.
Claims classified as probable amount to a total of 24.8 million, against which 5.7 million has been allocated under the item Provisions for risks and charges.

Tax disputes

The total claims made by the Tax Authorities as part of the tax disputes initiated involving Banco BPM and its subsidiaries amounted to 225.0 million[1] as at 31 December 2022 (unchanged compared to claims as at 31 December 2021). During the year, no new claims arose, nor did any events change the amount of the claims already existing at the beginning of the year.

Details of pending disputes as at 31 December 2022

The main tax disputes pending as at 31 December 2022 (with claims equal to or exceeding 1 million) are as follows:

- Banco BPM (former Banca Popolare di Verona e Novara Soc. Coop.) - tax demand regarding IRAP tax paid to the Regional Headquarters for Veneto for 2006. The claim refers to the application of the ordinary rate of 4.25% to the net value of production resulting from business activities performed in Veneto and in Tuscany, instead of the higher rate of 5.25% and amounts to a total of 7.1 million. The tax demand has been challenged. The Provincial Tax Commission partially accepted the appeal, declaring that the fines

[1] Note that said amount does not include the disputes with an immaterial unit amount, mainly comprised of local taxes. It is also noted that, with the exception of the assessments relating to 2005 of the former Banca Popolare Italiana and the liabilities classified as probable, the estimate of contingent liabilities relating to the notices of assessment does not include any interest to be paid in the event of losing the lawsuit. The estimate of contingent liabilities relating to formal reports on findings served or being served other than those classified as probable does not include interest or fines.

imposed are not due. The Regional Tax Commission confirmed the first instance judgement, also cancelling the tax demand relating to the additional IRAP referring to the Tuscany Region. On 18 January 2023, the ruling of the Court of Cassation was published, which recognised the validity of the appeal filed by the Bank for the effective lack of a specific provision of regional law that exempts, for tax year 2006, the system suspending the application of the increase in the IRAP rate set forth by state law. However, the Court pointed out that following the suspension of the effectiveness of the increase in the IRAP rate for 2002 for banks and insurance companies, it believes that the rate of 4.75%, already envisaged at national level for 2002 by Art. 45, paragraph 2 of Italian Legislative Decree no. 446 of 1997, should be applied instead of the ordinary rate of 4.25%. The Court therefore overturned the decision of the Regional Tax Commission, referring to the second instance Tax Court of Veneto, which will have to redetermine the Bank's tax liability by applying the rate of 4.75%. The dispute is therefore still pending due to the referral to the Regional Tax Commission. However, the latter will no doubt reduce the amount of the claim and order the consequent reimbursement of the taxes and relative interest already paid following the ruling overturned.

- Banca Akros - formal notification received in December 2021 relating to the alleged infringement of the transmission obligations to the Tax Authority envisaged by Article 1, of Italian Decree Law 167 of 1990 with the application of the minimum sanction envisaged by Art. 5, paragraph 1, for the amount of 2.3 million. On 30 November 2022, the Office served a decision to impose penalties with which it rejected the defensive arguments made by the Bank and imposed a penalty of 2.3 million against it. Considering the reasons contained in the decision to impose penalties contradictory and unfounded, on 30 January 2023, the Bank filed an appeal to the Milan Tax Court of first instance.
- Banco BPM (former Banca Popolare Italiana Soc. Coop.) - notices of assessment relating to tax year 2005 regarding the claimed non-deductibility for IRES and IRAP purposes of costs and value adjustments to receivables relating to facts or actions classified as offences (regarding offences of false corporate reporting, obstacles to supervision and market turbulence alleged to have been committed by Banca Popolare Italiana with relation to the attempted takeover of Banca Antonveneta). The claims amount to 199.8 million (including interest and tax collection fees). With separate judgements filed on 15 October 2014, no. 8,562 (IRES) and no. 8561 (IRAP), the Section 22 of the Provincial Tax Commission of Milan fully rejected the appeals submitted by the Bank, though not justifying in any way the rationale underlying the confirmation of the tax demand. Said judgement was appealed against before the Lombardy Regional Tax Commission. The discussion of the appeals filed on 3 February 2015 was held before Section 2 of the Milan Regional Tax Commission on 6 May 2015. With judgement no. 670 filed on 19 May 2015, also lacking adequate justification, the Commission rejected the joint appeals submitted and confirmed the challenged judgements. On 18 December 2015, an appeal was submitted to the Supreme Court, which is still pending.

  The notices illustrated were followed by additional notices of assessment served on 22 December 2014 relating to the formal report on findings dated 30 June 2011 for tax years 2006-2009. The claims contained in these notices also regard the claimed non-deductibility for IRES and IRAP purposes of the costs deemed attributable to facts or actions classified as offences. More specifically, they regard value adjustments on loans already disputed with reference to tax year 2005. Said value adjustments, although recognised by Banca Popolare Italiana in its financial statements for 2005, were deductible on a straight-line basis over the following 18 financial years pursuant to the version in effect at the time of Art. 106, paragraph 3 of Italian Presidential Decree no. 917 of 22 December 1986. The notices of assessment served therefore charge the claimed non-deductibility of the portions of those adjustments to loans deducted in 2006, 2007, 2008 and 2009. Total claims amount to 15.8 million. An appeal has been presented to the Provincial Tax Commission. The Commission suspended the proceedings until the final judgement of the Supreme Court is passed on the notices of assessment relating to 2005, pursuant to the previous point. The claims illustrated, which amount to a total of 215.6 million, were carefully assessed by the Bank in light of the negative rulings made in the courts of the first two instances. In that regard, it must firstly be noted that, in the parallel criminal proceedings initiated against the parties that signed the tax returns for the offence of inaccurate tax return (offense founded on the same charges contained in the notices of assessment in question), the judge issued a judgement of acquittal of the defendants "because there is no case to answer". Even though the criminal proceedings are independent from the administrative disputes, which, thus, may conclude with a different result, it is noted that, in the operative part of the ruling, the criminal judge justified his decision using the arguments analogous to those formulated by the Bank in its defence in the appeals submitted in the administrative proceedings illustrated. Furthermore, an analysis of the order and the content of the ruling of the Regional Tax Commission shows that the Commission's decision on the

merits of the case contains no specific justification and is based on a mere reference to the Authority's claims, with no express indication of the reasons for its decision not to accept the precise arguments laid out by Banco Popolare in support of its appeal.
In the light of these analyses and considerations, it being believed that there are grounds to challenge the ruling as, in fact, all the defensive arguments regarding aspects of legitimacy not considered by the judges in the first and second instances can be submitted again to the court, on 18 December 2015, the afore-mentioned appeal was lodged with the Supreme Court.
The in-depth analyses of the situation conducted with the support of the advisors assigned to draw up the appeal, as well as the additional opinions requested from other authoritative experts on the matter confirmed the belief that the claim of the Tax Authority is illegitimate and the possibility to finally see the defensive arguments considered and agreed with in the proceedings before the Supreme Court is unchanged. The same analyses were conducted by the Board of Directors to confirm the classification of the claim as a potential liability, as the risk of losing the lawsuit is possible but not probable. In light of the evaluations carried out, no provision has been recognised for the above contingent liabilities in the financial statements as at 31 December 2022.

Audits in progress as at 31 December 2022 conducted on Group companies

On 5 December 2019, as part of a wider tax audit of a company external to Banco BPM Group, the Italian Tax Police launched an audit for the purposes of direct taxes and VAT of Banco BPM for the tax year 2017. The audit was suspended due to the emergency situation relating to the Coronavirus.

On 2 March 2020, the Italian Tax Authority - Regional Department of Lombardy had informed, in compliance with the principles set forth in the taxpayers' statute, that it intends to initiate a tax audit for the purposes of IRES, IRAP, VAT and withholding tax obligations for the year 2016 of the subsidiary Banca Aletti. By subsequent communication of 6 March, the Authority decided to postpone the opening of the verification until a date to be defined in relation to the emergency situation related to the Coronavirus. During the year 2022, there were no new communications from the Tax Authority.

On 21 September 2022, the economic and financial police unit of the Italian Tax Police initiated an audit of IRES and IRAP against Banca Akros and in order to verify the application of substitute tax pursuant to Presidential Decree 600/1973 for the 2016 tax period. The audit was completed on 19 January 2023. In the report on findings drawn up on that date, it was indicated that the audit did not lead to any findings.

As illustrated in the section dedicated to significant events after the end of the year, 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.

10.6.2 Other provisions - personnel expenses

These amounted to 263.5 million and include the amount (net of the payments made in 2021-2022) of 144.7 million (originally equal to 257.0 million) allocated for the charges expected for the use of the extraordinary benefits of the Solidarity Fund and for early retirement incentives following the agreements reached with the trade unions announced to the market on 30 December 2020 for early retirement on a voluntary basis of more than 1,600 resources.
This item also includes: i) the estimated expense deriving from the expected payment of variable remuneration in compliance with the provisions of the Group's incentive systems; and ii) the estimate relating to other disbursements planned in favour of the staff (e.g., loyalty bonuses, non-competition agreements, etc.).

10.6.3 Other provisions - other

This residual category of provisions amounts to a total of 139.7 million and mainly includes allocations against the following liabilities:

a) risks associated with disputes and claims, both pending and expected, associated with operations with customers and possible developments in the interpretation of certain regulations governing banking activities (45.3 million);

b) estimate of probable reimbursements of fees consequent to the possible early termination of insurance policies by customers (21.1 million);
c) risks associated with commitments undertaken as part of partnership agreements and guarantees granted against the disposal of interests or other assets or groups of assets (30.8 million);
d) risks associated with guarantees given for sales of non-performing loans already finalised as at 31 December 2022 (17.2 million);
e) charges relating to the restructuring of the distribution network (8.5 million).

Category a) includes the provision made against residual risks associated with reporting activities carried out of customers interested in purchasing diamonds to the specialised company Intermarket Diamond Business S.p.A. ("IDB"). Almost all of those reporting activities were carried out from 2003 to 2016 and, thus, prior to the merger that gave rise to Banco BPM. That activity was suspended in the initial months of 2017 and then definitively stopped.
With regard to these operations, a criminal proceeding was initiated before the Public Prosecutor's Office of Milan, with relation to which, on 19 February 2019 the Public Prosecutor's Office of Milan served to the Bank (i) a preventive seizure order for a total of 84.6 million and (ii) a notice of investigation to Banco BPM and Banca Aletti under the terms of Italian Legislative Decree 231/2001 for an administrative offence for the predicate crimes of self-laundering and to Banco BPM for the allegation of obstructing the performance of the functions of the public supervisory authorities. The Public Prosecutor's Office also charged several former managers and employees of the Group with the crimes of aggravated fraud, self-laundering, obstructing the performance of the functions of the public supervisory authorities and corruption between private parties. In February 2021, a request was filed for the committal for trial of the defendants for the various offences charged, including the administrative offences pursuant to Italian Legislative Decree 231/2001 with respect to Banco BPM and Banca Aletti.
During the preliminary hearing which began on 19 July 2021, the Judge established that it had no jurisdiction for the proceedings that involve the former managers and employees of the Group in relation to the crimes of aggravated fraud, self-laundering and obstructing the performance of the functions of the public supervisory authorities. The Court of Milan only has jurisdiction for the crime of corruption between private parties with which a former manager of the Bank has been charged.
Furthermore, the Judge, accepting the petitions submitted by Banco BPM and Banca Aletti and at the end of the preliminary hearing, on 8 April 2022 handed down a ruling applying the penalty at the request of the parties under the proposed conditions, thus applying the financial penalty of 240 thousand euro to Banco BPM and 56 thousand euro to Banca Aletti, at the same time ordering the confiscation of only the profit of the predicate offense of self-laundering, equal to 293 thousand euro, already subject to a real precautionary restriction. Furthermore, again with a measure dated last 8 April, the Judge ordered the release of the sum of 500 thousand euro initially subject to a real restriction for the case of corruption between private parties, ordering its return to the Bank.
With regard to the residual amounts involved in the seizure amounting to 83.8 million for the crime of aggravated fraud, the Prosecutor's Office of Verona was identified by the Court of Cassation as having territorial jurisdiction to proceed as a result of the conflict of territorial jurisdiction raised. Public Prosecutor's Office of Verona will also have to decide whether to initiate a new criminal action, with regard to the cases of aggravated fraud, self-laundering and obstructing the exercise of the functions of public supervisory authorities.
As illustrated in the section dedicated to significant events after the end of the year, on 16 February 2023 the Verona Public Prosecutor's Office ordered the release from seizure 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.

These situations resulted in the receipt of a high number of complaints from the Group customers involved and the launch of disputes in civil court. In this regard, also with a view to standing by to its customers, the Group has implemented a large-scale customer care initiative over the last few years, aimed, if necessary, at finalising transactions by providing a free service for assistance to customers in submitting requests to the bankruptcy receiver for the return of stones and, lastly, for the return of diamonds in custody at the vaults managed by the IDB bankruptcy. As at 31 December 2022, over 24,000 claims had been received, and over 1,300 disputes notified (partly preceded by a claim) for total relief sought of around 718.4 million.
At the same date, due to the previously illustrated management and customer care activities, claims and disputes were resolved, through a settlement or the issue of a final ruling, for total relief sought of 636.8 million.
Against the claims and disputes, both those not yet defined and those potentially estimated, the sub-item in question includes the specific provision recognised against the above disputes with customers amounting to 41.5 million as at 31 December 2022.

The total provision made over the years, from 2017, was 390 million, against which drawdowns for refunds to customers of 348.5 million were made.
As at 31 December 2021, the provision amounted to 67.9 million; during 2022, drawdowns for refunds of 30.8 million were made, and a further provision of 4.4 million was added, to take into account the updated estimates relating to the total expected remedy and the percentages of compensation.

Item a) also includes a provision of 3.8 million relating to the estimated reimbursements to customers following bank transparency checks and Constitutional Court ruling no. 263 of 22 December 2022 on the repayment to customers of up-front costs relating to the early termination of certain loan agreements.

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

Item d) represents the provision allocated against risks associated with certain guarantees granted to the buyer at the time of disposals of interests, assets and groups of assets which have already been completed and as part of partnership agreements signed, as better specified below.

To this end, we can note that, in the context of the contracts signed at the time of the disposal of interests or business segments finalised in previous years, as well as any correlated partnership agreements, there are investment protection and guarantee mechanisms for the buyer. In detail, those mechanisms provide for the possible payment of indemnities to the buyer/partner in the event that specific business targets are not reached, setting out limits, deductibles, grace periods and exceptions in favour of Banco BPM Group. Certain protection and guarantee mechanisms shall remain in force until the end of the partnership.
A list is provided below of the main operations finalised for which the sale agreements and/or related partnership agreements envisage obligations for Banco BPM Group to pay potential indemnities:

- sale finalised in 2017 of the controlling interest in Aletti Gestielle SGR to Anima Holding;
- the sale finalised in 2018 of the contracts relating to delegated insurance asset management mandates placed through Banco BPM Group network to Anima SGR;
- sale finalised in 2018 (the agreements of which were significantly revised in the course of 2021) of a share of 65% of the equity interests held in the insurance companies Popolare Vita and Avipop Assicurazioni (now named Vera Vita and Vera Assicurazioni, respectively) to Società Cattolica Assicurazioni;
- the sale of a business unit relative to custodian bank business segment to BNP Paribas Securities Services in 2018 and the consequent revision of the obligations established at the time of the sale of the custodian bank business segment of the former Banca Popolare di Milano to the same buyer in 2010;
- the sale finalised in 2015 of the subsidiary B.P. Luxembourg S.A. to Banque Havilland.

Where, based on the objectives reached and reported and the future projections of their evolution, it is deemed probable that indemnity will be paid to the buyer counterparty. The amount of the estimated liability has been allocated to the provisions for risks and charges in question.

With reference to the agreements with Cattolica Assicurazioni, during 2021 an important agreement was entered into which revised the terms and methods of continuation of the partnership. Please refer to the "Interests in associates and joint ventures - Item 70" section of these Notes for a more complete disclosure regarding the put and call option agreements relating to the transfer of interests. As regards business targets, the new agreement establishes the waiver of all claims concerning the period 2018-2020 and introduces a new system of penalties and additional commissions for the period between 1 January 2021 and the quarter prior to the transfer of the interests.
Since the option exercise prices (described in the "Interests in associates and joint ventures - Item 70" section of these Notes) were calculated taking into consideration amounts that - at the date on which the new agreements were entered into (March 2021) - would be due to Cattolica, it is deemed that the provision of 12.5 million in place as at 31 December 2021 should continue to be maintained as at 31 December 2022 as well, as implicitly included in the new contractual terms.

As regards the commitments relating to the new commercial targets envisaged by the new agreements, as at 31 December 2022, the targets were deemed achievable and consequently the use of financial resources for the payment of penalties/indemnities cannot be predicted.

With reference to the agreements with Anima Holding, on the basis of the amending agreements reviewed in 2020, a system of penalties is envisaged in the event of failure to achieve the Net Funding targets set for the two periods January 2020 – December 2022 and January 2023 – February 2025. Since the target for the first sub-period (January 2020 - December 2022) was not reached, a provision for a total of 18.3 million was made to take into account the net funding gap. It should be noted that this penalty may not be due if the Net Funding deficit recognised in the first sub-period is offset by any surplus recorded in the second sub-period (January 2023- February 2025).

Item d) refers to the amount allocated to cover probable future financial disbursements for guarantees granted as part of sales of non-performing loans finalised in 2022 and previous years.

Lastly, item e) refers to the rationalisation of the branch network of the Parent Company approved by the Board of Directors during the year, which envisages the closure of a maximum number of 75 branches.

Section 11 - Technical reserves - Item 110

11.1 Technical reserves: breakdown

	Direct business	Indirect business	Total 31/12/2022
A. Non-Life business	**2,281**	**-**	**2,281**
A1. premium reserves	800	-	800
A2. claims reserves	1,481	-	1,481
A3. other reserves	-	-	-
B. Life business	**4,412,143**	**-**	**4,412,143**
B1. mathematical reserves	4,366,336	-	4,366,336
B2. reserves for amounts payable	45,807	-	45,807
B3. other reserves	-	-	-
C. Technical reserves where the investment risk is borne by the policyholders	**-**	**-**	**-**
C1. reserves relating to contracts whose performance is linked to investment funds and market indices	-	-	-
C2. reserves from pension fund management	-	-	-
D. Total technical reserves	**4,414,424**	**-**	**4,414,424**

11.2 Technical reserves: annual changes

	Non-Life Business	Life Business	Total
Opening balance			**-**
Business combinations	2,467	4,434,515	4,436,982
Changes in premiums	(206)	352,485	352,279
Changes in payments	-	(295,991)	(295,991)
Change in income and other bonuses paid to policyholders	-	23,200	23,200
Change in other technical reserves(*)	20	(102,066)	(102,046)
Closing balance	**2,281**	**4,412,143**	**4,414,424**

(*) including the shadow accounting effect.

The item Business combinations includes the balance as at 1 July of the technical reserves of Banco BPM Vita, following the line-by-line consolidation of the Company.

Section 12 - Redeemable shares – Item 130

12.1 Redeemable shares: breakdown

The Group has no redeemable shares as at the reporting date, nor did it as at 31 December 2021.

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

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

The share capital as at 31 December 2022 was 7,100 million and consisted of 1,515,182,126 ordinary shares, fully subscribed and paid up.

The "own shares" item is represented by 6,159,480 shares of the Parent Company, fully held by the same, for a book value of 18.3 million.

13.2 Share capital – Number of shares of the Parent Company: annual changes

Items/Types	Ordinary	Other
A. Outstanding shares at the beginning of the year	**1,515,182,126**	**-**
- fully paid-up	1,515,182,126	-
- not fully paid-up	-	-
A.1 Own shares (-)	(3,569,511)	-
A.2 Shares in issue: opening balances	**1,511,612,615**	**-**
B. Increases	**1,995,460**	**-**
B.1 New issues	-	-
- against payment:	-	-
- business combinations	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- other	-	-
- free of charge:	-	-
- to employees	-	-
- to directors	-	-
- other	-	-
B.2 Sale of own shares	1,995,460	-
B.3 Other changes	-	-
C. Decreases	**(4,585,429)**	**-**
C.1 Cancellation	-	-
C.2 Purchase of own shares	(4,585,429)	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	-
D. Shares in issue: closing balances	**1,509,022,646**	**-**
D.1 Own shares (+)	6,159,480	-
D.2 Outstanding shares at the end of the year	1,515,182,126	-
- fully paid-up	1,515,182,126	-
- not fully paid-up	-	-

Item B.2 mainly includes shares assigned during the year to employees, implementing remuneration and incentive policies as detailed in Part I of the Notes.
The item C.2 includes purchases of own shares made during the year to service the employee incentive plans equal to 4,582,640 shares.
Both items also include 2,789 shares purchased and sold with reference to transactions with customers of the so-called "error account".

13.3 Share capital: other information

There is no other information worthy of note with respect to that already provided in the previous points of this section.

13.4 Profit reserves: other information

Group Reserves recognised under item 150 of the Balance Sheet liabilities amount to a total of 4,219.4 million, classified as follows:

- Profit reserves of 3,875.0 million;
- Other reserves of 344.4 million.

Please see the "Statement of changes in consolidated shareholders' equity" for evidence of changes in the reserves during 2022, as well as the schedule included in the Notes to Banco BPM separate financial statements for the information required under Art. 2427 of the Italian Civil Code.

Lastly, note that the Parent Company has a "Legal Reserve" within its own capital reserves, established in accordance with the provisions of Art. 2430 of the Italian Civil Code, that corresponds to one fifth of share capital, and amounts to 1,420.0 million.

13.5 Equity instruments: breakdown and annual changes

Equity instruments outstanding as at 31 December 2022 amounted to 1,389.8 million (1,092.8 million at the end of the previous year) and were represented by four issues of Additional Tier 1 securities: the first in April 2019 for a nominal amount of 300 million, the second, completed in January 2020, for a nominal amount of 400 million, the third, in January 2021, for a nominal amount of 400 million and the last one concluded in April 2022 for 300 million.
These were, in particular, subordinated instruments classified in Additional Tier 1 capital, under the terms of Regulation no. 575 of 2013 (CRR).
Such issues are classifiable as equity instruments under the terms of the accounting standard IAS 32. The price received from the issue, after deducting the directly-attributable transaction costs net of the tax effect was recognised in the item "140. Equity instruments".
In line with the nature of the instrument, the coupons are recognised as a decrease of shareholders' equity (item "150. Reserves"). As at 31 December 2022, the shareholders' equity decreased by 63.3 million, as a result of the payment of the coupons (87.3 million) net of the related tax effect (IRES tax) of 24.0 million.
For further details on the accounting treatment of the instruments in question, refer to the paragraph entitled "Other significant aspects relating to Group accounting policies" contained in "Part A - Accounting Policies" of these Notes.

13.6 Other information

There is no other information worthy of note with respect to that already provided in previous sections.

Section 14 - Non-controlling interests - Item 190

14.1 Breakdown of item 190 "Non-controlling interests"

Company names	31/12/2022	31/12/2021
Interests in consolidated companies with significant non-controlling interests	-	-
Other interests	720	1,108
Total	**720**	**1,108**

14.2 Equity instruments: breakdown and annual changes

There are no financial instruments issued by companies of the Group not subject to full control.

Other information

1. Commitments and financial guarantees given

	Nominal value of commitments and financial guarantees given				Total 31/12/2022	Total 31/12/2021
	Stage 1	Stage 2	Stage 3	Acquired or originated impaired		
1. Commitments to disburse funds	**42,162,724**	**3,318,728**	**315,437**	**13,413**	**45,810,302**	**44,790,153**
a) Central Banks	-	-	-	-	-	-
b) Public Administrations	1,412,525	40,048	868	-	1,453,441	1,240,057
c) Banks	1,748,261	177,688	-	-	1,925,949	1,872,246
d) Other financial companies	2,203,652	717,059	2,795	2	2,923,508	2,883,320
e) Non-financial companies	34,326,739	2,317,012	305,870	13,258	36,962,879	36,197,957
f) Households	2,471,547	66,921	5,904	153	2,544,525	2,596,573
2. Financial guarantees given	**416,869**	**73,533**	**19,759**	**-**	**510,161**	**463,098**
a) Central Banks	-	-	-	-	-	-
b) Public Administrations	10,217	-	-	-	10,217	13,477
c) Banks	33,739	-	-	-	33,739	34,050
d) Other financial companies	35,647	116	16	-	35,779	45,177
e) Non-financial companies	284,463	68,777	17,702	-	370,942	319,546
f) Households	52,803	4,640	2,041	-	59,484	50,848

2. Other commitments and guarantees given

	Nominal value	
	Total 31/12/2022	Total 31/12/2021
1. Other guarantees given	**7,934,797**	**7,316,990**
of which: non-performing credit exposures	321,959	261,622
a) Central Banks	-	-
b) Public Administrations	9,043	15,627
c) Banks	460,782	463,523
d) Other financial companies	238,336	195,012
e) Non-financial companies	7,093,296	6,508,535
f) Households	133,340	134,293
2. Other commitments	**2,919,352**	**3,028,549**
of which: non-performing credit exposures	3,946	3,941
a) Central Banks	-	-
b) Public Administrations	9,643	7,082
c) Banks	145,594	70,757
d) Other financial companies	315,737	636,465
e) Non-financial companies	719,296	573,658
f) Households	1,729,082	1,740,587

3. Assets pledged to secure own liabilities and commitments

Portfolios	Amount 31/12/2022	Amount 31/12/2021
1. Financial assets at fair value through profit and loss	511,237	1,079,749
2. Financial assets measured at fair value through other comprehensive income	4,155,277	8,142,284
3. Financial assets at amortised cost	49,505,541	55,652,324
4. Property, plant and equipment	-	-
of which: property, plant and equipment classified as inventories	-	-

Assets pledged to secure own liabilities and commitments recognised under balance sheet assets totalled 54,172.1 million, mostly attributable to the Parent Company. These refer to:

- 15,811.5 million (15,864.9 million in 2021) in financial assets relating to mortgage loans transferred by the Parent Company to the SPEs, to guarantee the holders of covered bonds issued as described in detail in the section D.4 Prudential consolidation - Covered bond transactions, contained in Part E - Section 1.1 of these Notes;
- 364.7 million in financial assets, referring to mortgages sold to the special purpose entities of the securitisation transactions;
- 24,527.6 million (23,119.6 million in 2021) in loans serving to guarantee financing operations with central banks (Abaco);
- 9,678.0 million (11,804.0 million in 2021) in securities underlying repurchase agreements and securities lending;
- 3,296.4 million (13,305.0 million in 2021) in securities serving as deposits/guarantees for other operations, mainly associated with refinancing operations with central banks (pooling);
- 108.9 million (209.0 million in 2021) in assets serving to guarantee financing operations received from Cassa Depositi e Prestiti;
- 385.0 million (571.9 million in 2021) in guarantee deposits for the securitisation of Master Agreements signed by Group companies and to the deposits for variation margins with central counterparties relating to transactions in OTC derivatives. Said deposits were recognised in the financial statements under item 40. “Financial assets at amortised cost”.

In addition, attention is drawn to the following assets, which are not represented from an accounting perspective in balance sheet assets, used as part of the collateral for the loans received from the ECB, which, as at 31 December 2022 amounted to a nominal value of 26.7 billion (nominal value of 39.2 billion in 2021):

- securities deriving from own asset securitisation transactions for 2,380.2 million (2,495.0 million in 2021);
- covered bond issues repurchased for a nominal value of 3,001.8 million (5,744.5 million in 2021);
- securities deriving from repurchase agreements with securities use and/or lending delivery versus delivery for a residual nominal value of 422.0 million (860.0 million in 2021).

Lastly, we note that at the reporting date there were covered funding operations represented by repurchase agreements payable with underlying securities acquired in the context of reverse repurchase agreements. The book value of these reverse repurchase agreements, recognised among loans to banks and customers, based on the counterparty, amounted to 555.2 million (2,764.7 million in 2021), with nominal value of 565.2 million (2,465.4 million in 2021).

4. Breakdown of investments against unit-linked and index-linked policies

The breakdown of the investments underlying unit-linked policies (1,442.5 million) and the corresponding liabilities for the policies issued (1,441.8 million) is provided below.
In the consolidated financial statements, the above-mentioned investments are represented in the accounting portfolio of financial assets measured at fair value as described in "Part A - Accounting policies". The book value net of intercompany investments amounts to 1,404.2 million.

Items	**Services relating to investment funds and market indices**
Breakdown of financial assets underlying unit-linked policies:	
- UCIT units	1,401,962
- Loans and debt securities	40,495
Total	**1,442,457**
of which: intercompany loans	(38,272)
Other financial assets mandatorily measured at fair value	**1,404,185**
Financial liabilities designated at fair value	**1,441,830**

5. Management and brokering for third parties

Type of services	**Amount**
1. Execution of customer orders	
a) purchases	91,189,606
1. settled	90,673,501
2. not settled	516,105
b) sales	90,803,034
1. settled	90,317,960
2. not settled	485,074
2. Portfolio management	**3,038,359**
a) individual	3,038,359
b) collective	-
3. Securities custody and administration	
a) third party securities under custody: associated with custodian bank services (excluding portfolio management)	-
1. securities issued by companies included in the scope of consolidation	-
2. other securities	-
b) third party securities under custody (excluding portfolio management): other	59,340,367
1. securities issued by companies included in the scope of consolidation	5,450,601
2. other securities	53,889,766
c) third party securities under custody with third parties	56,778,742
d) own securities under custody with third parties	42,656,437
4. Other transactions	**17,239**

Financial assets and liabilities subject to offsetting in financial statements, or subject to master netting arrangements or similar arrangements

This section provides the information required under standard IFRS 7 relative to "offsetting of financial assets and liabilities" for financial instruments which:

- were offset in the balance sheet pursuant to IAS 32;
- could potentially be offset, given certain conditions, but presented in the balance sheet as open balances, as they are governed by "master netting arrangements or similar arrangements", which do not meet the criteria established in IAS 32 for offsetting.

In providing disclosure on these agreements, the standard also requires that the effects of real financial collateral (including guarantees in cash equivalents) received or granted be taken into effect.

More specifically, instruments offset in the balance sheet pursuant to IAS 32 refer to certain over-the-counter (OTC) financial derivatives entered into by individual Group companies with the counterparty London Clearing House (LCH).

In particular, the amounts offset shown in tables 6 and 7 below, corresponding to the columns "Amount of financial liabilities offset in the financial statements (b)" and "Amount of financial assets offset in the financial statements (b)", amounted to 1,399 million and refer to derivative instruments offset at individual Group company level, represented as a decrease of the following balance sheet items:

- 20. Financial assets at fair value through profit and loss
  a) Financial assets held for trading – offset for 860 million;
- 50. Hedging derivatives – offset for 539 million.
- 20. Financial liabilities held for trading – offset for 860 million;
- 40. Hedging derivatives – offset for 539 million.

For instruments that could potentially be offset, should certain events occur and that would be presented in tables 6 and 7 below in the column "Related amounts not subject to offsetting in the financial statements", note that the Group has the following agreements in place:

- for derivative instruments: "ISDA Master Agreement" and netting arrangements with clearing houses;
- for repurchase agreements and reverse repurchase agreements: "Global Master Repurchase Agreements (GMRA)" and netting arrangements with "Cassa di Compensazione e Garanzia (CC&G)";
- for securities lending transactions: "Global Master Securities Lending Agreements (GMSLA)".

With regards to derivatives, whether for trading or hedging, note that:

- those with a positive fair value amount to 4,441.2 million (recognised under items 20 and 50 of balance sheet assets) of which, net of offsetting, 4,426.2 million (5,825.3 million gross) is supported by netting agreements (99.7% in percentage terms), as indicated in table 6 (columns c) and a));
- those with a negative fair value amount to 3,722.9 million (recognised under items 20 and 40 of balance sheet liabilities) of which, net of offsetting, 2,758.9 million (4,157.9 million gross) is supported by netting agreements (74.1% in percentage terms), as indicated in table 7 (columns c) and a)). Positions not covered by netting arrangements for the most part refer to interest rate swap contracts signed by Banco BPM customers, which as at 31 December 2022 had a negative fair value of 733.3 million.

With reference to securities lending transactions, it should be noted that tables 6 and 7 below include operations which involve the payment of cash guarantees which are fully available to the lender, as these are single operations recognised in the balance sheet. For the purposes of reconciliation with the balance sheet figures for securities lending transactions and repurchase agreements falling under netting or similar arrangements, note that these operations are represented under the items "Reverse repurchase agreements/repurchase agreements" indicated in the tables showing the breakdown of loans to/due to banks and customers and financial assets and liabilities held for trading, based on the type of counterparty and the purpose of the transactions, found in Part B - Information on the consolidated balance sheet. Note that table 7 shows 2,558.4 million in funding repurchase agreements with the use of its own issues repurchased, recognised in the financial statements and in the relative tables of Part B. "Item 10. Financial liabilities at amortised cost – c) Debt securities in issue", while some securities lending transactions to customers guaranteed in cash without netting arrangements are not reported for 0.6 million, which represent the differences with respect to that shown in the tables in Part B.

For the purposes of creating tables 6 and 7 below, in line with standard IFRS 7 and the instructions contained in Circular 262, note that:

- the effects of potential offsetting of financial statement values for financial assets and liabilities are indicated in column (d) "Financial instruments", together with the fair value of the real financial guarantees represented by securities;
- the effects of potential offsetting for the exposure with the relative cash guarantees are shown under column (e) "Cash deposits received/given as guarantee".

These effects are calculated for each individual counterparty supported by a master netting arrangement within the limits of the net exposure indicated under column (c).

Based on the methods identified above, netting arrangements between financial instruments and the relative financial guarantees make it possible to significantly decrease the creditor/debtor exposure relative to the counterparty, as indicated in column (f) "Net amount" in tables 6 and 7 below.

6. Financial assets subject to offsetting in financial statements, or subject to master netting arrangements or similar arrangements

Technical forms	Gross amount of financial assets (a)	Amount of financial liabilities offset in the financial statements (b)	Net amount of financial assets presented in the financial statements (c=a-b)	Related amounts not subject to offsetting in the financial statements		Net amount (f=c-d-e) 31/12/2022	Net amount 31/12/2021
				Financial instruments (d)	Cash deposits received as guarantee (e)		
1. Derivatives	5,825,252	1,398,989	4,426,263	2,277,293	2,030,460	118,510	114,298
2. Repurchase agreements	1,523,960	-	1,523,960	1,505,226	16,598	2,136	1,158
3. Securities lending	1,309,287	-	1,309,287	1,225,977	-	83,310	164,753
4. Other	-	-	-	-	-	-	-
Total 31/12/2022	**8,658,499**	**1,398,989**	**7,259,510**	**5,008,496**	**2,047,058**	**203,956**	**X**
Total 31/12/2021	**7,345,588**	**1,263,465**	**6,082,123**	**5,431,463**	**370,451**	**X**	**280,209**

7. Financial liabilities subject to offsetting in the financial statements, or subject to master netting arrangements or similar arrangements

Technical forms	Gross amount of financial liabilities (a)	Amount of financial assets offset in the financial statements (b)	Net amount of financial liabilities presented in the financial statements (c=a-b)	Related amounts not subject to offsetting in the financial statements		Net amount (f=c-d-e) 31/12/2022	Net amount 31/12/2021
				Financial instruments (d)	Cash deposits pledged as collateral (e)		
1. Derivatives	4,157,911	1,398,989	2,758,922	2,277,294	277,411	204,217	19,648
2. Repurchase agreements	12,596,200	-	12,596,200	12,516,490	66,660	13,050	1,842
3. Securities lending	1,475,689	-	1,475,689	1,418,073	-	57,616	6,623
4. Other transactions	-	-	-	-	-	-	-
Total 31/12/2022	**18,229,800**	**1,398,989**	**16,830,811**	**16,211,857**	**344,071**	**274,883**	**X**
Total 31/12/2021	**19,144,398**	**1,263,465**	**17,880,933**	**17,315,386**	**537,434**	**X**	**28,113**

8. Securities lending transactions

The table below provides information about Group securities lending transactions (receivable and payable), broken down by the type of securities (government, bank, other), market counterparty (bank, financial brokers, customers) and the relative technical forms (loan guaranteed by cash or by other securities).
These are mainly carried out by the Parent Company Banco BPM and the subsidiary Banca Akros. Securities obtained as a loan are, as a rule, used for mirrored securities lending transactions (where the Group is the lender) or as underlying assets for repurchase agreements for funding.
Note that securities lending transactions that involve the payment of cash guarantees that are fully available to the lender are represented in the balance sheet in the loans to/due to banks or customers, in the technical form of "repurchase agreements". Securities lending transactions with guarantees consisting of other securities or cash, which are not fully available to the lender, are not indicated in the balance sheet, but are included among off-balance sheet exposures with regards to the relative counterparty risk.

The table below provides information about receivables and payables recognised in the financial statements as at 31 December 2022 against securities received and given in cash-backed loans. Transactions not included in the balance sheet, as noted in the previous paragraph, are exposed on the basis of the fair value of the securities loaned, whether received or given.

Type of securities lending transaction	Type of securities		
	Government securities	Bank securities	Other securities
Cash-backed loaned securities received - Loans to:			
a) Banks	-	56,730	1,161,259
b) Financial intermediaries	-	15,785	75,503
c) Customers	-	-	-
Total receivables for securities lending	**-**	**72,515**	**1,236,762**
Security or cash-backed loaned securities received not available to the lender from:			
b) Financial intermediaries	-	-	-
c) Customers	15,897	352,317	35,886
Total (fair value)	**15,897**	**352,317**	**35,886**
Cash-backed loaned securities given - Due to:			
a) Banks	-	64,485	1,310,770
b) Financial intermediaries	-	2,384	98,044
c) Customers	-	277	286
Total payables for securities lending	**-**	**67,146**	**1,409,100**
Security-backed or non-guaranteed loaned securities given:			
a) Banks	-	351,285	47,612
b) Financial intermediaries	-	-	-
c) Customers	-	-	-
Total (fair value)	**-**	**351,285**	**47,612**

9. Information on joint operations

As at the reporting date, as in the previous year, there were no joint control agreements classifiable as "joint operations" pursuant to accounting standard IFRS 11, on the basis of which the parties holding joint control have rights over the assets and obligations regarding the liabilities relative to the agreement.

PART C – INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

Section 1 - Interest – Items 10 and 20

1.1 Interest and similar income: breakdown

Items/Technical forms	Debt securities	Loans	Other transactions	Total 2022	Total 2021
1. Financial assets at fair value through profit and loss:	18,550	4,626	142	23,318	30,307
1.1 Financial assets held for trading	14,066	417	142	14,625	22,706
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value	4,484	4,209	-	8,693	7,601
2. Financial assets measured at fair value through other comprehensive income	139,830	-	X	139,830	145,395
3. Financial assets at amortised cost:	295,597	2,221,441	-	2,517,038	1,985,103
3.1 Loans to banks	15,715	164,152	X	179,867	38,923
3.2 Loans to customers	279,882	2,057,289	X	2,337,171	1,946,180
4. Hedging derivatives	X	X	(11,399)	(11,399)	(141,861)
5. Other assets	X	X	37,434	37,434	11,963
6. Financial liabilities	X	X	X	230,832	394,281
Total	**453,977**	**2,226,067**	**26,177**	**2,937,053**	**2,425,188**
of which: interest income on impaired financial assets	114	83,877	-	83,991	91,873
of which: interest income on finance leases	X	20,418	X	20,418	18,285

Item 1.1 "Financial assets held for trading – Other transactions" includes the spreads of the derivative contracts operationally connected with the financial liabilities issued by the Bank measured at fair value (FVO).

Item 4 "Hedging derivatives - Other transactions" includes the spreads accrued of the financial hedging derivative contracts for transactions on balance sheet assets.

Item 5 "Other assets - Other transactions" totalling 37.4 million includes 4.1 million in interest income on tax credits and 32.8 million for interest income relating to transactions linked to "Ecobonus" credits.

Item 6 "Financial liabilities" refers for 181.4 million to interest income on funding operations from ECB TLTRO III, down compared to 2021, following the rate hike decided by the ECB and the termination of favourable remuneration mechanisms in the fourth quarter of 2022; it should also be noted that, again in the last quarter of 2022, a partial early repayment of 12.5 billion was made.

For the accounting treatment relating to the recognition of interest pertaining to the year for this loan, refer to that illustrated in the paragraph "Other significant aspects relating to Group accounting policies" contained in Part A of the Notes.

Interest income on impaired assets is recorded according to the methods set out in IFRS 9. In particular, they include the effect attributable to the "time reversal" due to the recoveries from discounting non-performing loans.

1.2 Interest and similar income: other information

1.2.1 Interest income on financial assets in foreign currency

Items	2022	2021
Interest income on financial assets in foreign currency	130,219	58,097

1.3 Interest and similar expense: breakdown

Items/Technical forms	Payables	Securities	Other transactions	Total 2022	Total 2021
1. Financial liabilities at amortised cost	(240,377)	(253,621)		(493,998)	(332,485)
1.1 Due to central banks	-	X	X	-	-
1.2 Due to banks	(105,752)	X	X	(105,752)	(32,914)
1.3 Due to customers	(134,625)	X	X	(134,625)	(50,831)
1.4 Debt securities in issue	X	(253,621)	X	(253,621)	(248,740)
2. Financial liabilities held for trading	(21,246)	-	-	(21,246)	(11,405)
3. Financial liabilities designated at fair value	-	(138)	-	(138)	(2,922)
4. Other liabilities and provisions	X	X	(791)	(791)	(52)
5. Hedging derivatives	X	X	13,114	13,114	44,784
6. Financial assets	X	X	X	(92,528)	(106,968)
Total	**(261,623)**	**(253,759)**	**12,323**	**(595,587)**	**(409,048)**
of which: interest expense relating to lease payables	(7,011)	X	X	(7,011)	(7,473)

Item 5 "Hedging derivatives - Other transactions" include the spreads accrued of the financial hedging derivative contracts for transactions on balance sheet liabilities.

Item 6 "Financial assets - Other transactions" contains the negative interest income relating to repurchase agreements with commitment, securities lending, loans, current accounts and deposits with customers and banks.

1.4 Interest and similar expense: other information

1.4.1 Interest expense on financial liabilities in foreign currency

Items	2022	2021
Interest expense on financial liabilities in foreign currency	(11,175)	(10,994)

1.5 Hedging spreads

Items	2022	2021
A. Positive hedging spreads:	195,193	157,108
B. Negative hedging spreads:	(193,478)	(254,185)
C. Balance (A-B)	**1,715**	**(97,077)**

Section 2 - Fees and commissions – Items 40 and 50

2.1 Fee and commission income: breakdown

Service type/Amounts	Total 2022	Total 2021
a) Financial instruments	113,953	119,268
1. Placement of securities	19,801	16,252
1.1 With underwriting commitments and/or on the basis of an irrevocable commitment	3,373	11
1.2 Without irrevocable commitment	16,428	16,241
2. Receipt and transmission of orders and execution of orders for customers	60,727	66,063
2.1 Receipt and transmission of orders for one or more financial instruments	38,941	45,305
2.2 Execution of orders for customers	21,786	20,758
3. Other fees and commissions relating to activities associated with financial instruments	33,425	36,953
of which: own account trading	-	-
of which: individual portfolio management	26,213	30,915
b) Corporate Finance	13,763	9,469
1. Merger and acquisition advisory services	8,725	7,353
2. Treasury services	5,038	2,116
3. Other fees and commissions with corporate finance services	-	-
c) Investment advisory activities	1,075	855
d) Offsetting and settlement	-	-
e) Collective portfolio management	-	-
f) Custody and administration	11,067	13,793
1. Custodian bank	-	-
2. Other fees and commissions related to custody and administration activities	11,067	13,793
g) Central administrative services for collective portfolio management	-	-
h) Trust activities	2,013	2,053
i) Payment services	563,267	541,313
1. Current accounts	255,409	257,858
2. Credit cards	25,805	24,320
3. Debit cards and other payment cards	80,677	72,278
4. Bank transfers and other payment orders	193,889	177,815
5. Other fees and commissions relating to payment services	7,487	9,042
j) Distribution of third-party services	737,854	815,604
1. Collective portfolio management	499,750	592,224
2. Insurance products	116,836	137,196
3. Other products	121,268	86,184
of which: individual portfolio management	1,315	1,727
k) Structured finance	225	894
l) Servicing for securitisation transactions	-	-
m) Commitments to disburse funds	-	-
n) Financial guarantees given	82,210	81,081
of which: credit derivatives	-	-
o) Financing operations	159,317	138,157
of which: for factoring transactions	-	-
p) Foreign currency trading	3,573	3,796
q) Commodities	-	-
r) Other fee and commission income	310,072	292,318
of which: for management of multilateral trading facilities	-	-
of which: for management of organised trading facilities	-	-
Total	**1,998,389**	**2,018,601**

Sub-item r) "Other fee and commission income" includes fees for making funds available (Credit Availability Fee) of 241.4 million (248.4 million the previous year) and fee and commission income from securities lending of 10.5 million (9.6 million the previous year).

It should be specified that, in relation to Group operations, cash flows associated with fees recognised in the income statement for 2022 involve limited uncertainties, in that these are fees accrued, and largely collected, against the provision of financial services which are now complete. Operating receivables relative to services provided but not yet received are, in fact, of an insignificant amount, as illustrated in "Section 4 - Financial assets at amortised cost", in Part B of the Balance sheet assets in these Notes.
For certain revenues associated with the placement of single premium insurance policies, the risk of returning a portion of the commissions received to the insurance company against early termination of said policies by the customers is protected against through the allocation of adequate provisions, as illustrated in Section 10 – Provisions for risks and charges, in Part B - Liabilities of these Notes.
To that end, also note that adjustments in fees recognised in 2022, against services rendered in previous years amounted to a negative 5.4 million, equal to the difference between the verification of greater revenues (of 10.7 million) and lower revenues (16.1 million) mainly relating to the distribution of third-party services.

2.2 Fee and commission expense: breakdown

Services/Amounts	Total 2022	Total 2021
a) Financial instruments	(17,691)	(16,980)
of which: financial instrument trading	(9,054)	(10,069)
of which: placement of financial instruments	(8,635)	(6,911)
of which: individual portfolio management	-	-
- Own	-	-
- Delegated to third parties	-	-
b) Offsetting and settlement	-	-
c) Collective portfolio management	-	-
1. Own	-	-
2. Delegated to third parties	-	-
d) Custody and administration	(11,321)	(11,475)
e) Collection and payment services	(57,169)	(56,898)
of which: credit cards, debit cards and other payment cards	(46,924)	(48,288)
f) Servicing for securitisation transactions	-	-
g) Commitments to receive funds	-	-
h) Financial guarantees received	(32,474)	(11,655)
of which: credit derivatives	-	-
i) Off-site offer of financial instruments, products and services	(6,093)	(6,688)
j) Foreign currency trading	(5)	(7)
k) Other fee and commission expense	(19,143)	(14,203)
Total	**(143,896)**	**(117,906)**

Line "h) Financial guarantees received" includes 25.0 million (4.2 million in 2021) for the purchase of credit risk protection by the Group as part of the existing synthetic securitisation transactions, as described in " A.2 Key financial statement items - 16 Other information - Synthetic securitisations "of the Notes to the financial statements.

Section 3 - Dividends and similar income - Item 70

3.1 Dividends and similar income: breakdown

Items/Income	Total 2022		Total 2021	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	39,661	80	41,052	-
B. Other financial assets mandatorily measured at fair value	1,135	11,569	1,525	4,221
C. Financial assets measured at fair value through other comprehensive income	8,395	-	6,920	-
D. Interests in associates and joint ventures	-	-	-	-
Total	**49,191**	**11,649**	**49,497**	**4,221**

Section 4 - Net trading income – Item 80

4.1 Net trading income: breakdown

Transactions/Income components	Capital gains (A)	Trading income (B)	Capital losses (C)	Trading losses (D)	Net result [(A+B) - (C+D)]
1. Financial assets held for trading	**51,892**	**208,391**	**(151,355)**	**(212,685)**	**(103,757)**
1.1 Debt securities	2,635	178,140	(13,314)	(41,377)	126,084
1.2 Equity instruments	48,661	28,157	(137,101)	(170,245)	(230,528)
1.3 UCIT units	13	55	(874)	(871)	(1,677)
1.4 Loans	583	-	(66)	-	517
1.5 Other	-	2,039	-	(192)	1,847
2. Financial liabilities held for trading	**132,628**	**26,973**	**(4,362)**	**(37,380)**	**117,859**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	177	16,989	(4,226)	(5,670)	7,270
2.3 Other	132,451	9,984	(136)	(31,710)	110,589
Financial assets and liabilities: exchange rate differences	**X**	**X**	**X**	**X**	**(3,628)**
3. Derivative instruments	**4,422,341**	**4,432,218**	**(4,440,985)**	**(4,264,920)**	**163,631**
3.1 Financial derivatives:	4,419,871	4,421,199	(4,440,796)	(4,252,412)	162,839
- On debt securities and interest rates	3,849,770	2,675,130	(3,630,171)	(2,661,548)	233,181
- On equity instruments and share indices	525,033	1,269,905	(764,882)	(1,117,227)	(87,171)
- On currencies and gold	X	X	X	X	14,977
- Other	45,068	476,164	(45,743)	(473,637)	1,852
3.2 Credit derivatives	2,470	11,019	(189)	(12,508)	792
of which: natural hedges connected with the fair value option	X	X	X	X	-
Total	**4,606,861**	**4,667,582**	**(4,596,702)**	**(4,514,985)**	**174,105**

It must be specified that, based on the provisions set out in the Bank of Italy Circular no. 262, the specification regarding "of which: natural hedges associated with the fair value option" refers to a specific type of hedge set out in IFRS 9. In that regard it is noted that there are no amounts to be reported, as Banco BPM Group opted to continue using the hedge accounting regime set out in IAS 39.

Section 5 - Fair value gains/losses on hedging derivatives - Item 90

5.1 Fair value gains/losses on hedging derivatives: breakdown

Income components/Amounts	Total 2022	Total 2021
A. Income relating to:		
A.1 Fair value hedging derivatives	2,607,763	498,034
A.2 Hedged financial assets (fair value)	814,200	385,890
A.3 Hedged financial liabilities (fair value)	1,405,836	213,797
A.4 Cash flow hedging derivatives	2,759	191
A.5 Assets and liabilities in foreign currency	-	1,861
Total gains on hedging derivatives (A)	**4,830,558**	**1,099,773**
B. Charges relating to:		
B.1 Fair value hedging derivatives	(1,394,188)	(216,431)
B.2 Hedged financial assets (fair value)	(3,369,914)	(860,865)
B.3 Hedged financial liabilities (fair value)	(65,054)	(22,661)
B.4 Cash flow hedging derivatives	-	-
B.5 Assets and liabilities in foreign currency	-	(664)
Total losses on hedging derivatives (B)	**(4,829,156)**	**(1,100,621)**
C. Fair value gains/losses on hedging derivatives (A - B)	**1,402**	**(848)**
of which: gains/losses of hedging on net positions	-	-

Section 6 - Gains (losses) on disposal/repurchase - Item 100

6.1 Gains (losses) on disposal/repurchase: breakdown

Items/Income components	Total 2022			Total 2021		
	Gains	Losses	Net result	Gains	Losses	Net result
Financial assets						
1. Financial assets at amortised cost	249,074	(310,022)	(60,948)	301,281	(446,543)	(145,262)
1.1 Loans to banks	127	(550)	(423)	-	-	-
1.2 Loans to customers	248,947	(309,472)	(60,525)	301,281	(446,543)	(145,262)
2. Financial assets measured at fair value through other comprehensive income	41,174	(142,810)	(101,636)	40,063	(23,807)	16,256
2.1 Debt securities	41,174	(142,810)	(101,636)	40,063	(23,807)	16,256
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**290,248**	**(452,832)**	**(162,584)**	**341,344**	**(470,350)**	**(129,006)**
Financial liabilities at amortised cost	-	-	-	-	-	-
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Debt securities in issue	38	(3,381)	(3,343)	17,724	(17,798)	(74)
Total liabilities (B)	**38**	**(3,381)**	**(3,343)**	**17,724**	**(17,798)**	**(74)**

The result shown under item "1.2. Loans to customers" includes profits of 149.8 million deriving from the sale of securities classified in the portfolio of loans to customers, mainly represented by both Italian and foreign government securities, as well as the effect of early redemptions of HTC securities.
Excluding this component, the net loss of that item is 210.3 million, impacted for 176.5 million by the disposal of the "Argo" portfolio of bad and unlikely to pay loans.

For more details of the disposal of HTC securities and on the "Argo" disposal transaction, please see the section "Other significant aspects relating to Group accounting policies", found in Part A - Accounting Policies, Section A.1 - General Part of these Notes.

Losses on disposal of financial assets measured at fair value through other comprehensive income mainly refer to profits from sales of Italian and foreign government securities.

Section 7 - Net gains (losses) from other financial assets and liabilities measured at fair value through profit and loss – Item 110

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

Transactions/Income components	Capital gains (A)	Gains on disposal (B)	Capital losses (C)	Losses on disposal (D)	Net result [(A+B) - (C+D)]
1. Financial assets	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-
1.2 Loans	-	-	-	-	-
2. Financial liabilities	**168,933**	**1,214**	**-**	**(6,799)**	**163,348**
2.1 Debt securities in issue	168,933	1,214	-	(6,799)	163,348
2.2 Due to banks	-	-	-	-	-
2.3 Due to customers	-	-	-	-	-
3. Financial assets and liabilities in foreign currency: exchange rate differences	X	X	X	X	**-**
Total	**168,933**	**1,214**	**-**	**(6,799)**	**163,348**

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

Transactions/Income components	Capital gains (A)	Gains on disposal (B)	Capital losses (C)	Losses on disposal (D)	Net result [(A+B) - (C+D)]
1. Financial assets	**62,372**	**4,189**	**(226,929)**	**(21,394)**	**(181,762)**
1.1 Debt securities	52	3,676	(10,019)	-	(6,291)
1.2 Equity instruments	8,811	-	(124,795)	(20,446)	(136,430)
1.3 UCIT units	47,365	180	(54,384)	(35)	(6,874)
1.4 Loans	6,144	333	(37,731)	(913)	(32,167)
2. Financial assets in foreign currency: exchange rate differences	**X**	**X**	**X**	**X**	**9,268**
Total	**62,372**	**4,189**	**(226,929)**	**(21,394)**	**(172,494)**

Section 8 - Net credit impairment losses/recoveries – Item 130

8.1 Net credit impairment losses relating to financial assets at amortised cost: breakdown

Transactions/Income components	Impairment losses (1)						Recoveries (2)				Total 2022	Total 2021
	Stage 1	Stage 2	Stage 3		Acquired or originated impaired		Stage 1	Stage 2	Stage 3	Acquired or originated impaired		
			Write-offs	Other	Write-offs	Other						
A. Loans to banks	**(1,532)**	**(161)**	**-**	**-**	**-**	**-**	**200**	**-**	**-**	**-**	**(1,493)**	**308**
- Loans	(569)	(65)	-	-	-	-	2	-	-	-	(632)	582
- Debt securities	(963)	(96)	-	-	-	-	198	-	-	-	(861)	(274)
B. Loans to customers	**(42,625)**	**(31,744)**	**(60,145)**	**(786,685)**	**(26,683)**	**(35,563)**	**4,556**	**74,786**	**400,742**	**24,280**	**(479,081)**	**(630,305)**
- Loans	(37,045)	(31,613)	(60,145)	(786,685)	(26,683)	(35,563)	4,277	74,743	400,742	24,280	(473,692)	(630,626)
- Debt securities	(5,580)	(131)	-	-	-	-	279	43	-	-	(5,389)	321
Total	**(44,157)**	**(31,905)**	**(60,145)**	**(786,685)**	**(26,683)**	**(35,563)**	**4,756**	**74,786**	**400,742**	**24,280**	**(480,574)**	**(629,997)**

8.1a Net credit impairment losses relating to loans at amortised cost subject to Covid-19 support measures: breakdown

Transactions/Income components	Net impairment losses						Total 2022	Total 2021
	Stage 1	Stage 2	Stage 3		Acquired or originated impaired			
			Write-offs	Other	Write-offs	Other		
1. Loans subject to forbearance measures compliant with GL	4	(104)	-	(138)	-	(35)	**(273)**	**(1,143)**
2. Loans subject to current moratorium measures no longer compliant with GL and not assessed as forborne	-	(4)	-	-	-	-	**(4)**	**(79,990)**
3. Loans subject to other forbearance measures	-	225	-	(7,732)	-	-	**(7,507)**	**(2,629)**
4. New loans	(610)	(4,451)	-	(62,649)	-	-	**(67,710)**	**(14,114)**
Total 2022	**(606)**	**(4,334)**	**-**	**(70,519)**	**-**	**(35)**	**(75,494)**	**(97,876)**
Total 2021	**4,097**	**(20,720)**	**-**	**(78,362)**	**-**	**(2,891)**	**(97,876)**	**-**

8.2 Net credit impairment losses relating to financial assets measured at fair value through other comprehensive income: breakdown

Transactions/Income components	Impairment losses (1)						Recoveries (2)				Total 2022	Total 2021
	Stage 1	Stage 2	Stage 3		Acquired or originated impaired		Stage 1	Stage 2	Stage 3	Acquired or originated impaired		
			Write-offs	Other	Write-offs	Other						
A. Debt securities	(2,823)	-	-	-	-	-	695	-	-	-	(2,128)	(957)
B. Loans	-	-	-	-	-	-	-	-	-	-	-	-
- To customers	-	-	-	-	-	-	-	-	-	-	-	-
- To banks	-	-	-	-	-	-	-	-	-	-	-	-
Total	**(2,823)**	**-**	**-**	**-**	**-**	**-**	**695**	**-**	**-**	**-**	**(2,128)**	**(957)**

8.2.a Net credit impairment losses related to financial assets measured at fair value through other comprehensive income subject to Covid-19 support measures: breakdown

The Group has none of this type. Therefore, the related table is omitted.

Section 9 - Gains (losses) from contractual modification without derecognition - Item 140

9.1 Gains (losses) from contractual modification: breakdown

Items/Income components	Total 2022			Total 2021		
	Gains	Losses	Net result	Gains	Losses	Net result
Financial assets at FV trough other comprehensive income						
Contractual modification on Financial assets at FV through other comprehensive income	-	-	-	-	-	-
Financial assets at amortised cost						
Contractual modification on Financial assets at amortised cost	4,783	(3,070)	1,713	2,507	(11,028)	(8,521)
Total	**4,783**	**(3,070)**	**1,713**	**2,507**	**(11,028)**	**(8,521)**

The item, positive by 1.7 million, represents the net impact deriving from contractual modification during the year in relation to types of loans that did not entail total or partial derecognition of the previous credit exposure from the financial statements.

Section 10 - Net premiums - Item 160

10.1 Net premiums: breakdown

Premiums from insurance activities	Direct business	Indirect business	Total 2022
A. Life business			
A.1 Gross premiums written (+)	344,118	-	344,118
A.2 Reinsurance premiums ceded (-)	(3)	X	(3)
A.3 Total	344,115	-	344,115
B. Non-Life business			
B.1 Gross premiums written (+)	14,907	-	14,907
B.2 Reinsurance premiums ceded (-)	(1,383)	X	(1,383)
B.3 Change in the gross amount of the premium reserve (+/-)	2,489	-	2,489
B.4 Change in the reinsurers' share of the premium reserve (+/-)	(325)	-	(325)
B.5 Total	15,688	-	15,688
C. Total net premiums	**359,803**	**-**	**359,803**

Section 11 - Balance of other income and expenses from insurance activities - Item 170

11.1 Balance of other income and expenses from insurance activities: breakdown

Items	Total 2022
1. Net change in technical reserves	(62,355)
2. Claims paid during the year	(293,506)
3. Other income and expenses from insurance activities	(1,623)
Total	**(357,484)**

11.2 Breakdown of sub-item "Net change in technical reserves"

Net change in technical reserves	Total 2022
1. Life business	
A. Mathematical reserves	(52,878)
A.1 Gross annual amount	(51,934)
A.2 (-) Reinsurers' share	(944)
B. Other technical reserves	(9,499)
B.1 Gross annual amount	(9,499)
B.2 (-) Reinsurers' share	-
C. Technical reserves where the investment risk is borne by the policyholders	-
C.1 Gross annual amount	-
C.2 (-) Reinsurers' share	-
Total "life insurance reserves"	**(62,377)**
2. Non-Life business	
Changes in other non-life technical reserves other than claims reserves net of reinsurance	22

11.3 Breakdown of sub-item "Claims pertaining to the year"

Charges for claims	Total 2022
Life business: charges relating to claims, net of reinsurance	
A. Amounts paid	(295,262)
A.1 Gross annual amount	(296,003)
A.2 (-) Reinsurers' share	741
B. Change in reserve for amounts payable	6,141
B.1 Gross annual amount	6,004
B.2 (-) Reinsurers' share	137
Total life claims	**(289,121)**
Non-Life business: charges relating to claims, net of recoveries and reinsurance	
C. Amounts paid	(3,311)
C.1 Gross annual amount	(3,404)
C.2 (-) Reinsurers' share	93
D. Change in recoveries net of reinsurers' share	-
E. Changes in the claims reserve	(1,074)
E.1 Gross annual amount	(1,156)
E.2 (-) Reinsurers' share	82
Total non-life claims	**(4,385)**

11.4 Breakdown of sub-item "Other income and expenses from insurance activities"

11.4.1 Life business

	Total 2022
Life business	
A. Income	-
- Other technical income net of reinsurance	-
- Income and unrealised capital gains relating to investments for the benefit of policyholders who bear the risk	-
- Change in commissions and other acquisition costs to be amortised	-
- Commissions and profit sharing received from reinsurers	-
- Other income	-
B. Charges	(2,059)
- Other technical charges, net of reinsurance	(2,059)
- Charges and unrealised capital losses relating to investments for the benefit of policyholders who bear the risk	-
- Acquisition commissions	-
- Other acquisition costs	-
- Collection commissions	-
- Other charges	-
Total Life business (A - B)	**(2,059)**

11.4.2 Non-Life business

	Total 2022
Non-Life business	
A. Income	519
- Other technical income net of reinsurance	333
- Change in commissions and other acquisition costs to be amortised	-
- Commissions and profit sharing received from reinsurers	-
- Other income	186
B. Charges	(83)
- Other technical charges, net of reinsurance	(63)
- Acquisition commissions	-
- Other acquisition costs	-
- Collection commissions	-
- Other charges	(20)
Total Non-Life business (A - B)	**436**

Section 12 - Administrative expenses – Item 190

12.1 Personnel expenses: breakdown

Type of expense/Sector	Total 2022	Total 2021
1) Employees	**(1,602,857)**	**(1,663,228)**
a) wages and salaries	(1,128,760)	(1,164,009)
b) social security contributions	(294,578)	(307,291)
c) severance indemnities	(63,065)	(66,017)
d) pension expenses	(318)	(289)
e) provisions for employee severance pay	(6,184)	(2,141)
f) provisions for post-employment benefits and similar obligations:	(648)	(333)
- defined contribution	-	-
- defined benefit	(648)	(333)
g) payments to external supplementary pension funds:	(39,840)	(41,937)
- defined contribution	(39,840)	(41,937)
- defined benefit	-	-
h) costs deriving from share-based payment agreements	(8,851)	(7,782)
i) other employee benefits	(60,613)	(73,429)
2) Other personnel in service	**(915)**	**(740)**
3) Directors and statutory auditors	**(5,830)**	**(6,754)**
4) Retired personnel	**(279)**	**(17)**
Total	**(1,609,881)**	**(1,670,739)**

12.2 Average number of employees per category

	2022	2021
1) Employees	**19,259**	**19,928**
a) executives	285	312
b) total middle managers	7,650	7,954
of which: 3rd and 4th level	3,911	4,146
c) remaining employees	11,324	11,662
2) Other personnel	**20**	**21**
Average number of personnel	**19,279**	**19,949**

The average number of employees does not include directors and statutory auditors. In the case of employees, part-time is conventionally considered as 70%.

12.3 Defined benefit company pension funds: costs and revenues

	Total 2022	Total 2021
- Social security costs relative to current work provided	(183)	(371)
- Financial expense	(471)	36
- Expected return on plan assets	-	-
- Actuarial gains and losses	-	-
- Social security costs relative to past work provided	-	-
- Gains and losses from reductions or extinctions	6	2
Total	**(648)**	**(333)**

12.4 Other employee benefits

Other employee benefits, the costs of which are shown in table 12.1 above, under the item "i) other employee benefits", amounted to 60.6 million (73.4 million in 2021).
This item mainly includes costs relating to the Group's welfare system, such as - for example - the so-called "welfare" company bonus, luncheon vouchers and costs of managing company canteens, health and injury policies for the benefit of employees, study grants, contributions to corporate social clubs, loyalty bonuses, costs relating to professional training and refresher courses.

This item also includes the charge relating to the extraordinary welfare contribution recognised to employees in relation to the situation of high inflation and energy price increases and the positive impact deriving from the release of excess allocations made in previous years relating to the redundancy provision. The overall net effect was a positive 11.9 million.

12.5 Other administrative expenses: breakdown

Type of expense/Sector	Total 2022	Total 2021
a) Expenses relating to real estate	(85,453)	(66,155)
- condominium expenses	(8,855)	(6,930)
- maintenance of premises	(13,656)	(13,852)
- cleaning expenses	(13,208)	(12,930)
- electricity, water and heating	(49,734)	(32,443)
b) Indirect taxes and duties	(313,178)	(320,133)
c) Postal charges, telephone charges, printed materials and other office expenses	(21,076)	(22,773)
d) Maintenance and fees for furniture, machines and systems	(95,273)	(86,709)
- fees	(19,588)	(20,689)
- maintenance	(75,685)	(66,020)
e) Professional and advisory services	(79,856)	(67,478)
f) Fees for surveys and information	(8,824)	(8,651)
g) Security and armoured cars	(15,413)	(16,850)
h) Services from third parties	(221,627)	(221,588)
i) Advertising, entertainment and gratuities	(13,453)	(9,501)
l) Insurance premiums	(10,897)	(10,472)
m) Transport, hiring and travel	(5,699)	(6,210)
- hiring	(806)	(777)
- other expenses	(4,893)	(5,433)
n) Banking industry charges	(225,032)	(214,821)
- ordinary contribution to Resolution Funds	(110,477)	(87,787)
- additional contributions to Resolution Funds	-	(28,595)
- ordinary contribution to the Interbank Deposit Guarantee Fund	(114,555)	(98,439)
o) Other costs and sundry expenses	(52,980)	(49,493)
Total	**(1,148,761)**	**(1,100,834)**

The items "d) Maintenance and fees for furniture, machines and systems" and "m) Transport, hiring and travel – hiring" include the hiring of software, short-term or low value hiring of machinery and automobiles and support fees relating to hiring.

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 and the National Resolution Fund (merged into the Single Resolution Fund 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 question, in accounting terms, the contributions are considered equivalent to a levy, and the time the "obligating event" occurs was identified in the first quarter for the SRF and in the third quarter for the IDGF.
The ordinary contribution to the Single Resolution Fund for 2022 amounted to 110.5 million (the contribution was 87.8 million in 2021). In that regard, it is noted that for 2022, as for the previous year, the Group did not avail of the option to fulfil the request by taking on an irrevocable payment commitment ("IPC - *Irrevocable Payment Commitments*").
The ordinary contribution to the Interbank Deposit Guarantee Fund, indicated in the income statement for 2022, amounted to 114.6 million (the contribution requested for 2021 was 98.4 million).
Note that in 2021, additional contributions of 28.6 million to cover the financial requirements connected with the resolution measures carried out prior to the launch of the Single Resolution Fund.

The above-indicated amounts are shown in the table above under sub-item "n) Banking industry charges".

Fee to guarantee the convertibility of DTAs - legislative changes to Decree Law no. 59/2016

Please note that Art. 11 of Italian Decree Law no. 59 of 3 May 2016, converted with amendments into Italian Law no. 119 of 30 June 2016, introduced an optional regime by virtue of which the guarantee on the convertibility into tax credits of deferred tax assets (DTAs) which meet the requirements laid out in Law no. 214 of 22 December 2011 is subject to the payment of a fee, due for the years starting from 31 December 2015 until 31 December 2029, to be determined on an annual basis.
On 21 February 2017, the law (Law no. 15 of 17 February 2017) converting the "Salva Risparmio" Decree Law was published in the Official Gazette. In detail, Art. 26-bis, paragraph 4 amended Art. 11 of Decree Law 59/2016, postponing the period for which the annual fee is due, which is now from 31 December 2016 until 31 December 2030.
Pursuant to these regulatory references, the exercise of this option, which was carried out in 2016 by both groups involved in the merger, is considered irrevocable.
In more detail, the annual fee to be paid to ensure the convertibility of the above-mentioned deferred tax assets into tax credits must be determined on an annual basis by applying the rate of 1.5% to a base obtained by adding the difference between the convertible deferred tax assets recognised in the financial statements for the previous year and the corresponding deferred tax assets recognised in the 2007 financial statements, to the amount of conversions of the same deferred tax assets carried out from 2008 until the previous year, and subtracting the taxes set forth in the Decree and paid with reference to the above-mentioned tax periods (base also referred to as "type 2 DTAs"). The fees are deductible for both IRES and IRAP purposes in the year in which they are paid.
In virtue of the cited regulatory provisions, in the income statement item in question ("190. b) Other administrative expenses"), the charges accruing during 2022 were added, which came to 27.7 million (26.6 million was indicated in the income statement in 2021).

Section 13 - Net provisions for risks and charges - Item 200

13.1 Net provisions for risks and charges relating to commitments to disburse funds and financial guarantees given: breakdown

	Allocations	Reallocations	Total 2022	Total 2021
Commitments to disburse funds and financial guarantees given	(17,807)	2,867	(14,940)	12,074

13.2 Net provisions for other commitments and guarantees given: breakdown

	Allocations	Reallocations	Total 2022	Total 2021
Other commitments and guarantees given	(11,579)	12,112	533	(17,328)

13.3 Net provisions for other risks and charges: breakdown

	Allocations	Reallocations of surpluses	Total 2022	Total 2021
Risks and charges for legal disputes	**(24,542)**	**16,711**	**(7,831)**	**(7,019)**
Other risks and charges	(44,050)	9,074	(34,976)	(13,766)
Total	**(68,592)**	**25,785**	**(42,807)**	**(20,785)**

Net provisions for other risks and charges amounted to 42.8 million and also include the estimated costs that are expected to be incurred for the rationalisation of the branch network for 8.5 million as well as the provisions relating to the estimated costs for certain contractual commitments for 18.3 million.

For more details on the allocations made, refer to the disclosure set out in "Section 10 - Provisions for risks and charges" – Item 100 of Part B – Liabilities of these Notes to the financial statements.

Section 14 - Depreciation and impairment losses on property, plant and equipment - Item 210

14.1 Depreciation and impairment losses on property, plant and equipment: breakdown

Assets/Income components	Depreciation (a)	Impairment losses (b)	Recoveries (c)	Net result (a + b - c)
A. Property, plant and equipment				
1 Used in operations	(180,771)	(2,322)	-	(183,093)
- Owned	(51,103)	-	-	(51,103)
- Rights of use acquired through leases	(129,668)	(2,322)	-	(131,990)
2 Held for investment purposes	-	-	-	-
- Owned	-	-	-	-
- Rights of use acquired through leases	-	-	-	-
3 Inventories	X	-	-	-
Total	**(180,771)**	**(2,322)**	**-**	**(183,093)**

Section 15 - Amortisation and impairment losses on intangible assets - Item 220

15.1 Amortisation and impairment losses on intangible assets: breakdown

Asset/Income components	Amortisation (a)	Impairment losses (b)	Recoveries (c)	Net result (a + b - c)
A. Intangible assets				
of which: software	(91,752)	(4,730)	-	(96,482)
A.1 Owned	(130,372)	(4,730)	-	(135,102)
- Internally generated	-	-	-	-
- Other	(130,372)	(4,730)	-	(135,102)
A.2 Rights of use acquired through leases	-	-	-	-
Total	**(130,372)**	**(4,730)**	**-**	**(135,102)**

Section 16 - Other operating expenses/income - Item 230

16.1 Other operating expenses: breakdown

	Total 2022	Total 2021
Expenses on leased assets	(14,343)	(26,173)
Other	(47,303)	(47,192)
Total	**(61,646)**	**(73,365)**

"Expenses on leased assets" relate to the costs incurred on assets used as collateral for non-performing exposures for the purchase and resale of assets under finance lease.

The item "Other" includes legal settlement charges exceeding the provisions allocated for 27.5 million (18.1 million in the previous year), operating losses relative to branch management (robbery, fraud, theft and other damages) for 4.2 million (7.2 million in 2021), as well as contingent liabilities and other contingencies.

16.2 Other operating income: breakdown

	Total 2022	Total 2021
Income on current accounts and loans	6,398	5,309
Tax recoveries	256,007	271,108
Expense recoveries	18,322	16,694
Rental income on real estate	36,878	33,885
Other	89,971	109,451
Total	**407,576**	**436,447**

The sub-item "Income on current accounts and loans" refers to the "commissione di istruttoria veloce" (fast track fee) introduced by Decree Law 201 of 6 December 2011, converted by Law 214/2011.

The sub-item "Other" includes sundry income for services rendered.

Section 17 - Gains (losses) of associates and joint ventures - Item 250

17.1 Gains (losses) of associates and joint ventures: breakdown

Income components/Sectors	Total 2022	Total 2021
1) Companies under joint control		
A. Income	**-**	**-**
1. Revaluations	-	-
2. Gains on disposal	-	-
3. Recoveries	-	-
4. Other income	-	-
B. Charges	**-**	**-**
1. Write-downs	-	-
2. Losses on impairment	-	-
3. Losses on disposal	-	-
4. Other charges	-	-
Net result	-	-
2) Companies subject to significant influence		
A. Income	**159,925**	**232,068**
1. Revaluations	159,925	232,021
2. Gains on disposal	-	47
3. Recoveries	-	-
4. Other income	-	-
B. Charges	**(13,144)**	**(18,754)**
1. Write-downs	(2,442)	(81)
2. Losses on impairment	-	(18,673)
3. Losses on disposal	(10,702)	-
4. Other charges	-	-
Net result	**146,781**	**213,314**
Total	**146,781**	**213,314**

The items Revaluations and Write-downs include gains and losses deriving from measurement of interests in companies subject to significant influence using the equity method. In particular, profits refer for 104.8 million to Agos Ducato, for 35.2 million to Anima Holding, for 6.4 million to Vera Assicurazioni, for 1.2 million to Banco BPM Vita (in relation to the share of profit for the first six months of 2022, prior to the acquisition of control), for 4.3 million to Alba Leasing, for 2.6 million to Gardant Liberty, for 1.9 million to Etica SGR, for 3.3 million to SelmaBipiemme. Losses refer to Vera Vita for 2.2 million and to Vorvel Sim for 0.2 million.

The loss on disposal refers to the economic effect of the remeasurement at fair value of the shareholding previously held in Banco BPM Vita.

Section 18 - Fair value gains (losses) on property, plant and equipment and intangible assets - Item 260

18.1 Fair value (or revalued value) gains (losses) or estimated realisable value gains (losses) on property, plant and equipment and intangible assets: breakdown

Asset/Income components	Revaluations (a)	Write-downs (b)	Exchange rate differences		Net result (a-b+c-d)
			Positive (c)	Negative (d)	
A. Property, plant and equipment	**55,047**	**(163,394)**	**-**	**-**	**(108,347)**
A.1 Used in operations:	717	(16,094)	-	-	(15,377)
- Owned	717	(16,094)	-	-	(15,377)
- Rights of use acquired through leases	-	-	-	-	-
A.2 Held for investment purposes:	54,330	(147,300)	-	-	(92,970)
- Owned	54,330	(147,300)	-	-	(92,970)
- Rights of use acquired through leases	-	-	-	-	-
A.3 Inventories	-	-	-	-	-
B. Intangible assets	**-**	**-**	**-**	**-**	**-**
B.1 Owned:	-	-	-	-	-
B.1.1 Internally generated	-	-	-	-	-
B.1.2 Other	-	-	-	-	-
B.2 Rights of use acquired through leases	-	-	-	-	-
Total	**55,047**	**(163,394)**	**-**	**-**	**(108,347)**

This item, totalling a negative 108.3 million (the balance in the previous year was a negative 141.6 million), includes the results of the fair value measurement of “revalued property, plant and equipment used in operations” and “property, plant and equipment held for investment purposes”, represented by owned real estate assets and valuable works of art.

Section 19 - Value adjustments to goodwill - Item 270

19.1 - Value adjustments to goodwill: breakdown

The results of the impairment test on goodwill recorded in the financial statements led to the recognition of an impairment loss for the year of 8.1 million on the goodwill allocated to the Bancassurance CGU.

For a description of the methods used to perform impairment tests on goodwill, please see that indicated in “Section 10 - Intangible assets” in Part B of these Notes to the financial statements.

Section 20 - Gains (losses) on disposal of investments - Item 280

20.1 Gains (losses) on disposal of investments: breakdown

Income components/Sectors	Total 2022	Total 2021
A. Real estate	**2,274**	**(723)**
- Gains on disposal	6,453	585
- Losses on disposal	(4,179)	(1,308)
B. Other assets	**(16)**	**581**
- Gains on disposal	7	596
- Losses on disposal	(23)	(15)
Net result	**2,258**	**(142)**

Section 21 - Taxation charge related to profit or loss from continuing operations – Item 300

21.1 Taxation charge related to profit or loss from continuing operations: breakdown

Income components/Sectors	Total 2022	Total 2021
1. Current taxes (-)	(60,048)	(56,468)
2. Changes in current taxes for previous years (+/-)	3,693	(7,260)
3. Decreases in current taxes for the year (+)	78	108,218
3.bis Decreases in current taxes for the year due to tax credits pursuant to Italian Law no. 214/2011 (+)	8,175	36,654
4. Change in deferred tax assets (+/-)	(298,846)	(289,404)
5. Change in deferred tax liabilities (+/-)	25,749	123,305
6. Income taxes for the year (-) (-1+/-2+3+3bis+/-4+/-5)	**(321,199)**	**(84,955)**

21.2 Reconciliation between theoretical tax charge and actual tax charge

IRES	2022		2021	
Profit (loss) before tax from continuing operations		**1,023,002**		**653,739**
Negative components of gross profit (loss) not definitively significant (+)		**294,209**		**187,960**
Non-deductible interest expense	771		391	
Capital losses from disposal/valuation of interests in associates and joint ventures/OCI	123,595		69,598	
Non-deductible taxes other than income taxes	2,176		15,438	
Non-deductible loan losses	1,661		4,791	
Administrative expenses with limited deductibility	3,545		4,184	
Other non-deductible expenses	32,589		40,528	
Goodwill impairment	8,132			
Losses of foreign companies	1,740		1,353	
Consolidation effects of intragroup equity interests				
Allocations	3,934		21,877	
Other	116,066		29,800	
Positive components of gross profit (loss) not definitively significant (-)		**(255,065)**		**(246,014)**
Insignificant portion of capital gains from disposal/valuation of interests in associates and joint ventures/OCI	(5,566)		(6,570)	
Insignificant portion of dividends before consolidation entries	(123,020)		(72,883)	
Cancellation of intragroup dividends	125,530		73,435	
Consolidation effects of intragroup equity interests	(251,478)		(235,715)	
Other	(531)		(4,281)	
Definitive increases not associated with gross profit (loss) elements (+)		**26,415**		**-**
Other	26,415		-	
Definitive decreases not associated with gross profit (loss) elements (-)		**(103,645)**		**(95,644)**
Lump sum 10% IRAP deduction and cost of labour for employees IRAP deduction	(118)		(283)	
Portion of ACE subsidisable income	(82,728)		(75,058)	
Other	(20,799)		(20,303)	
IRES calculation base, income statement		**984,918**		**500,041**
IRES nominal rate	24%		24%	
Actual IRES		**(236,380)**		**(120,010)**
IRES tax rate		**(23.11%)**		**(18.36%)**

IRAP	**2022**		**2021**	
Profit (loss) before tax from continuing operations		**1,023,002**		**653,739**
Negative components of gross profit (loss) not definitively significant (+)		**436,690**		**393,762**
Non-deductible interest expense	732		606	
Non-deductible portion of amortisation/depreciation of assets used in operations	30,898		30,854	
Other non-deductible administrative expenses	164,433		162,308	
Personnel expenses net of deductions allowed (tax wedge reduction, disabled, etc.)	2,157		2,769	
Other value adjustments pursuant to item 130 of the income statement	1,730		9,077	
Net provisions for risks and charges	57,335		24,988	
Other operating expenses	58,733		31,817	
Losses on interests in associates and joint ventures	105,479		23,359	
Goodwill impairment	8,132		-	
Consolidation effects of intragroup equity interests	-		-	
Other	7,061		107,984	
Positive components of gross profit (loss) not definitively significant (-)		**(297,639)**		**(261,862)**
Gains on interests in associates and joint ventures	-		-	
Insignificant portion of dividends before consolidation entries	(86,889)		(61,466)	
Cancellation of intragroup dividends	125,530		73,435	
Other operating income	(58,940)		(32,366)	
Profits on disposal of insignificant investments	(2,977)		(960)	
Consolidation effects of intragroup equity interests	(251,478)		(235,715)	
Other	(22,885)		(4,790)	
Definitive increases not associated with gross profit (loss) elements (+)		**7,107**		**-**
Adjustments to neutralise negative value of production	-		-	
Other	7,107		-	
Definitive decreases not associated with gross profit (loss) elements (-)		**(20,184)**		**(24,243)**
Other	(20,184)		(24,243)	
IRAP calculation base, income statement		**1,148,976**		**761,396**
Nominal average weighted IRAP rate	5.54%		5.46%	
Actual IRAP		**(63,678)**		**(41,567)**
IRAP tax rate		**(6.22%)**		**(6.36%)**

IRES and IRAP not accruing during the year and other taxes	**2022**		**2021**	
Total impact		**(21,141)**		**76,622**
IRES - Current taxes and deferred tax assets and liabilities from previous years	3,251		12,175	
IRES - Additional 3.5% rate	(33,394)		(19,483)	
IRAP - Current taxes and deferred tax assets and liabilities from previous years	9,167		2,374	
Realignment			81,709	
Foreign taxes - other	(165)		(153)	
IRES and IRAP tax rate not accruing during the year and other taxes		**(2.07%)**		**11.72%**

Total taxes on gross profit (loss)	**2022**	**2021**
Total IRES + IRAP + Other taxes	**(321,199)**	**(84,955)**
Total tax rate	**(31.4%)**	**(13%)**

It should be noted that the only taxes referring to countries other than Italy amount to 165 thousand euro (153 thousand euro for the year 2021), as indicated in the previous tables, and refer to taxes determined pursuant to

Swiss tax regulations by the subsidiaries Bipielle Bank (Suisse) S.A. in liquidation and Banca Aletti & C. (Suisse) S.A. based in Switzerland.

Section 22 - Profit (loss) after tax from discontinued operations - Item 320

22.1 Profit (loss) after tax from discontinued operations: breakdown

This item was blank for the current year and the previous year. Therefore, the related table is omitted.

22.2 Breakdown of taxation charge related to profit or loss from discontinued operations

This item was blank for the current year and the previous year. Therefore, the related table is omitted.

Section 23 - Profit (loss) for the year attributable to non-controlling interests - Item 340

23.1 Breakdown of item 340 "profit (loss) for the year attributable to non-controlling interests"

Company names	2022	2021
Interests in consolidated companies with significant non-controlling interests	-	-
Other interests	786	284
Total	**786**	**284**

The amount refers to the non-controlling share of profit (loss) of the subsidiary BRF Property.

Section 24 - Other information

There is no other significant information other than that already provided in the above sections.

Section 25 - Earnings per share

	31/12/2022		31/12/2021	
	Basic EPS	Diluted EPS	Basic EPS	Diluted EPS
Weighted average of ordinary shares (number)	1,508,790,220	1,508,790,220	1,510,823,282	1,510,823,282
Attributable profit (loss) (thousands of euro)	699,589	699,589	567,068	567,068
EPS (euro)	**0.464**	**0.464**	**0.375**	**0.375**

25.1 Average number of ordinary shares with diluted capital

Note that as at 31 December 2022 the Basic EPS matched the Diluted EPS, as there were no financial instruments with potential dilution effects.

25.2 Other information

There is no other significant information other than that already provided in the above sections.

PART D – STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

Analytic statement of consolidated comprehensive income

Items		31/12/2022	31/12/2021
10.	**Profit (loss) for the year**	**701,803**	**568,784**
	Other comprehensive income without reclassification to the income statement	**2,018**	**139,815**
20.	Equity instruments designated at fair value through other comprehensive income:	(37,725)	15,826
	a) fair value change	(35,627)	15,304
	b) transfers to other shareholders' equity components	(2,098)	522
30.	Financial liabilities designated at fair value through profit and loss (changes to its own credit risk):	(13,619)	3,828
	a) fair value change	(14,068)	4,027
	b) transfers to other shareholders' equity components	449	(199)
40.	Hedges of equity instruments designated at fair value through other comprehensive income:	-	-
	a) fair value change (hedged instrument)	-	-
	b) fair value change (hedging instrument)	-	-
50.	Property, plant and equipment	7,291	10,983
60.	Intangible assets	-	-
70.	Defined benefit plans	55,638	(7,615)
80	Non-current assets and disposal groups held for sale	-	-
90.	Share of valuation reserves related to interests in associates and joint ventures carried at equity	917	(239)
100.	Income taxes relative to other comprehensive income without reclassification to the income statement	(10,484)	117,032
	Other comprehensive income with reclassification to the income statement	**(952,330)**	**(108,790)**
110.	Foreign investment hedges:	(999)	(1,067)
	a) fair value changes	(999)	(1,067)
	b) reclassification to income statement	-	-
	c) other changes	-	-
120.	Exchange rate differences:	2,371	2,138
	a) changes in value	-	-
	b) reclassification to income statement	-	-
	c) other changes	2,371	2,138
130.	Cash flow hedges:	(16,790)	(18,119)
	a) fair value changes	(16,790)	(18,119)
	b) reclassification to income statement	-	-
	c) other changes	-	-
	of which: result of net positions	-	-
140.	Hedging instruments (non-designated items):	-	-
	a) changes in value	-	-
	b) reclassification to income statement	-	-
	c) other changes	-	-
150.	Financial assets (other than equity instruments) measured at fair value through other comprehensive income:	(1,099,436)	(129,584)
	a) fair value changes	(950,880)	(68,783)
	b) reclassification to income statement	(52,212)	(60,801)
	- losses on credit risk	1,543	385
	- profit/loss from disposal	(53,755)	(61,186)
	c) other changes	(96,344)	-
160.	Non-current assets and disposal groups held for sale:	-	-
	a) fair value changes	-	-
	b) reclassification to income statement	-	-
	c) other changes	-	-
170.	Share of valuation reserves related to interests in associates and joint ventures carried at equity:	(293,824)	(16,319)
	a) fair value changes	(293,824)	(16,319)
	b) reclassification to income statement	-	-
	- impairment adjustments	-	-
	- profit/loss from disposal	-	-
	c) other changes	-	-
180.	Income taxes relative to other comprehensive income with reclassification to the income statement	456,348	54,161
190.	**Total other comprehensive income**	**(950,312)**	**31,025**
200.	**Comprehensive income (Item 10+190)**	**(248,509)**	**599,809**
210.	Consolidated comprehensive income attributable to non-controlling interests	(786)	(284)
220.	**Consolidated comprehensive income attributable to the Parent Company**	**(247,723)**	**600,093**

PART E – INFORMATION ON RISKS AND RELATED HEDGING POLICIES

This Part E provides information on the Group's risk profiles, relating to the management and hedging policies for risk (credit, market, liquidity and operational) implemented by the Group, and operations in derivative financial instruments.
For more information on the monitoring and management of risk of Banco BPM Group (capital adequacy, exposure to risk and the general characteristics of the systems set in place to manage and control them) refer to the document "Disclosure to the Public by Entities - Pillar III", drawn up in accordance with the provisions of the Bank of Italy Circular no. 285 of 17 December 2013, which transposed the provisions contained in Regulation EU no. 575/2013 (CRR), as amended by Regulation EU no. 876/2019 (CRR II), as well as in accordance with other applicable external directives, and made available, within the terms provided by the regulations, in the Investor Relations section of the website www.gruppo.bancobpm.it.

Section 1 - Risks of the consolidated book

QUANTITATIVE INFORMATION

A. Credit quality

A.1 Non-performing and performing credit exposures: outstanding amounts, value adjustments, changes and economic distribution

A.1.1 Distribution of financial assets by portfolio and by credit quality (book values)

Portfolio/quality	Bad loans	Unlikely to pay	Non-performing past-due exposures	Performing past-due exposures	Performing exposures	Total
1. Financial assets at amortised cost	720,583	1,574,841	60,084	1,207,966	135,576,292	139,139,766
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	12,540,843	12,540,843
3. Financial assets designated at fair value	-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value	745	53,502	13	70	540,309	594,639
5. Financial assets held for sale	-	-	-	-	51,860	51,860
Total 31/12/2022	**721,328**	**1,628,343**	**60,097**	**1,208,036**	**148,709,304**	**152,327,108**
Total 31/12/2021	**906,674**	**2,414,770**	**50,221**	**577,272**	**147,367,263**	**151,316,200**

Performing exposures in the portfolio of "Other financial assets mandatorily measured at fair value" include 219 million of restructured exposures as part of the Wolf transaction described in the section "Other significant aspects relating to Group accounting policies", contained in section 5 - Other aspects in Part A of these Notes. In fact, it was deemed that the transaction is not attributable to an ordinary concession to the customer, given the extraordinary elements that substantially determine the change in the ownership and control structures of the initiative and that are considered an improvement of the overall situation of the customer. It should be noted that this interpretation is at the date of this Report under discussion with the Supervisory Authority exclusively with reference to the classification methods for prudential purposes, without prejudice to the valuation of exposures in the financial statements as at 31 December 2022 as the prudential classification has no impact on the determination of their fair value.

Information on the portfolio to which forborne credit exposures belong

As at 31 December 2022, net forborne exposures amounted to 3,994.4 million (of which 1,250.7 million non-performing and 2,743.7 million performing) and were mainly attributable to the portfolio of "Financial assets at amortised cost - loans to customers"; for further information on these exposures, reference should be made to table A.1.5 below.

A.1.2 Distribution of financial assets by portfolio and by credit quality (gross and net values)

Portfolio/quality	Non-performing				Performing			Total (net exposure)
	Gross exposure	Total value adjustments	Net exposure	Total partial write-offs*	Gross exposure	Total value adjustments	Net exposure	
1. Financial assets at amortised cost	4,768,673	(2,413,165)	2,355,508	379,862	137,213,083	(428,825)	136,784,258	139,139,766
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	12,545,507	(4,664)	12,540,843	12,540,843
3. Financial assets designated at fair value	-	-	-	-	X	X	-	-
4. Other financial assets mandatorily measured at fair value	124,222	(69,962)	54,260	-	X	X	540,379	594,639
5. Financial assets held for sale	-	-	-	-	51,860	-	51,860	51,860
Total 31/12/2022	**4,892,895**	**(2,483,127)**	**2,409,768**	**379,862**	**149,810,450**	**(433,489)**	**149,917,340**	**152,327,108**
Total 31/12/2021	**6,581,030**	**(3,209,365)**	**3,371,665**	**427,545**	**148,104,062**	**(463,034)**	**147,944,535**	**151,316,200**

(*) Value to be shown for disclosure purposes

Portfolio held for trading and derivatives

The following table shows the credit quality of credit exposures classified as financial assets held for trading (securities and derivatives) and hedging derivatives (not shown in the table above):

Portfolio/quality	Assets of evident poor credit quality		Other assets
	Cumulative capital losses	Net exposure	Net exposure
1. Financial assets held for trading	(1,329)	154	3,141,274
2. Hedging derivatives	-	-	1,717,211
Total 31/12/2022	**(1,329)**	**154**	**4,858,485**
Total 31/12/2021	**(1,725)**	**1,439**	**3,374,977**

B. Disclosure of structured entities (other than the companies for securitisation)

B.1 Consolidated structured entities

As at 31 December 2022, there were no structured entities consolidated in the accounts other than the securitisation entities, included in the scope of Banco BPM Group.

B.2 Unconsolidated structured entities

B.2.1 Prudentially consolidated structured entities

As at 31 December 2022, there were no structured entities prudentially consolidated in the accounts, included in the scope of Banco BPM Group.

B.2.2 Other structured entities

The Group holds interests in UCITs (funds and SICAVs), primarily in order to meet its investment needs. These also include fund units held following sales of multi-originator non-performing credit exposures of the Group.
Total exposure to these investments amounted to 3,530.8 million (1,091.6 million as at 31 December 2021).
For further details please refer to:
- the information provided in the tables breaking down items 20 a) and 20 c) of the balance sheet assets, contained in Part B of these Notes;
- the Section "Risks of prudential consolidation - D.3 Sale transactions - Financial assets sold and fully derecognised" below.

Additional involvement in structured entities, which goes beyond the mere holding of units, is represented by the activity of placing UCIT units.
The Group's net revenues deriving from the placement of Investment funds in 2022 amounted to 499.7 million (592.2 million in 2021).

Section 2 - Risks of prudential consolidation

Group Risk Appetite Framework (RAF)

During the first quarter of 2022, the Board of Directors of the Parent Company Banco BPM approved the new Risk Appetite Framework (hereinafter, also "RAF"), both at consolidated level and at the level of the most important individual Legal Entity, through which the Body with strategic supervision functions approves the level of risk that the Group is willing to accept in pursuing its strategic objectives. Subsequently, with the finalisation of the acquisition of control of Bipiemme Vita and Bipiemme Assicurazioni, in the third quarter of 2022, the Group's RAF was integrated with the RAF referring to the Insurance Companies. In particular, the Parent Company's Risk Function together with the Company's Risk Function completed the revision of the RAF of the Companies, in order to bring it into line with the Group's RAF.

The new framework comprises the following basic elements:

1. Governance, which defines the roles and responsibilities of the parties involved and the information flows between them;
2. the system of metrics, which summarises risk exposure;
3. the system of thresholds, which defines the risk appetite;
4. the escalation process, activated with different levels of intensity and parties involved when the various thresholds defined are exceeded;
5. the Risk Appetite Statement (RAS), in which the metrics and methods for calculating the thresholds are analysed;
6. the instruments and procedures, which support the representation and operational management of the RAF, including "Most Significant Transactions (MST)" and "Significant Transactions (ST)".

The RAF is the tool that makes it possible to establish, formalise, communicate, approve and monitor the risk objectives that the Group and the individual relevant Legal Entities intend to assume. To this end, it is divided into thresholds and risk areas that make it possible to identify in advance the levels and types of risk that the Group intends to assume, stating the roles and responsibilities of the Corporate bodies and functions involved in the process of managing these risks. More specifically, the Risk Function has strengthened the overall structure of the Framework, by envisaging, for certain indicators:

- the breakdown by hierarchical levels and risk area (cascading down);
- horizontal cascading at Legal Entity and business line/portfolio level.

The Group must ensure that the RAF, in its operational version, is used and internalised and constitutes an element of guidance for the preparation of processes such as, for example, the Strategic Plan and the Budget, as well as the internal processes of self-assessment of capital adequacy (ICAAP) and liquidity adequacy (ILAAP). The framework is also used as an operational tool within the Recovery Plan and when defining Remuneration Policies.
The general principles that guide the Group's risk assumption process can be summarised as follows:

- the activities carried out take into account the risks assumed and the measures set in place to mitigate them over the short and medium-long term;
- particular attention is paid to capital and liquidity adequacy and to the credit quality of the portfolio, also in the light of the introduction of new legislation and regulatory restrictions imposed by the Supervisory Authority.

In 2022, the ESG (Environmental, Social and Governance) area was reinforced further through the introduction, for each risk area, of new RAF indicators, consistent with the ESG project defined by the Group. Given the importance of the issue, specific ESG indicators referring to Insurance Companies were also introduced.
The RAF's set of indicators leverages the Risk Identification process and takes into account recent legislative provisions relating to Risk Governance. All significant risks identified at the end of this process are considered when the Risk Appetite Framework is drawn up and specific indicators to monitor them are identified. In particular, the Group's RAF has identified a set of indicators for the main risk areas: Pillar I and Pillar II Capital Adequacy, Adequacy of Liquidity/Funding & IRRBB, Credit Quality, Profitability, Operational/Conduct, Other Significant Issues and areas of specific financial risks for Insurance Companies.
The indicators that summarise the Group's risk profile in these areas have been divided into 3 levels, differentiating them between strategic indicators, which allow the Board of Directors to guide the Group's strategic choices, operational indicators, in order to integrate and anticipate the dynamics - where possible - of the strategic indicators, and Early Warning indicators (hereinafter also EWI), which cover the risk areas of the Operational RAF perimeter enabling the dynamics of the indicators belonging to the Strategic and Operational RAF to be anticipated. Specifically:

- the Strategic RAF is a set of metrics and thresholds that enable the Group's risk strategy to be defined and monitored. It includes a limited and exhaustive number of indicators, which express the risk appetite approved by the Board of Directors and represent the summary performance of the overall risk profile;
- the Operational RAF is a set of metrics that enables the strategic indicators to be integrated and broken down and the evolution of the risk profile to be anticipated. These metrics enable specific aspects of the main business processes to be encompassed and are usually monitored with greater frequency in line with their task of anticipating critical situations;
- the Early Warning Indicators are a set of metrics useful for predicting signs of deterioration of the indicators included in the Strategic and Operational RAF. These metrics enable specific aspects of the main

business processes to be encompassed and are usually monitored with greater frequency in line with their task of anticipating critical situations.

The system of thresholds for the Strategic indicators envisages the definition of the following limits:

- *Risk Target* (Medium to Long Term Objective): normally the risk objective defined in the Industrial Plan at Group level. It indicates the level of risk (overall and by type) to which the Group is willing to be exposed to pursue its strategic objectives;
- *Risk Trigger*: this is the threshold, differentiated by indicator, the exceeding of which activates the various escalation processes envisaged by the Framework. The Risk Trigger is also determined with stress tests. The system of limits used for operational purposes (Risk Limits) is defined in accordance with the Trigger values;
- *Risk Alert*: this is the threshold for Early Warning Indicators, the exceeding of which does not activate the various escalation processes envisaged by the Framework, but an information flow to the Committees and Corporate Bodies. The Risk Alert is also determined by the use of stress tests, and in line with the Trigger values of the operational or strategic indicators, which anticipate their trends;
- *Risk Tolerance*: this is the maximum permitted deviation from the Risk Appetite; the tolerance threshold is set in such a way so as to ensure that the Group has sufficient margins to operate, even in conditions of stress, within the maximum risk that may be assumed;
- *Risk Capacity*: this is the maximum level of risk that the Group is able to assume without infringing regulatory requirements or other restrictions imposed by the shareholders or by the Supervisory Authority.

As regards the operational indicators, only the Risk Trigger is established: exceeding the risk limits triggers the prompt activation of specific escalation processes.

On the other hand, as regards the Early Warning indicators, only the Alert threshold is established, and exceeding the risk limits does not trigger the activation of specific escalation processes, but a prompt information flow is prepared for the Committees and Corporate Bodies.

The Risk Function, in collaboration with the Planning and Control Function and the other relevant Functions, develops the RAF, providing support to the Management Body (MB), from a legislative and operating perspective, consistent with strategy, business plans and capital allocation in ordinary conditions and in stressed situations. The RAF is updated at least once a year, also in the event of changes in the internal and external conditions in which the Group operates.

From an operating perspective, ex ante risk management activities are also found in the process to manage the Most Significant Transactions (relating to credit, finance, disposal of loans, etc.), which primarily involve the Risk Function, which must express a prior and non-binding opinion on all transactions categorised as such based on criteria established and regulated internally. In the credit area, the scope of application of the ex-ante opinions of the Risk Function envisages the issue of a prior opinion also for transactions defined as Significant, allowing the preventive assessment of a significantly higher number of loan transactions, both in the disbursement phase - with reference also to the SME portfolio - and in the phase of classification from higher to lower risk, and vice versa. The scope of MST and ST in the credit sector was expanded in 2022, including assessments relating to "Real Estate Finance" transactions (in particular Real Estate Development - RED - and Income Producing Real Estate - IPRE), which were implemented in the second half of 2022.

The Group also provides specific and dedicated training activities and courses with a view to disseminating and promoting a solid and robust risk culture within the Bank.

As part of the "Advanced Analytics" project, Banco BPM organised "Common Understanding" training sessions and a course to develop Data Science skills, which involved several Managers and colleagues of the Risk Function. The courses also continued in 2022, with training sessions dedicated to the SAS and Python programming languages.

In continuity with the "ESG Action Plan" launched in 2021, in 2022 a training programme was defined aimed at encouraging the development of a corporate culture in the Credit sector, and raising the awareness of the functions concerned, with specific indicators, given the integration of climate and environmental (ESG) aspects in the RAF and in Credit Policies.

Jointly, training initiatives were carried out to support the EBA-LOM (Guidelines on Loan Origination and Monitoring) Programme with a view to strengthening lending skills as a whole and to supporting the application of methodologies and tools for the assessment and monitoring of credit risk.

In the second half of 2022, Banco BPM activated a training plan to strengthen insurance skills in support of the Bancassurance Insourcing project. The training concerned core aspects such as: characteristics of the insurance business (life and non-life segments), reference regulatory framework, governance and operating model, accounting and financial statement standards, Solvency II.

Specifically, the Risk Function was involved in all cross-functional training initiatives and in the training deriving from the ESG and EBA LOM Programmes.

Monitoring and reporting activities

The risk monitoring and control activities performed by the Risk Function seek to ensure, at Group and individual Legal Entity level, the harmonised supervision of risks, by guaranteeing appropriate and timely information to the Corporate Bodies and Organisational Units involved in managing said risks, ensuring the development and continuous improvement of the methods and models adopted for their measurement.

To this end, the Parent Company prepares periodic reports for the Corporate Bodies in line with the Group's internal policies. As part of integrated risk reporting prepared at Group and individual Legal Entities level, the Risk Function analyses the main risks to which the Group and the individual Legal Entities are exposed, and conducts a periodic assessment of the risk profile of the RAF indicators by comparing it with the thresholds defined in the framework, providing historic and detailed analyses that explain the trends, the areas that need attention and the areas for improvement. It should be noted that, at Insurance Company level, monitoring is carried out directly by the Company's Risk Function; the Parent Company's Risk Function integrates this information in its periodic reporting in order to provide complete information on the Group's performance. Furthermore, at least on a quarterly basis an update is provided in integrated reporting on Recovery Plan indicator trends; this analysis is prepared by the "Recovery & Resolution Plans" Function, with the support of the Risk Function.
Positioning analyses (benchmarks) provide the Corporate Bodies of the Parent Company and top management with an at least six-monthly update on the Group's positioning, representing different comparisons on the main indicators with respect to the banking system identified by the EBA Risk Dashboard, or a significant European sample comparable with Banco BPM Group, making use of the main findings and the risk metrics reported in the EBA Risk Dashboards and in the information contained in the Market Disclosure (Pillar 3) documents, therefore enabling any opportunities for improving risk management to be identified.
A verification of current and forward-looking capital adequacy, both from a Pillar I (regulatory) perspective and from a Pillar II (economic) perspective, in accordance with the provisions of the ECB ICAAP Guidelines, is also reported periodically to the Committees and Corporate Bodies.

Pillar I and Pillar II capital adequacy

To provide its management team and the Supervisory Authority with a complete and informed disclosure, which confirms the adequacy of its own funds, the first defence against the risks assumed, Banco BPM Group assesses its capital situation from a current and forward-looking perspective, both as regards Pillar I and Pillar II, based on Basel III rules (which are applied through CRR/CRD IV) and the specific guidelines that the banks receive from the Supervisory Authority.

As regards Pillar I, the Group's capital adequacy entails continuously monitoring and managing the capital ratios, calculated on the basis of the information provided by the Administration and Budget Function through the application of the rules established by Supervisory Regulations, in order to verify compliance with regulatory limits and to ensure that the minimum capitalisation levels required are maintained. These ratios are also estimated during the Budget or Strategic Plan preparation process, and their consistency with the thresholds established in the Risk Appetite Framework (RAF) and the estimates made in the Capital Plan is verified.
As regards Pillar II, the Risk Function is tasked with coordinating the internal process to determine the Group's capital adequacy, in accordance with regulatory provisions, and with making the current and forward-looking estimates, in both a baseline and stressed scenario, reported to the Corporate Bodies and included annually in the ICAAP (Internal Capital Adequacy Assessment Process) package submitted to the Supervisory Authorities.

Within ICAAP, capital adequacy is assessed by verifying compliance with both Pillar I and Pillar II capital constraints (capital reserve calculated as the ratio between Available Financial Resources - AFR and capital requirements - ECAP, calculated using advanced methods developed internally and validated by the competent corporate function), using the Risk Appetite Framework, as well as qualitative elements.
The outcome of the internal assessment of capital adequacy, conducted on a multi-year basis, takes into consideration both the simulations made from a regulatory perspective and via the application of internal management methods (economic perspective). The simulations are conducted under normal operating conditions and also consider the results of the application of stress scenarios.
In accordance with the ICAAP Guidelines issued by the European Central Bank, at least on a six-monthly basis, Banco BPM Group also updates analyses to verify its regulatory and economic capital adequacy.
The above guarantees that the self-assessment required by the Supervisory Authority is performed on a continuous basis. The main results emerging from this specific monitoring exercise are reported to the Bank's Corporate Bodies.
The updating of capital adequacy analyses also enables changes in the external macroeconomic scenario to be taken into account, and any vulnerable areas and/or elements relating to the Group to be identified, at the same time defining the potential actions deemed most appropriate, with a view to maintaining adequate capital buffers, to guarantee that the medium/long-term company strategies and objectives can be pursued.

Outcomes of internal validation activities

The Internal Validation Function conducts qualitative and quantitative analyses to assess the soundness and accuracy of Pillar I and Pillar II risk estimates.
Furthermore, as regards ICAAP, the Function expresses an opinion on the regular functioning, on the predictive capacity, on the performance and on the prudence of the internal risk measurement methods.
From the analyses conducted in 2022, no significant gaps in risk measurement emerged.

Pillar I and Pillar II liquidity adequacy

Banco BPM Group manages the adequacy of the liquidity profile both from a current and forward-looking perspective, with regard to Pillar I and Pillar II, on the basis of the regulatory framework of Basel 3 and the guidelines of the Supervisory Authority.

As regards Pillar I, the Group's liquidity adequacy is continuously monitored by two indicators: (i) the Liquidity Coverage Ratio (LCR), which seeks to enhance the short-term resilience of the Bank's liquidity risk profile by ensuring that it has sufficient high quality liquid resources to overcome an acute situation of stress that lasts for one month; (ii) the Net Stable Funding Ratio (NSFR), which seeks to improve longer term resilience by providing the Bank with greater incentives to fund its own activities by drawing from more stable sources of funding on a structural basis. This structural indicator has a timeline of one year and has been drawn up to guarantee that assets and liabilities have a sustainable structure by maturity. As part of Pillar II, these indicators are supplemented by metrics developed internally, complementary to the regulatory liquidity indicators, and by stress tests.
The Group has also set in place an Internal Liquidity Adequacy Assessment Process (ILAAP) and strategy. In fact, the ILAAP is the internal process through which Banco BPM Group manages and monitors liquidity risk at Group level and assesses liquidity adequacy in both the short and medium-long term. The ILAAP also includes an annual internal self-assessment of its overall liquidity risk management framework, aimed at continuous improvement of the same.

Other risks considered by the Group

The process of identifying risks (Risk Identification) represents the starting point for all the Group's strategic processes. This process represents a structured and dynamic process that is carried out annually at Group level by the Risk Function, with the involvement of the top management of the Bank and of the main Group companies and makes it possible to identify the main risk factors and emerging risks to which it is or could be exposed, ensuring that the process itself is actually acted upon and known within the Group. The output of the process takes the form of a Risk Inventory, which is a list of all the risks identified by the Group, including those against which an economic capital has been calculated, for which suitable organisational controls are defined for their prevention and mitigation, and a Risk Map, which comprises a list of risks only considered significant for Banco BPM Group quantified using internal models. The latter represents the basis for defining the RAF indicators and the risks contained in it must be considered in the ICAAP.

The Parent Company, Banco BPM, guarantees the measurement, monitoring and management of the capital requirements for each type of significant risk and guarantees the supervision and quantification of the capital resources available to the Group to cover risk exposure, in order to fulfil the regulatory obligations of the First and Second Pillar. More specifically, the centralised management of Group capital adequacy, which entails a comparison between the amount of available capital resources and the capital requirements resulting from the risks to which the Group is exposed, from a current and forward-looking perspective, in normal and stressed conditions, is performed by implementing the internal capital adequacy assessment process (ICAAP).
In addition to Pillar I risks (credit risk, counterparty risk, market risk, operational risk) the risks identified by Banco BPM Group following implementation of the Risk Identification process (Risk Inventory) are listed below:

SECURITISATION	This is the risk that the economic substance of a securitisation transaction performed by a Group company is not fully reflected in risk assessment and management decisions.
CREDIT CONCENTRATION	Risk that derives from credit exposures to counterparties, groups of counterparties that are connected to one another or belong to the same economic sector or carry out the same business or belong to the same geographical area.
COMMERCIAL	This is the current and future risk associated with a potential decline of net interest income with respect to the objectives established due to low customer satisfaction with the products and services offered by the Group due to adverse market conditions.
CONCENTRATION OF RISKS	This represents the risk that the exposure towards a single counterparty may lead to different types of risk at the same time.
CONDUCT	This risk is included in operational risk. This is defined as the current and future risk of losses caused by the inadequacy of the financial services provided, including the risk of misconduct and incorrect treatment of customers.
OUTSOURCING	This is the risk that derives from outsourcing/service contracts with partners outside the Group.
EXECUTION	Losses due to shortcomings in the settlement of transactions or in process management, as well as losses due to relations with commercial counterparties, sales agents and suppliers.
ICT	This is the risk of financial, reputational and market share losses due to the use of information and communication technology (ICT).
PROPERTY	Current and future risk resulting from changes in the value of the property held by the Group caused by fluctuations in the Italian property market.
EXCESSIVE FINANCIAL LEVERAGE	This is the risk that a particularly high level of debt with respect to own funds could make the Bank vulnerable, requiring it to take corrective measures in its business plan, including selling assets at a loss, which could require recognising value adjustments on other assets as well.
MARKET RISK IN THE BANKING BOOK	This is the risk of loss due to transactions on the market of financial assets classified in the banking book.
MODEL	This is the risk that the model used in a measurement process or which strategic decisions are based on gives an erroneous output due to an erroneous specification, flawed processing or the improper use of the model.
COMPLIANCE	The risk of incurring legal or administrative sanctions, significant financial losses or reputational damage as a result of the violation of binding rules (laws, regulations) or self-regulatory systems (e.g., Articles of Association, codes of conduct, corporate governance codes). This includes the risk of money laundering and financing terrorism.
COUNTRY	This is the risk of losses caused by events taking place outside Italy. The concept of country risk is wider than that of sovereign risk as it refers to all exposures regardless of the nature of the counterparties, which may be natural persons, enterprises, banks or the public administration.
EQUITY INTEREST	This is the risk resulting from changes in the value of interests in associates and joint ventures held in the banking book due to market volatility or the status of the issuer.
REGULATORY	The risk resulting from current regulatory developments which could influence the pursuit of the strategies identified by the Group.
REPUTATIONAL	This is the risk associated with a negative perception of the Bank's image by its customers, shareholders, investors, financial analysts and the Supervisory Authorities, which could have a negative influence on the Bank's ability to maintain or develop new business opportunities or to continue to have access to funding.
RESIDUAL	This is the risk that generally accepted techniques to mitigate credit risk used by the Group may be less effective than expected. To quantify it, the significance of the various types of Credit Risk Mitigation (CRM) tools is assessed in terms of reducing the capital requirement resulting from their use.
STRATEGIC	This is the current and future risk associated with a potential fluctuation of profits or of capital due to an inadequate market positioning or flawed managerial decision making. More specifically, it represents the risk that the competitive/strategic positioning choices do not produce the expected results, penalising the achievement of short and medium to long-term economic and capital objectives, or even provoking unwanted decreases in profitability levels and capital soundness. In this view, strategic risk related to the possibility of failure of company projects, which results in disruption to Bank management and inertia when faced with unforeseen market dynamics.
INTEREST RATE IN THE BANKING BOOK	Risk of changes in the net interest income (Funding Cost Risk) and the economic value of Banco BPM Group as a result of unexpected changes in interest rates which affect positions classified in the banking book for regulatory purposes. The risk arises mainly from acting as intermediary in the process

	of transforming maturities. In particular, the fair value of issued fixed-rate securities, the disbursement of fixed-rate commercial credit lines and loans, and collection via current accounts presents a source of interest rate risk. Cash flows from assets and liabilities subject to floating rates also represent a source of interest rate risk. Said risk includes the Basic risk component.
TRANSFER	This is the risk that a Bank exposed to a party that obtains funding in a currency other than the currency of its main revenue sources may incur losses due to the debtor's difficulty in converting its currency into the currency in which the exposure is denominated.
LIQUIDITY	The risk that the Group is unable to meet its payment commitments, which are certain or envisaged with reasonable certainty due to the inability: i) to raise funds without compromising its core business activities and/or its financial situation (funding and liquidity risk); ii) to liquidate specific assets without incurring losses on the capital account due to the poor depth of the reference market and/or due to the timing with which the transaction must be performed (market liquidity risk).
CLIMATE RISK	Direct and indirect risks related to climate change issues

ESG risk factors

As part of the update of the Risk Identification process, carried out in 2022, the Group defined the specific risk factors for ESG issues, dividing them between those related to climate and those relating to governance, social sustainability, and for the insurance business.

Risk management is one of the fundamental components of Banco BPM Group's operating activities. The approach to risk management has evolved considerably in recent years, when the risk related to the effects of climate change was fully integrated as a driver for the development of medium/long-term business strategy, stimulating the various interested parties, including Banco BPM, to take proactive steps to meet the growing interest of the various stakeholders in this issue. This need emerged in particular following the international commitment stated with the 2015 Paris Climate Agreement and with the European Climate Law (EEC/EU Regulation no. 1119 of 30 June 2021), which sets out a binding objective of climate neutrality in the European Union by 2050 and an intermediate target for reduction of greenhouse gas emissions by at least 55% by 2030 with respect to the levels recorded in 1990.

In addition to all of the other projects undertaken as regards the analysis, management and mitigation of the risks relating to climate change, Banco BPM's decision to join the Task Force on Climate-Related Financial Disclosures (TCFD) further confirms the Group's awareness of playing a prominent role in action taken against climate change. For further details on the management and mitigation of climate and environmental risks, please refer to the Group's specific disclosure documentation: 2022 Non-Financial Statement, and 2022 Annual Pillar 3 Disclosure.

Recent development concerning the ECB

The European Central Bank has a prominent role in guiding the players in the banking and credit sector towards the disclosure of risks related to climate change. In November 2020, the ECB published the final version of the "Guide on climate-related and environmental risks" for banks, which contains the Regulator's expectations as regards the management of these risks, followed by the communication of the Chair of the ECB Supervisory Board in January 2021, concerning "Supervisory Expectations on climate-related and environmental risk: request for self-assessment and implementation plans", through which Banks were asked to conduct a self-assessment of the variances found with respect to the expectations contained in the ECB Guide (Questionnaire A, sent to the Supervisory Authority on 28 February 2021) and to provide action plans with a view to monitoring the impact of climate and environmental changes (Questionnaire B, transmitted in May 2021).
With reference to the latter document, the main actions envisaged were divided into the following macro-areas, the main elements of which are summarised below:

1. Business Model and Strategy: to take strategic decisions that are consistent with and respect the context in which it operates, Banco BPM needs to understand the impact of climate-related and environmental risks. To this end, in the Strategic Plan presented in November 2021, the main strategic objectives as regards the management of climate-related and environmental risks were indicated, as well as the ways they can be integrated into the business and operations, also through Banco BPM's ESG Programme, which involves the company at all levels.
2. Governance and Risk Appetite: when drawing up business strategy and when establishing business objectives, Banco BPM intends to consider the impact of climate-related and environmental risks, by including specific indicators that summarise the exposure to the risk in these areas in its Risk Appetite

Framework (RAF), to allow the Board of Directors and the company functions involved to take decisions relating to the management of these risks.
3. Risk Management: to be able to consider climate-related and environmental risks as key drivers for the other categories of risk included in the risk management framework, the physical and transition risks that the loan portfolio of Banco BPM Group is exposed to have to be identified, making it possible to integrate such factors also within the definition and assessment of customer creditworthiness and in loan origination, monitoring and pricing processes. The environmental and climate-related risk components must also be adequately considered in processes for defining business continuity plans and in the implementation of operational, reputational, market and liquidity risk management frameworks.
4. Disclosure: Banco BPM is required to publish the information and results related to climate-related and environmental risks deemed relevant by developing reporting in line with the expectations established by specific legislation on the subject.

As illustrated in detail in the Report on Operations, during 2022, the Group was engaged in carrying out the Climate Risk Stress Test 2022, performed by the ECB on the entire European banking sector. This test, the first on climate issues, represents a "learning exercise" for both banks and the Regulator, and aims to collect qualitative and quantitative information from banks, to assess the sector's degree of preparation in the management of climate risk and gather best practices to address it. The aggregated results for the year were published by the ECB on 8 July 2022.

The main initiatives implemented in 2022

In 2022, Banco BPM continued the development and implementation activities of the many project initiatives aimed at analysing and managing climate and environmental risks, both with regard to the specific ESG Programme and in response to the expectations of the ECB Guide on the subject, in line with the detailed operational plans defined by the Group and recently updated as part of the overall thematic review process (Thematic Review).

More specifically, the activities launched by Banco BPM mainly concern the following Workstreams of the ESG Programme:

- Governance: with a view to strengthening the organisational model that encompasses the various ESG dimensions, by better specifying appropriate roles and responsibilities, as well as reinforcing the reporting flows towards Corporate Bodies and updating/extending ESG KPIs to remuneration policies for top/middle management. This area is fully completed as at today's date;
- Risk & Credit: with the aim, inter alia, of incorporating ESG factors and the associated risks in the Risk Appetite Framework, as well as in Lending policies, adopting an approach to optimise the risk-return ratio, which also takes the potential impact of environmental and climate change factors into account.

A summary of several of the main activities carried out in 2022, with a particular focus on the Risk & Credit Area, is provided below. For more details on the overall ESG Project and the initiatives already finalised by the Group, please refer to the above-mentioned Group disclosure documents.

As part of the specific "Climate Transparency" initiative, Banco BPM further analysed potential physical and transition risks by completing a materiality definition and analysis through the scoring (of transition, physical and environmental risks) in its current loan portfolio, mapping all of its exposures and the relative real estate guarantees with a view to precisely assessing such risk factors (exposure to controversial sectors, transitional sectors etc.), as the most appropriate benchmark climate scenarios have already been defined since 2021, and the various methodological frameworks have been set in place, which must be implemented over time, in order to fully integrate climate risk into the Bank's decision-making processes. This allowed the Bank to carry out a sensitivity analysis for the initial integration, and therefore as the impact included in the estimates of economic capital, through a first stress test on risk parameters (in particular PD and LGD) resulting from these risk factors within the Group's internal capital adequacy assessment process (ICAAP) by leveraging, specifically with reference to credit risk, the methodology defined by the ECB as part of the "climate stress test 2022".

With regard to the "RAF" initiative, in line with the specific projects followed by the Group and with the main targets set out in the 2021-24 Strategic Plan, Banco BPM's overall 2022 Risk Appetite Framework was significantly strengthened in the ESG area with the introduction of adequate KPIs defined on three different levels of analysis (strategic, operational and early warning) that range over the different risk areas under examination. With a view to continuously developing the framework, a specific assessment was also completed relating to future implementations that the Group will carry out with regard to this area.

With regard to the Market risk initiative, the assessment and selection of an adequate supporting data provider (ESG rating and score) was concluded and the materiality analysis - including the analysis of ESG ratings - of climate-related risks on the Group's proprietary portfolios (both trading and banking book) was completed. In accordance with the Group's independent assessment of liquidity and funding adequacy (ILAAP), the Group also completed the assessment of risk factors and potential impacts of climate and environmental factors on these risks.

At the same time, Banco BPM Group has taken steps to strengthen the methodology currently used for the quantification of reputational risk in order to also include, in the economic capital estimates, the possible deterioration of its image, perceived by its various stakeholders, due to the potential emergence of specific ESG risk factors. In particular, the marginal contribution of the various climate and environmental risk factors was estimated with respect to the overall measure of economic capital able to manage this specific type of risk. A what if analysis tool was also developed to assess potential reputational impacts observed in the banking system as a whole.

In addition, Banco BPM completed all the preparatory activities useful for the formalisation of the first Pillar 3 ESG disclosure. Finally, a complete analysis was carried out of all ESG reporting for the Corporate Bodies and the main Management Committees.

With regard to the Group's lending policies, the Bank has gone into further detail on the analyses quantifying environmental risk, aimed at fully defining the reference policies for the controversial sectors (Credit Strategies "lending policies" initiative). The project activities planned as part of the future implementation of the "EU Taxonomy" also continued, with the aim of measuring the eligibility and alignment of financed counterparties with this regulation.

Investment services control ESG framework

During 2022, Banco BPM Group launched a project for the integration of the ESG framework within MiFID II, both in terms of defining the questionnaire to collect customer sustainability preferences and with reference to the classification of sustainable products, defining a methodology and relative model calibration processes.
In addition, the Group:

- strengthened the monitoring processes of derivatives, in particular by working on a project dedicated to verifying the indicators for monitoring margins;
- introduced the weekly monitoring of the market risk measures of the individual product;
- conducted detailed analyses of individual Portfolios to introduce a more effective model for measuring the duration of inflation-linked bonds;
- introduced periodic analyses for the recalibration of the adequacy model that led to the revision of the materiality thresholds of the adequacy model for market and credit risk and the thresholds for the measurement of concentration.

Lastly, standard measurement and monitoring analyses were conducted on the Advisory, Product Governance, Pricing, and Best Execution macro-processes.

IT Risk and CyberRisk

Starting from the first months of 2021, with the preparation of the 2021-2024 Strategic Plan, Banco BPM Group focused its attention on the evolution of the IT architecture, on the development of cloud adoption and on data reliability, through the review of IT Governance processes and tools, modernisation of the infrastructure, development of the IT operating model and digitalisation.
Banco BPM's Information Technology Department continued to guarantee the highest levels of IT system security and continued its transformation and evolution plan in line with the objectives set, also in terms of performance optimisation and scalability.
The new IT risk methodology, approved in 2020 and applied to a first perimeter of critical applications, was extended to 2021 and continued in 2022.
The residual risk assessment of individual applications also incorporated aspects linked to strategic and reputational risk into the calculation methodology.

The overall assessment under way is confirming a low residual risk.
The process of rationalisation and consolidation of the supplier base, launched in 2020, continued, which, on the one hand, led to a reduction in suppliers considered non-essential and, on the other hand, made it possible to take advantage of new partnerships in the areas of digital innovation and cybersecurity.
Over the same period of time, controls on outsourced services were also strengthened, both within and outside the Group, to ensure adequate control over the stability and quality of services offered by suppliers.
In this regard and in order to continue with efforts to combat and maintain the security levels acquired, the cybersecurity strategy continued, in line with the multi-year plan, through cross-functional interventions to develop security measures.
Various initiatives were implemented to develop the tools to support the IT risk analysis model, including the definition of an integrated IT and security control model.
With a view to the development of human capital and the skills of IT resources, and in consideration of process and technological innovation, a development programme is underway to support IT transformation and strengthen the role of Data Quality and IT Security of the Group with a view to up-skilling and re-skilling professional and cross-functional skills.
The Key Risk Indicators presented in the Risk Appetite Statement 2021 did not exceed the pre-established thresholds.
The 2021 IT Risk Questionnaire, whose completion is required by the ECB, showed that Banco BPM made several improvements compared to 2020, both in terms of reducing exposure to risk and increasing maturity in various areas subject to monitoring.
For the period in question, pending the completion of the assessment process, the first indicators point to a confirmation of these results also for 2022.
Banco BPM Group continued the project with the objective of evolving the methodological framework for the management of IT Risk, in order to align it with sector regulations and strengthen the effectiveness of the mitigation of this type of risk, in line with the indications received from the Supervisory Authority.
On the basis of this methodology, all Group applications including those of Banca Akros were included in the valuation scope. In relation to the contribution to reputational and strategic risks, the analysis also highlighted a limited impact, in terms of economic capital.

Lease risk

With regard to the risks associated with finance lease transactions, save for that more generally referred to on the management of credit risk by the Group, it is important to note that, considering the run-off situation of the lease segment, the risks associated with the underlying assets are moderately significant and gradually decreasing.
As regards credit risk management and hedging/provisioning policies, it should be noted that the assessment of expected credit losses is conducted on the basis of the classification status and of the total exposure vis-à-vis the customer.
Among other aspects, as numerous years have now passed since the last contracts were entered into, the portfolio is almost exclusively comprised of "finished property" lease transactions, which typically have longer terms, but which are nearing their terms.
In relation to the mitigation of risks attributable to the assets, and specifically properties, the Group pays specific attention to verifying appropriate insurance coverage of the properties, in relation to both amortising contracts, providing for secondary cover that protects the Bank also in the event that the tenant has not contracted his/her own cover, and in relation to contracts terminated due to breach, also where the Bank has repossessed the property.

Regardless of the ordinary protections provided by contract, which assign liability regarding the compliance with and safety of the leased assets to the tenants, the Group significantly focuses on issues regarding the safety of properties, especially those that it once again takes possession of, with the resulting greater direct liability.
In particular, specific works are carried out on properties in order to minimise the risks and damages deriving from external factors, such as pollution, natural events or acts of vandalism, and internal factors, such as precarious stability, lack of security systems or the presence of parts made of asbestos.

Based on the organisational model adopted by the Group, the specialised oversight of those issues is guaranteed by the "Leases - run off" unit, which reports to the Chief Lending Officer, coordinating with the "Real Estate management and support services" unit as regards the management of properties that are once again available to the Group.

Risks consequent to the reform of benchmark rates

In the light of the changes in legislation, the Group analysed the risks related to the reform of benchmark rates, with particular regard to the risk related to the cessation of the Euribor rate, which represents the main benchmark rate used by the Group to index loan contracts and for the assets underlying interest rate derivative contracts.

For further details, please refer to the content of "Section 5 - Other Aspects" in Part A of the Notes, which, inter alia, illustrates the legislative development of the Interest rate benchmark reform (so-called IBOR), Banco BPM's projects as regards the "IBOR transition" and the qualitative and quantitative disclosure of the so-called Phase 2.

With reference to the other types of risk identified by the Group, in 2022 the calculation methods were fine-tuned as specified below:

- Reputational risk: in 2022, the Risk Function took steps to fine tune the methodology currently used for the quantification of reputational risk in order to also include, in the economic capital estimates, the possible deterioration of the Group's image, perceived by its various stakeholders, due to the potential emergence of specific ESG risk factors. In particular, the marginal contribution of the various climate and environmental risk factors was estimated with respect to the overall measure of economic capital able to manage this specific type of risk. A what if analysis tool was also developed to assess potential reputational impacts observed in the banking system as a whole;
- Strategic Risk: revision of the main methodological assumptions to further strengthen assessments of short-term commercial objectives with the Business Plan targets, more oriented to a medium and long-term time horizon, at the same time strengthening the strategic controls relating to the impacts of ESG factors and the overall evolution of digitalisation processes;
- Equity risk: fine-tuning of the estimation methodology in order to include an assessment of ESG factors, highlighting in particular the impact of transition risk on the analysis portfolio and on the relative economic sectors;
- Real estate risk: extension of the estimation methodology in order to also consider the impacts of environmental and climate risk factors (physical risk) on the potential expected value of the real estate portfolio owned by the Group;
- Risk-based incentive system: the 2022 Incentive System of the Group and of the individual companies was defined on the basis of the new Supervisory provisions concerning "Remuneration and incentive policies and practices" issued by the Bank of Italy (Circular 285/2013 and subsequent updates). In this regard, the conditions for activating the incentive system are aligned with the Group's RAF framework and, more generally, with the risk appetite approved by the Parent Company's Board of Directors. In general, during 2022, work continued to strengthen the link between the Remuneration Policies and the RAF.

Stress testing

Banco BPM Group has implemented a detailed stress testing framework, meaning the set of quantitative and qualitative techniques used by the Bank to assess its vulnerability to exceptional, but plausible events. As part of the framework, guidelines have also been established regarding the application of stress scenarios as well as the roles and responsibilities of the company functions and the Corporate Bodies. The framework for long-term forecasting and for stress testing adopted by Banco BPM therefore represents a coordinated set of methods, processes, controls and procedures that establish the main variables to use for forecasting purposes for estimates in ordinary and adverse conditions, with a view to both planning and risk management purposes and regulatory and operational purposes.
Stress tests seek to verify the effects on the Bank's risks due to specific events (sensitivity analysis) or joint changes in a series of economic-financial variables in cases of adverse scenarios (scenario analysis), with reference to individual risks (specific stress tests) or in an integrated manner on several risks (joint stress tests).
The process of analysis is based on quantifying the impacts relating to firm-wide stress tests, which enables a global assessment of the Bank's risk profile to be made.
These tests allow identification of the risk factors that contribute more than others to this negative result and consequently allow loss-limiting strategies to be implemented when these scenarios occur.
The Scenario Council, set up in 2019, is tasked with confirming or proposing a review of the scenarios used in Group processes, in light of external events or the Bank's specific vulnerabilities, also taking account of any considerations from top management deriving, for example, from substantial changes in the risk and profitability estimates, changes in the market or reference context, the introduction of new regulatory standards or specific

indications of the Supervisory Authority, also identifying the related processes impacted and assessing their potential update. The updates of macroeconomic scenarios made by different external providers are examined continuously, assessing on each occasion whether to transpose them into the related strategic processes.
To better enhance and structure the activity performed by the Scenario Council, from 2021, the Bank has defined a framework to update the macroeconomic scenarios, also supported by the definition of a method to identify materiality triggers for scenario changes, which if surpassed require the Scenario Council to be convened for an in-depth analysis of the scenarios that originated said overruns and a technical assessment of their adoption in the Bank's strategic processes.
In 2022, the Scenario Council met 16 times (15 since the beginning of the Russia/Ukraine conflict) to continuously assess the changes in the external macroeconomic scenario and the impacts on the Bank's strategic and management processes.

Consistent with the aims of analysis and the principle of proportionality, the Group periodically performs stress tests with specific objectives associated with the main company processes, specifically:

- Risk Identification, as regards defining the materiality of risks, which is verified under ordinary and stressed conditions;
- Drafting the Risk Appetite Framework (RAF);
- Strategic and operational planning;
- Quantifying operational limits in stress scenarios (where envisaged);
- Calculation of IFRS 9 ECL;
- Internal Capital Adequacy Assessment Process (ICAAP);
- Internal Liquidity Adequacy Assessment Process (ILAAP);
- Liquidity Contingency Plan;
- Recovery Plan.

Vertical stress tests are also included in these tests and conducted at the portfolio and individual risk level, based on sensitivity or scenario analyses, also aimed at identifying potential concentrations of risks.

Specific stress tests are also conducted for management and regulatory purposes. Known as Supervisory Stress Tests, they are conducted in accordance with the timescales dictated regularly by the Supervisory Authority.

The Group uses these tools to support other risk management and measurement techniques, with a view to:

- providing a forward-looking vision of risk, of the relative economic and financial impacts, evaluating the overall solidity of the Bank in the event that adverse scenarios or alternative ones with respect to those of reference occur, therefore providing support to the preparation of the budget and of the business plan;
- contributing to the most important planning and risk management processes, as regards setting RAF thresholds and establishing the Group's risk/return objectives;
- assessing the development of risk mitigation and recovery plans in certain stressed situations. In fact, the stress tests are used to establish specific internal trigger thresholds, which once reached trigger the resolution plans as envisaged by the BRRD (Bank Recovery and Resolution Directive) regarding the prevention and management of banking and investment company crises.

During the first half of 2022, the Group was also engaged in carrying out the Climate Risk Stress Test 2022, performed by the ECB on the entire European banking sector. This test, the first on climate issues, represents a "learning exercise" for both banks and the Regulator, and aims to collect qualitative and quantitative information from banks, to assess the sector's degree of preparation in the management of climate risk and gather best practices to address it. The aggregated results for the year were published by the ECB on 8 July 2022.
During the first half of 2023, the Group will also be involved in the EU-wide Stress Test 2023 exercise led by EBA/ECB aimed at testing the business model and the resilience of banks on the basis of 2 scenarios, baseline and adverse, developed by the Regulator. The exercise, launched on 31 January 2023, will end on 31 July of the same year with the publication of the results by the EBA.

The internal risk control system

The following paragraphs contain a description of the structure and the duties of the internal control functions of Banco BPM Group. The main corporate functions of the Parent Company, Banco BPM, responsible for controlling risk, are as follows:

- Audit Function;
- Risk Function;
- Compliance Function;
- Anti-Money Laundering Function.

The Audit Function reports directly to the Board of Directors, it performs the Internal Auditing activities envisaged by Supervisory Provisions by conducting auditing and monitoring exercises - on site and remotely - at the Group Banks and Product Companies, under a specific outsourcing agreement, namely as Parent Company. The head of the Audit Function has direct access to the Body in charge of the control function and enjoys unrestricted communication with the same, without the need for mediation.
On the one hand, the Audit Function of the Parent Company is responsible for monitoring the regular performance of operations and the evolution of risks, with a view to third-level controls, including on-site and off-site checks, and, on the other hand, it strives to assess the completeness, adequacy, functionality and reliability of the organisational unit and other components of the internal control system, presenting possible improvements in the risk management, measurement and control process to the corporate bodies and taking an active part in their implementation.
The Audit Function is responsible for the internal audit activities of all the central and peripheral structures of the Italian companies of the banking Group; furthermore, for the only foreign entity belonging to the Group (Banca Aletti Suisse), it conducts its own audits in addition to those conducted by the local structure assigned audit activities and coordinates with the same where necessary.
With effect from 22 July 2022, following the acquisition by Banco BPM of the entire interest in Banco BPM Vita S.p.A., and indirectly in Banco BPM Assicurazioni S.p.A. (a wholly-owned subsidiary of Banco BPM Vita), the Audit Function of Banco BPM took over the guidance, coordination and control of the Internal Audit Function of the Insurance companies, which reports to the respective Boards of Directors, reporting functionally to the Audit Function of Banco BPM.
When performing its duties, the Audit Function takes the provisions of the widely accepted professional standards into account.
In addition to the usual internal audit activity, the Audit Function also provided advisory services, offering its experience mostly by participating in projects and working groups.

The Risk Function reports directly to the Chief Executive Officer of Banco BPM S.p.A.; the head of the function has direct access to the Body with strategic supervision functions and the Body in charge of the control function and communicates with them without restrictions or intermediaries.
The Parent Company's Risk Function is assigned the role of control function pursuant to Circular 285/2013 of the Bank of Italy, it guarantees the functional coordination of risk control measures of Group Companies and oversees - at Group level and in an integrated manner - the governance and control (Enterprise Risk Management), development and risk management (Risk Models) processes and the validation process of internal risk measurement models (Internal Validation).
The Risk Function and its internal structures are independent from operational functions and activities. In particular, they are responsible for:

- proposing and developing guidelines and policies regarding the management of the relevant risks, in accordance with the company's strategies and objectives;
- coordinating the implementation of the guidelines and the policies regarding the management of the relevant risks by the units assigned by the Group, also in different corporate areas;
- guaranteeing the measurement and control of the Group's exposure to the different types of risk and of the relative capital absorption, verifying the implementation of the guidelines and the policies established for the management of the relevant risks and the compliance with the thresholds established within the Group's Risk Appetite Framework;
- guaranteeing the development and continuous improvement of the models and metrics for the measurement of risk - of the First and Second Pillar in base and stressed conditions - also through projects to implement and enact advanced models, to align with the standards that are gaining recognition at international level over time, to implement supervisory regulations and directives, and to develop increasingly effective controls;

- overseeing the validation process of the internal models used to calculate capital requirements;
- overseeing the process to verify, through second level controls, that the trends of individual exposures are being correctly monitored, as well as to assess the consistency of the classifications, the appropriateness of provisions and the adequacy of the recovery process;
- ensuring that the information used for measurement, monitoring and reporting of the risks under their responsibility were subject to a robust Data Quality and Aggregation framework;
- formulating mitigation proposals, specifically through the use of insurance or financial cover, in order to externalise the risk, assigning the assessment and execution thereof to the functions in charge, monitoring the performance;
- with reference to the Covid-19 pandemic, ensuring adequate monitoring and support to the Corporate Bodies in the understanding and implementation of corrective measures by providing a risk opinion on the robustness and appropriateness of the processes and the choices of method made, particularly by the credit functions, and in general when making long-term forecasts.

The head of the Risk Function is also responsible for assisting the Corporate Bodies in performing their respective duties in terms of the Internal Control System, by:

- intercepting all the relevant information required to quantify and manage risk promptly and in a coordinated manner;
- ensuring a more integrated ability to process, organise and contextualise the information acquired and to make assessments (both in terms of risk and asset value) separately from other cases;
- drawing up a summarised (integrated) report on company risks and, therefore, enabling the Corporate Bodies to gain a better understanding of the main problems identified by the second-level internal control system;
- promptly implementing corrective measures, in accordance with the problems and the relative priorities indicated by the second-level Internal Control Functions.

The Internal Validation Function, which reports directly to the Risk Function, independently oversees the internal validation processes of the risk measurement and management systems. The Function assesses the model risk implicit in the methods used to measure risk and conducts tests to validate the calculation of capital requirements with reference to the application of internal validated models.
In December 2022, as part of a broader renewal of the organisational and governance model, the risk control function was strengthened through the establishment of the position of CRO (Chief Risk Officer) reporting directly to the Chief Executive Officer.
The Group's Compliance Function carries out its activities, reporting directly to the Chief Executive Officer, both for the Parent Company and for the Group companies that have outsourced the service, and has direct access to the Corporate Bodies, communicating with them without any restrictions or intermediation.
The Function oversees, according to a risk-based approach, the management of compliance risk with regard to all company activities, verifying - during both the start-up and operating phases - that internal procedures are adequate to prevent that risk.
For rules relating to the exercise of banking and brokerage activities, the management of conflicts of interest, transparency towards customers and, more generally, regulations for consumer protection, the Compliance Function - as required by the Supervisory Provisions - is directly responsible for managing the risk of non-compliance.
With reference to other regulations that provide for specific forms of specialised oversight, the duties of the Compliance Function, based on an assessment of the adequacy of the specialised controls to manage the non-compliance risk profiles, are tiered and the Compliance Function itself is, in any case, responsible (in collaboration with the delegated specialised departments) for: i) defining the methodologies for assessing the risk of non-compliance; ii) identifying the relative procedures; iii) verifying the adequacy of the procedures themselves to prevent the risk of non-compliance.
For the areas directly supervised by other second-level control functions, the compliance risk management model is implemented by these functions, limited to the aspects falling under their specific responsibilities.
The Compliance Manager has also been given the role of Data Protection Officer (DPO) in accordance with European Regulation 2016/679 (GDPR) concerning personal data protection.

The Group's Anti-Money Laundering Function carries out its activities, reporting directly to the Chief Executive Officer, both for the Parent Company and for the Group companies that have outsourced the service, with full autonomy to oversee the risk of money laundering and terrorist financing, as well as reports of suspicious transactions, and has direct access to the Corporate Bodies, communicating with them without any restrictions or

intermediation. Furthermore, the function carries out the activities required under the regulations assigned to the Anti-Money Laundering Function Manager and the Suspicious Transaction Reporting Officer (SOS).
The activities are performed according to a risk-based approach, conducting audits and checks in order to assess exposure to the risk of money laundering and terrorist financing, the effectiveness of the organisational and control oversight measures, when setting them in motion and when established, and any corrective measures to be implemented to remedy the vulnerabilities found.

Improvement activities for the risk control and management system

Over time, Banco BPM Group has launched numerous projects to improve its risk management and control system. Specifically, to date the Group has been authorised to use its internal models to calculate regulatory capital absorption with regard to the following Pillar I risks:

- credit risk (starting with the measurement at 30 June 2012): the scope concerns advanced internal ratings-based models (PD, for both monitoring and acceptance, and LGD) relating to loans to businesses and retail of Banco BPM. The standard regulatory approach will continue to be adopted, for prudential reasons, for loans portfolios that are not included in the scope of first validation A-IRB. In 2017, Banco BPM Group submitted a request to the European Central Bank for the extension of the advanced internal models (A-IRB) to the Corporate and Retail portfolio of BPM S.p.A. and the use of the EAD model limited to the Retail scope, for the relative calculation of the capital requirement for credit risk, together with a model change for the definition of default and updating of historical series. In this context, the Group was authorised by the ECB to use these templates for reporting purposes in the first quarter of 2018, starting from January 2018.
  From March 2021, the Regulator authorised the Bank to use a more updated IRB framework with the introduction within the various areas of application (regulatory and operational) of new PD, LGD and EAD parameters for retail customers and corporate customers. The effects of these new parameters incorporate the new regulatory definition of default (EBA/GL/2016/07) and anticipate a range of aspects regarding the EBA guidelines on the estimation of PD, LGD and downturn (respectively EBA/GL/2017/16 and EBA/GL/2019/03).
  In 2021, the Bank launched an important project to review the A-IRB system, with the aim of completing the process to align the current credit risk models with the regulatory requirements originating from the EBA Guidelines on the development of PD and LGD models (EBA/GL/2017/16), estimation of downturn (EBA/GL/2019/03, as well as EBA/RTS/2018/04) and Credit Risk Mitigation techniques (EBA/GL/2020/05). The projects to review credit risk models, the assessment criteria of the same (backtesting framework) and the adaptation of the various Bank processes, led to the submission of an A-IRB model change application to the Regulator in the first quarter of 2022; the Final Decision on the application should be received by the first quarter of 2023;
- market risk: on 11 January 2023, the Final Decision was received from the ECB, approving the implementation of the relative change in the IRC calculation method, following the resolution of obligation 18 (IMI 4145) requested in January 2022. The new method guarantees a more accurate estimate of the P&Ls associated with rating migration events through a greater number of financial instruments used to calibrate the spread levels of the worst rating classes. A forward structure with different maturities (1, 3, 5, 7, 10 years) for the different rating classes and sectors was also introduced in the Asset Swap Spread matrix and a CDS spread matrix was created to calculate the P&L associated with the shock spreads of the CDS, with the same forward structure (1, 3, 5, 7, 10 years). Therefore, the new methodology is used to calculate capital absorption/RWA starting from the first quarter of 2023. The ECB decision in question also provides for the removal of the 10% IRC add-on. As regards the latter metric, a limitation was actually in place with a 10% add-on on an individual and consolidated basis, until several relative methodological findings were resolved.

1.1 CREDIT RISK

QUALITATIVE INFORMATION

1. General aspects

Banco BPM Group pursues lending policy objectives that seek to:

- support the growth of business activities in the areas it operates in, with the goal of overseeing and managing the development of the Group's positioning, in line with RAF policies and budget and business plan objectives, focusing on the support and development of customer relationships;
- diversify its portfolio, limiting loan concentration on single counterparties/groups and on single sectors of economic activity or geographical areas;
- adopt a uniform and unique credit management model based on rules, methods, processes, IT procedures and internal regulations harmonised and standardised for all Group banks and companies.

To optimise credit quality and minimise the global cost of credit risk for the Group and the individual companies, under the organisational model the Parent Company's Loans Function is in charge of lending policy guidelines for both the banks and companies of the Group.
Guidelines have also been set at Group level, defining conduct with respect to assuming credit risk, to avoid excessive concentrations, limit potential losses and guarantee credit quality. In particular, in the loan approval phase, the Parent Company exercises the role of management, direction and support for the Group.
The above Function monitors the loan portfolio, and focuses on analysing the risk profile performance of economic sectors, geographical areas, customer segments and types of credit lines granted, as well as on other dimensions of analysis, which enable any corrective actions to be defined at central level.
The role of the Parent Company's Risk Function is to support Top Management in planning and controlling the risk of exposure and capital absorption, in order to maintain the stability of the Group, verifying forward-looking capital adequacy and under stressed conditions, as well as compliance with the RAF thresholds, the Group's risk limits and its risk appetite. In particular, the Function's task is to develop, manage and optimise internal rating models (Pillar I), the loan portfolio model (Pillar II) over time, and to supervise - as part of second level controls - the calculation of risk-weighted assets using advanced methods.
Portfolio risk monitoring is based on a default model that is applied on a monthly basis to credit exposures of Banco BPM Group.
Banco BPM Group has also implemented the EBA Guidelines (EBA/GL/2020/07) on reporting and disclosure of exposures subject to measures applied in response to the Covid-19 crisis (legislative and non-legislative moratoria as well as new loans guaranteed by the State or other Public entity).
For further details and information, please refer to the content of the specific paragraph entitled "Information on exposures subject to legislative and non-legislative moratoria on newly originated exposures subject to public guarantee schemes" contained in the document "Disclosure to the Public by Entities (Pillar III)" of Banco BPM, available on the website www.gruppo.bancobpm.it.

Impacts deriving from the Covid-19 pandemic and the Russia-Ukraine conflict

During 2022, in response to the complexity of the situation generated by the outbreak of the war between Russia and Ukraine, Banco BPM implemented customer contact initiatives (contact and support campaigns) to gain an updated view on the impacts deriving from the crisis situation and to activate prompt reaction measures. On the basis of the macro and microeconomic analyses obtained from the main providers and the evidence resulting from the analyses of the Scenario Council, the most vulnerable sectors with respect to the market context created were identified and all the counterparties operating in those sectors were analysed. Within this scope, companies with potential vulnerability risks were selected on the basis of a risk-based criterion - current risk and stress test conducted on the prospective margins of these companies.
The vulnerable sectors include all the so-called "energy-intensive" ones, which have suffered heavy repercussions from the increase in the prices of energy and raw materials and their procurement. These were joined by the energy sectors, particularly energy trading.
In line with the lending processes, the Bank's strategy is based on four pillars:

- careful monitoring of the loan portfolio and identification of vulnerable exposures by the Credit Department (Credit Policies);

- timely activation of engagement campaigns and collection of feedback through questionnaires prepared ad hoc by the Corporate and Retail Sales Department and the Credit Department (Credit Governance);
- periodic first-level ex-post controls, aimed at assessing the correct classification of borrowers with potential financial difficulties as a result of the interaction with customers by Credit Governance/Monitoring;
- Controls on second-level activities: ex-ante assessment of the questionnaire and of the perimeter (through the assessment of the credit policy) and ex-post controls (Credit file Review) on the quality of the feedback and on the first-level controls by the Risk-Enterprise Risk Management Function.

Lastly, as regards the monitoring of the portfolio relating to support measures for households and businesses resulting from the Covid-19 crisis, granted by the Group in previous years, both by virtue of the provisions of government interventions and on the basis of bilateral initiatives, it should be noted that in 2022 it was not necessary to implement additional specific initiatives with respect to the provisions of the ordinary monitoring processes, applicable without exception to the exposures in question.

2. Credit risk management policies

2.1 Organisational aspects

The Group governs credit risk by assigning specific responsibilities to the Bodies, functions and Committees of the Parent Company and its Subsidiaries, in line with its Internal Control System and on the basis of an organisational model that provides for the centralised control within the Parent Company to convey a consistent policy and governance when managing the risks.
The credit risk management policies represent the reference framework for the operations of the structures allocated with risk management, they are updated annually as part of the RAF and they guide credit policies in terms of the evolution of the company's activities, the expected risk profile and the external scenario.
As required by supervisory regulations, the Group has drawn up an internal ex-ante management process for Most Significant Transactions (MST) and for the supervision of large exposures, controlled by specific company regulations in this regard.
The Parent Company draws up Group credit policies, in parallel with the budget process and in line with the strategies, the risk appetite and the economic objectives approved by the Board of Directors.

To measure the different aspects and components of credit risk, the Group adopts models and metrics developed in accordance with supervisory regulations, with a view to guaranteeing the sound and prudent management of the risk positions assumed and to comply with regulatory requirements, also assessing the effect of changes in the scenario to which the credit portfolio is exposed.
These models must periodically undergo backtesting and stress testing in order to guarantee their statistical and prudential robustness, validated by an operational unit that is independent to the function responsible for developing them, reviewed at least annually by the Audit Function.

From a regulatory perspective, risk-weighted assets (RWA) are calculated by a method based on internal ratings (A-IRB Approach), risk segments/parameters validated by the Supervisory Authorities and using the Standard Approach for the other exposures, in accordance with the Group's roll-out plan. As regards the scope of Banca Akros and Banca Aletti, the standardised regulatory approach is applied.

The risk parameters of the models are periodically calibrated.
The development and updating "model change" process for the rating models entails a series of activities and procedures, the aim of which is to define, initially or when updated, the rating models applicable to credit exposures, namely statistical or empirical models to confirm the credit assessments made by the Companies of the Banking Group and to enable the capital requirements of the same against the risk of unexpected losses to be calculated.

With regard to the segments validated, these include:
- five rating models (4 for Business customers, 1 for Private customers), which use financial statement, performance and qualitative information (Business) and sociological/performance (Private), calibrated adopting a long-term approach (Through-the-Cycle), in order to neutralise the possible impacts of an expansive or recessive phase of the economic cycle;

- two LGD performing models (1 for Business, 1 for Private customers);
- two LGD non performing ELBE (Expected Loss Best Estimate) and Defaulted Asset models, separate for Business and Private customers;
- two EAD models for Corporate customers and for the Private customer portfolio respectively.

From an operational perspective, the unexpected loss on credit risk is measured by quantifying the economic capital through the application of a Credit VaR portfolio model.

The key component of the credit risk measurement models is the Rating System, namely a structured and documented set of methods, organisational and control processes and procedures to organise databases, which enables the relevant information to be collected and processed, to reach summary assessments of the risk level of a counterparty and of individual credit transactions.
The rating system is incorporated in the decision-making processes and in the management of the company's operations, playing an important role in the following Group processes:

- Lending policies;
- Business planning;
- Capital planning;
- Risk Appetite Framework;
- Product pricing;
- Granting loans;
- Monitoring and managing loans;
- Provisioning;
- Risk measurement and control;
- ICAAP and ILAAP;
- Management of the bonus system;
- A.Ba.Co. (other funding instruments).

The procedures for the operational use of the rating system in the various company processes are regulated by regulations issued over time in the above-mentioned areas. The regulatory framework set in place to oversee credit risk, developed in accordance with company standards, is based on specific Regulations and Process Rules, specifically the Regulations on counterparty credit risk and the Regulations for Limits of Autonomy and powers in the granting and management of loans.
The principles established in the Regulations issued have been applied and included in the wording of the regulations, for the processes included in company taxonomy.
The processes for the granting of loans guarantee an adequate, objective and harmonised assessment of creditworthiness and of risk, through the use of the rating system to guide the decision-making steps.
More specifically, the ratings are used to define the scope of decision-making, by means of a weighting method based on an assessment of the creditworthiness of each counterparty, summarised by the rating, as well as on the measures to mitigate the risk assumed.
An assessment of the risks already assumed or to be assumed is conducted for each individual customer and Risk Group, namely the set of parties related through the ties considered for the registration of Economic Groups, as well as joint account holders and those with a joint-obligation, as regards the entire Banking Group.
The criteria for the allocation of responsibilities to the various parties/organisational units that take part in the loan granting process are based on principles of separation in order to guarantee independence of judgement and prudence in the assumption of risk.
To this end, with regard to the activities envisaged in the loan granting process, the roles of "Proponent", of "Decision-maker" and of any "Intermediate body that gives an opinion" are clearly separated.
In the case of "non-resident" customers, compliance with the authorised maximum limit for "Country Risk" must first be checked, before the assumption of "Credit Risk", "Delivery Risk", "Placement Risk" and "Evidence Risk".
The "Authorisation, monitoring and management of overdrafts and/or past due loans" Rules establish the continuous monitoring activities that the Manager must perform when managing the account, with regard to overdrafts, past due instalments not paid and drawdowns on expired or reduced loans.
The management of overdrafts is accompanied by a specific procedure that has made access to data regarding positions classified as "becoming past due" more efficient, enabling both current and historical information available to be consulted, right down to the details of an individual account, as well as obtaining lists based on selection criteria entered by the user.

Forborne exposures are identified as part of the loan granting process and, therefore, through the ELA (Electronic Loan Application) function.
The identification of forborne exposures is carried out for both performing loan positions included in the watchlist, and for those classified as non-performing loans, for which a status of financial difficulty has been found (said status is objective for the positions classified as non-performing) and the granting of a tolerance.
The Account Manager, in the role of "Proponent", is responsible for:

- assessing the customer's situation of financial difficulty. To reach an opinion, all of the information from the preliminary check used to analyse creditworthiness in the ELA, including a specific additional checklist that differentiates between Business and Private customers;
- assessing the proposed award of forbearance measures;
- entering the Account Manager's assessment of the customer's situation of financial difficulty or otherwise in the information system and identifying award or otherwise of the proposed forbearance measures.

The Intermediate Body that gives an opinion is required to share the Proponent's assessments.
The Decision-making Bodies are responsible for ascertaining the consistency or otherwise of the assessment made by the Proponent.

The evidence expressed at the time of the decision on the individual line of credit automatically identifies all accounts related to it as "forborne".
Once classified as forborne, the exposures are managed in accordance with the relevant processes ("Monitoring and managing non-performing loans" for "Forborne non-performing exposures" and "Monitoring and managing loans: watch list" for "Other forborne exposures").
Decisions regarding situations in which the exposure is no longer forborne, or the reclassification of "Forborne non-performing exposures" as "performing" are assisted by the information system.
In this regard, all positions that surpass the objective parameters established by EBA regulations are automatically highlighted and the proposals are subject to a structured process which enables all of the available assessment elements to be examined and historicised.
The reclassification of a "performing" exposure, already the subject of forbearance measures, to a higher risk category, is automatic if the events established by EBA regulations occur.

Country Risk, which identifies the risk factors relating to the political, macroeconomic, institutional and legal situation of a foreign country, is considered, with regard to all business and financial transactions, if the counterparty is resident or has registered offices in a foreign country. Country risk is based on two main elements:

- political risk, namely the set of factors regarding the political and institutional system that may influence the country's willingness to honour its commitments;
- transfer risk, namely the set of economic factors that can influence the possibility that a certain country may establish, as an element of its economic policy, limits to the transfer of capital, dividends, interest, commission or royalties to foreign creditors and/or investors.

In the case of "non-resident" customers, compliance with the authorised maximum limit for "Country Risk" must first be checked, before the assumption of "Credit Risk", "Delivery Risk", "Placement Risk" and "Evidence Risk".
With regard to Transfer Risk, note that this risk is included in the credit portfolios that use ECAI ratings (exposures towards Governments and Central Administrations, Supervised Intermediaries and non-resident Corporate customers). The residual limited scope (non-resident customers without ECAI), is monitored periodically by the Parent Company's Risk Function.
The organisational structures of the Loans Function and of Loans of the Territorial Departments are defined in accordance with the credit granting, monitoring and management processes.
Furthermore, the Head of the Loans structure of the Territorial Departments reports functionally to the Head of the Loans Function and the Head of Loans for the Business Area, who, in turn, reports functionally to the Head of the Loans structure of the Territorial Department.
In terms of procedures and tools to support the processes, attention is drawn to the following:

- in "Loan Granting" processes, the Electronic Loan Application (ELA) procedure provides support to the Network in the preliminary examination, proposal, approval and finalisation stages and automatically calculates decision-making scope;
- the web-based Electronic Loan Application provides support to the loan granting process through a specific work flow based on parameters and enables each step of the process of preliminary examination -

proposal - forwarding to higher Bodies and approval to be traced, as well as automatically checking the documents required and the validity of the assessment elements;
- as regards measures to assist "Private", "Small Business" and "Small Business Operator" customers, decision-making engines are used (ScoPri, Transact), to establish the financial feasibility of the proposed transaction, which make a summary assessment of the increasing risk;
- the process of monitoring and managing performing loans is assisted by a special procedure on a web platform that also permits the automatic interception of positions and classification on the watchlist, as well as the following of their management and verification of compliance with the decisions made. Positions are intercepted both when the thresholds for specific parameters are exceeded and via the use of an automatic indicator, which is calculated monthly, capable of producing a summary assessment of the performance of the account. This indicator can be searched both with reference to the month of processing and as an average indicator for the period (last six months) and can be integrated within credit processes as a parameter of evidence;
- to support the monitoring and management processes of non-performing loans, broken down by status (Past Due and Substandard; Restructured; Bad Loans) a new procedure "Electronic Management Procedure - EMP" has been created;
- the credit assessment processes are conducted using the "IFRS 9 SUITE" IT procedure.

The Loans Function prepares a quarterly report—in conjunction with the publication of the quarterly financial statements data—which includes a series of summary views on the main dimensions of loans. Specifically, the report focuses on the national scenario, the distribution of Group loans, the distribution of loans by sector, the distribution by rating classes, the development of loans and mortgages to Private customers – Consumer households.
The Risk Function produces monthly reports on "Credit Risk – Portfolio Model", which include evidence with group, company, economic sector and geographical area views.
In addition, a summary document has been introduced, with a monthly frequency, relating to the overall Pillar I and Pillar II risk trend, to support the periodic integrated Group risk report, with a view to monitoring the evolution of economic capital and to report the appropriate figures to the Corporate Bodies.

2.2 Management, measurement and control systems

Banco BPM Group uses an elaborate set of instruments to grant and manage credit and to monitor portfolio quality.
Rating plays a key role in loan granting, credit product disbursement, monitoring and performance management processes. In particular, it plays a role in defining guidelines for credit policies, in deciding which bodies are competent to approve loans, as well as on the mechanism for the automatic renewal of uncommitted credit facilities, and it contributes to determining automatic interception of the monitoring and management process (Watchlist).
To proactively manage counterparties that show signs of a deterioration of credit risk, the Group utilises a specific platform to intercept, monitor and manage anomalous exposures, as well as a performance scoring model to intercept the first signs of deterioration of the counterparty, before the default event. Considering the new EBA guidelines on the definition of default, applied by the Group from 1 January 2021, the above-cited monitoring platform incorporates the new rules relating to overdue exposures, making provision, from the first few days in which the overdue event materialises, for intervention processes differentiated by counterparty type and level of exposure, according to a management approach which is as business-oriented as possible, to prevent deterioration in credit risk and the consequent restoration of the ordinary management of the relationship. More specifically, the process currently in place envisages the interception of overdue positions on a daily basis, and their subsequent management according to a structured procedure, which entails clustering the portfolio with anomalies and the subsequent definition of interventions according to a defined scale of priorities.

The methodologies underlying the risk parameters PD (Probability of Default), LGD (Loss Given Default) and EAD (Exposure at Default), are used not only to assess the counterparty when granting, monitoring and renewing credit lines, but also to collectively write down receivables in the financial statements, in compliance with IFRS 9.
The credit assessment to calculate the amount of expected losses of non-performing loans differs according to the status and size of the exposure. The expected credit losses valued analytically by the manager are periodically reviewed.
For prudential purposes, credit risk monitoring at portfolio level is also based on a default model that is applied on a monthly basis to credit exposures of Banco BPM Group. For more information on the general features of this model, please refer to the following paragraph "E. Prudential consolidation - Credit risk measurement models".
For other exposures - other than performing loans with ordinary and financial resident customers - risk is controlled through the use of supervisory regulatory metrics (Standard).

Information on the inclusion of ESG factors in credit processes

The main objective of the credit policies of Banco BPM Group is to guide the growth of volumes, with a view to optimising the risk-return ratio and to containing the future cost of credit risk, by already incorporating various clear ESG-related aspects from 2021, particularly as regards the Real Estate and Agrifood sectors. These aspects have been implemented in the loan application process through dedicated tools, which envisage acquiring information also relating to factors more linked to the environment and the climate during the proposal and approval stage.

In 2022, the credit policy framework was fully revised, with a view to the extensive integration of the ESG assessment layer, developed in accordance with the guidelines of the same name stated in the 2021-2024 Strategic Plan. More specifically, the framework - which already envisaged the adoption of different strategies depending on the rating, the assessment of the company's positioning (in relation to sector averages and to the outlook for the sector) and on an analysis of financial sustainability - was integrated with a new assessment profile, the "ESG Score". This indicator represents a summary measurement of the information acquired regarding the environmental factors indicated below, using differentiated application/calibration approaches depending on the type of counterparty.
More specifically, the assessment of the ESG profile is based on four components:

- sector-based analysis to understand the potential transition risks relating to the micro-sector of reference;
- questionnaire to assess the counterparty (strategies and approach taken in terms of ESG) and the transaction;
- verification that the financed transaction is consistent with the European taxonomy.

The first component of the ESG analysis is used to provide an indication of the transition risk associated with the sector to which the counterparty belongs (identification of high risk sectors, which are more exposed in view of a transition towards an economy with low carbon emissions and that is more environmentally sustainable).
Transition risk is expressed on a scale of 5 classes (Very High, High, Medium; Negligible, Green), with a specific treatment for the Construction and Real Estate sectors. The sector-related details are provided by the 4-digit ATECO code, and the elements analysed to identify the classification are European regulation (Taxonomy, the Emission Trading Scheme), emissions, soil/water pollution, technology and market development.
The main objectives of the ESG layer integrated into the 2022 reference framework for credit policies, consistent with the ESG guidelines already presented by Banco BPM in the Strategic Plan, regard:

- the application of a negative screening on sectors with a Very High transition risk (coal mining, manufacture of products using coal-fired blast furnaces, production of energy from coal) with a run-off target;
- the introduction of incentive/disincentive mechanisms based on the reference sector (and therefore on the transition risk) and of the assessment of the counterparty and of green operations (new lending target towards green sectors or operations >65% by 2024).

Considering the sound distribution quality of the Banco BPM portfolio and the highly innovative scope of the topics under analysis, a gradual approach for the introduction of the ESG layer has been defined.
This approach envisages releases over time, which enable the new tools to be tried out in the field and to progressively monitor the impacts on the portfolio.
In the stage activated in 2022, the following steps were implemented:

- the inclusion of negative screening for sectors related to coal mining and to the production of energy from coal;
- the integration of Transition Risk as regards micro-sectors and counterparties;
- the introduction of the ESG questionnaire on specific segments/sectors and certification for so-called Green operations.

The ESG questionnaire is comprised, in turn, by two macro-sections:

- the "counterparty" section enables the Bank to assess to what extent the company analysed has defined policies and strategies (forward-looking perspective) to mitigate the main ESG risks in the sector it operates in, through qualitative questions (ESG strategy, industry specific) in the Environment, Social and Governance spheres, with variables differentiated depending on the sector-related risk and quantitative KPIs in ESG dimensions (for example, greenhouse gas emissions in the Environment dimension), also with a view to reporting and risk assessment;

- the aim of the "transaction" section is to assess whether the loan is directly related to an ESG objective and is therefore virtuous, regardless of the counterparty's business activity.

This approach enables the Bank to increasingly acquire in-depth information on its customers as regards these topics, by gradually including the changes that will be made to the EU taxonomy over time, and by integrating the layer of ESG financial sustainability also with the assistance of market tools that the Bank obtained at the end of 2022 incorporating the forward-looking valuation also as regards ESG in the Financial Forecast Studio tool (platform to calculate financial stability).
To facilitate the process of acquiring these new approaches, specific training courses were organised during the year for managers and other professional staff involved, with a view to spreading an ESG culture, as well as using the new products and tools made available by the Bank. In parallel, thematic workshops were held for customers, addressed in particular to SMEs (important target for the Bank), as well as customers that represent Italy's manufacturing base.

Starting from December 2022, in the estimate of expected credit losses (ECL) on performing credit exposures, the Group introduced a specific adjustment to factor the risks deriving from the exposure of debtor counterparties to climate and environmental factors. In particular, the impacts on the PD and LGD risk parameters of the counterparties were estimated, assuming a transition risk and a physical risk developed on the basis of the scenarios illustrated below.
With reference to transition risk, the Orderly Transition scenario prepared by the EBA for the 2022 Climate Stress Test was considered, based on the assumptions of the Net Zero 2050 scenario of the Network for Greening the Financial System (NGFS). With respect to the possible alternative scenarios (Disorderly Transition and Hot House World), the selection of the Orderly Transition scenario was the most prudent with reference to the time horizon of the credit exposures to be assessed, as it assumes an immediate and stringent intervention of climate policies, as described in more detail below.
This scenario was incorporated in the PD parameters by assessing its impact on the financial statement items of corporate customers, which are then used as input for financial models developed internally by the Group. These models deliver prospective PD values.
On the basis of the changes in PD obtained, the effects of the ecological transition are then transmitted, with a special mathematical function, also to the LGD parameter. A specific physical risk shock was also applied to the latter parameter, to consider the possible impact on mortgage collateral following a possible write-down of properties based on flood risk, as per the NGFS 2022 Flood scenario.
For further details on the methodology for calculating the adjustments in question and the relative impacts, please refer to paragraph "2.3 Measurement methods for expected losses", and in particular the information on "Use of post-model adjustment and management overlays".
For a better understanding of the assumptions underlying the transition scenario considered by the Group with respect to the alternative scenarios, an illustration of the main assumptions of each scenario is provided below.
The Orderly Transition scenario is based on the NGFS Net Zero 2050 scenario, which envisages a maximum increase in global temperature of 1.5 °C, achieved through the immediate and gradually more stringent introduction of policies to reduce carbon dioxide emissions, which are considered zero in 2050. In this type of scenario, the transition risk and the physical risk are limited: in fact, the gradual transition ensures that the necessary costs and investments in innovation are minimised. At the same time, the increase in the maximum global temperature of 1.5 °C reduces the risk of extreme events.
The Disorderly Transition scenario, which is instead based on the NGFS Delayed Transition scenario, assumes a delayed and net introduction of climate policies starting from 2030, in order to limit the increase in global temperature to below 2 °C; carbon dioxide emissions are therefore higher than in the previous scenario to comply with the objectives of the Paris agreement. The scenario therefore entails a higher transition risk, due to the higher costs required by the delayed introduction of climate policies, while the increase in global temperature increases physical risk in terms of greater frequency and importance of extreme events.
Lastly, the Hot House World scenario is calibrated on the NGFS Current Policies scenario, which captures the long-term impact of physical risk on the economic and financial system resulting from the failure to introduce emission reduction measures. Although emissions at European level are gradually decreasing, global emissions continue to grow until 2080 with an increase in global temperature of around 3 °C. This will lead to greater and more significant natural catastrophes, with a considerable increase in insurance and reconstruction costs linked to these events. In this scenario, there is therefore no transition risk, but the transition costs that would have occurred in previous scenarios are more than offset by the strong impact of extreme physical risk in the economy.

During the second half of 2022, the aforementioned Financial Forecast Studio was also implemented, a modular platform to support the forward-looking assessment of a company by the manager. The instrument works on the platform supplied by the provider Cerved.
The elements characterising this instrument are:

1) accurate data sets:
   - At least every six months, Cerved prepares forecasts for approximately 400 sectors, which can be used as a standard basis for the prospective simulation of the financial statement figures of the individual company;
   - the historical financial statements of the last few years are made available;
   - the CeBi reclassification scheme of Cerved's Financial Reporting Office was adopted;
2) assumptions and business simulations:
   - starting from the standard simulations proposed by the provider, an infinite number of alternative scenarios can be replicated by changing the initial assumptions;
   - more than 20 parameters (financial statement items) are available that can be used as modifiable assumptions of the model;
   - through simple data-entry, start-ups/financial statements of partnerships can also be evaluated;
   - an additional ESG module is included for the accurate estimate of the impacts on credit risk of the variables linked to environmental, social and governance risks;
   - the tool provides a wide range of forecast outputs to support the manager and the decision-maker in the evaluation and granting phase, and also makes it possible to compare multiple scenarios relating to the same company or to different companies (for example, a "best in class" or specific competitor).

The paragraphs below illustrate the changes that will be introduced in 2023.
The Credit Policies framework for 2023 envisages additions and updates mainly in three areas:

A) ESG:
   - evolution of the transition risk classification methodology based more on emissions;
   - introduction of physical risk;
   - extension to the large corporate segment;
   - management of priority sectors with high emission risk;
   - introduction of ESG credit policies;
B) Real Estate:
   - KRI (Key Risk Indicator) integration for the assessment of sustainability in the CRE (Commercial Real Estate) sector;
   - alignment of the requirements for the classification of green real estate investments in line with the requirements of the taxonomy;
C) Evolution of the current framework:
   - credit policies as part of the "withdrawal" strategy;
   - fine-tuning of policies for the retail sectors, in particular for decision-making engines.

2.3 Measurement methods for expected losses

Impacts relating to Covid-19, the situation of international political instability and the energy crisis

With regard to the calculation of expected credit losses (ECL), in 2022, the process of revising and fine-tuning the current models, which started in 2020, continued, with a view to more accurately reflecting the expected losses of performing exposures, also as a consequence of the economic disruption caused by the Covid-19 crisis, the situation of international political instability and the energy crisis, created by the Russia-Ukraine conflict. This process moreover envisaged a series of post model managerial adjustments, in order to factor in certain measurement elements not adequately intercepted by current models.

The paragraphs below provide an illustration of the changes introduced to models and to the criteria to calculate expected credit losses following Covid-19, as well as the changes introduced in 2022 as part of the continuous process of revising models, depending on the type of intervention (assessment of the SICR, estimating forward-looking information, other changes to the model, and the use of any management overlays).
Note that, given the complexity and the pervasiveness of the changes made to the estimation models, it was not possible to isolate the impacts that the same generated in terms of quantifying the expected credit losses, with respect to the estimation models used previously.

Measurement of expected credit losses

According to IFRS 9, all financial assets not measured at fair value through profit and loss, represented by debt securities and loans, and off-balance sheet exposures (commitments and guarantees given) must be subject to the impairment model based on expected credit losses (ECL – Expected Credit Losses).

Specifically, the IFRS 9 impairment model is based on the concept of forward-looking valuation, i.e. on the concept of Expected Credit Loss, whether calculated at 12 months (Stage 1) or for the entire residual lifetime of the instrument (lifetime loss for Stage 2 and Stage 3). In particular, the model establishes that financial assets should be classified into three separate stages, corresponding to different measurement criteria:

- Stage 1: to be measured on the basis of expected credit loss over a time horizon of one year. 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;
- Stage 2: to be measured on the basis of expected credit loss over the entire residual life of the financial asset. Stage 2 includes financial assets that have undergone significant impairment of credit risk with respect to initial recognition;
- Stage 3: to be measured on the basis of an estimate of expected forward-looking loss, based on a 100% probability of default. Stage 3 includes financial assets considered non-performing.

According to the Expected Credit Loss calculation model, losses must be recorded not only with reference to objective evidence of impairment losses that had already occurred at the reporting date, but also on the basis of expectations of future impairment that is not clear yet, which must reflect:

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

Detailed information is provided below on the model used by the Group to verify whether there is a significant deterioration of credit risk (known as "Framework Stage Assignment") and to calculate the forward-looking expected credit loss.

Framework stage assignment

Amendments introduced in 2022 for the SICR assessment

With regard to the stage assignment framework, to draw up the 2022 consolidated financial statements, some changes were made to the criteria used to assess any Significant Increase in Credit Risk (SICR), with respect to those used last year, which consequently conditioned the classification of performing exposures into stages (Stage 1 and Stage 2).
In greater detail, during 2022, the model for estimating the SICR thresholds was completely re-developed, to implement a recommendation contained in the follow-up letter received from the ECB in June 2021 as a result of the audits conducted on the activities that Banco BPM performed in relation to the communication received from the ECB on 4 December 2020. Specifically, compared to the previous version, on the one hand the new model is more sensitive to changes in PD and therefore to the macroeconomic scenario, on the other hand it allows to better anticipate, with a classification to Stage 2 - signs of risk represented not only by default, but also by other elements that denote a high level of risk (the presence of a number of days of past due/continuous overdraft exceeding the threshold of 30 days, the granting of a forbearance measure, the presence of the counterparty in exposures subject to strict monitoring).
Lastly, note that, at the same time as the introduction of the new SICR model, the quantitative criterion for classification to Stage 2 based on the so-called "Threefold increase" was discontinued. In fact, this rule envisaged the automatic classification as Stage 2 of all loans granted to counterparties that between the date of disbursement and the date of reference recorded an increase in the annualised probability of default of 300%, with the exception of cases in which the PD on the reference date was in any event lower than 0.30%, namely than the threshold considered to represent low credit risk. The introduction of this criterion in 2021, after receiving further instructions on the identification and measurement of credit risk in the context of the pandemic, contained in the ECB letter dated 4 December 2020, had been linked to the need to implement, at SICR model level, the other instructions contained in the above-mentioned communication. Following the re-development of the new SICR model, with the simultaneous implementation of the ECB's instructions, there has no longer been any need to use the "Threefold increase" rule as it

was assessed that it would not improve the performance of the staging model, as not connected to actual risk elements for the Bank's portfolio.

Illustration of the staging model

In order to allocate exposures to the various stages, Banco BPM Group has classified them as follows:

- performing loans in Stages 1 and 2;
- non-performing loans in Stage 3. The analyses conducted led to the conclusion that the relative scope is aligned to that of non-performing exposures, determined in accordance with the definitions contained in current supervisory provisions[1] (bad loans, unlikely to pay, past due exposures), as they are deemed to be consistent with accounting regulations in terms of objective evidence of impairment. For further details on this scope, please refer to Part "A.2 – Key financial statement items" of these Notes to the consolidated financial statements.

With regard to the loans, an illustration of the quantitative and qualitative criteria defined by the Group in order to classify a performing exposure in Stage 1 or Stage 2 are illustrated below.
With reference to quantitative criteria, the model developed by the Group uses as reference the parameter of lifetime probability of default (LPD), measured at the reference date, and the same parameter measured at the origination date. The ratio between said parameters is defined as the "Lifetime PD Ratio" (LPDR). More specifically, the chosen metric is based on the "Forward" PD concept. This approach entails identifying the forward PD curve on the Lifetime PD curve observed at the origination date, with the reference date as a node and the residual duration as holding period.
The development of the model has also led to the identification of specific internal thresholds of variation between the two aforementioned probabilities, which are differentiated by the following drivers:

- risk segment;
- rating class;
- residual life;
- ageing of the position (distance between the origination date and the reporting date).

Thus, the change in credit risk is measured for all loans by comparing the parameter defined as a logarithm of the "Lifetime PD Ratio - LPDR" of individual exposures, as defined above, and the specific estimated internal thresholds. Exceeding the above thresholds, with the exception of cases in which the annualised PD observed at the reference date is lower than the threshold of 0.30% (threshold considered to express a low credit risk - Low Credit Risk Exemption), represents a significant increase in credit risk and the consequent transfer of the individual credit line from Stage 1 to Stage 2. That methodology is thus based on a relative approach, as the allocation between Stage 1 and Stage 2 is guided by the change in credit risk since the origination date.
In developing its operating model, after calculating the logarithm of the LPDR for each position included in the estimate sample, the Group selected the optimal threshold for each cluster (given by the intersection of the risk driver methods considered relevant) that would allow it to optimise the model's performance measured using the Matthews correlation coefficient (MCC). The performance aims to describe the ability of the model to correctly anticipate, with a Stage 2 classification, the positions that, within 12 months from the reference date, show signs of risk represented not only by default but also by additional elements that denote a high level of risk (the presence of a number of consecutive days past-due/overdue exceeding the 30-day threshold, the granting of a forbearance measure, the presence of the counterparty within exposures subject to strict monitoring).
Following the changes introduced, as illustrated previously, it should be noted that exceeding of the SICR threshold - which determines a Stage 2 classification - is observed on positions that show, with respect to the origination date, a relative increase in PD Lifetime included on average in a range from +100% to +200% depending on the risk segment.

In addition to the quantitative criterion illustrated above, the stage allocation model adopted by the Group is also founded on qualitative, quantitative criteria and backstops. In greater detail, the following entails classification in Stage 2:

- the presence of a number of consecutive days past-due/overdue exceeding the 30-day threshold;
- the granting of forbearance measures. In greater detail, this includes all exposures affected by forbearance measures which have this attribute still active, regardless of whether the current probation period is regular;

[1] Definitions contained in the Bank of Italy Circular no. 272 of 30 July 2008 and subsequent updates, on the basis of which the scope of non-performing loans corresponds to that of the Non-Performing Exposures of Implementing Regulation (EU) no. 680/2014, with which the EBA's ITS was incorporated (EBA/ITS/2013/rev1 of 24/07/2014).

- the inclusion of the counterparty in watchlist exposures subject to strict monitoring, in the presence of situations that suggest high risk (e.g. synthetic judgement of the degree of risk of the individual customer above a certain threshold, prejudicial events);
- the classification of the counterparty in the "High" risk band[1], save for the option of override by the competent company functions, which must be suitably justified;
- lack of rating at the origination date, save for the case where the counterparty was assigned a rating on the measurement date that classifies in the exposure in the "Low", "Medium-low" or "Medium" risk band[2].

With regard to the functioning of the model, Banco BPM Group has decided to adopt a symmetrical model of reclassification from Stage 2 to Stage 1: in cases in which the conditions triggering the significant deterioration of credit risk cease to exist on a later valuation date, the financial instrument returns to being measured on the basis of the expected credit loss measured on a time horizon of twelve months. It should also be noted that in the event of a return from Stage 3 to performing exposure status, there is no mandatory transfer of the counterparty's relationships to Stage 2. The classification of performing exposures into stages (Stage 1 or Stage 2) will depend on the automatic application of the stage assignment framework.
In the case of forborne exposures, any return to the calculation of the expected credit loss at one year is made in accordance with the probation period, in line with the time frames set out in the supervisory provisions.

The stage allocation methodology described above is applied to all exposures to customers, excluding debt securities.

Regarding debt securities, the Group applies the Low Credit Risk Exemption, i.e. the practical expedient of assuming that credit risk has not increased significantly compared to the initial recognition of the instrument, classifying it at Stage 1. This exemption applies to securities rated as investment grade at the valuation date, in compliance with IFRS 9.
If on the valuation date, the securities have a rating level that is lower than investment grade - and therefore the "Low Credit Risk Exemption" is not applicable - the method developed by the Group is also based on the calculation of the LPDR[3]. More specifically, the SICR threshold values identified for this specific scope were retrieved through a distributive approach and correspond to the 95th percentile of the LPDR distribution observed in the portfolio of December 2022.
Considering the presence of several purchase transactions occurring on different dates for the same fungible security (ISIN), for the purposes of the SICR, the risk at the origin is measured separately for each tranche purchased. It was thus necessary to specify a method for identifying the tranches sold and, as a result, the remaining quantities to which to assign the credit quality at the date of initial recognition, to be compared with that at the measurement date: that movement methodology is based on the FIFO method (First In - First Out).
With reference to exposures to banks and those belonging to the scope of the so-called "Structured Finance Operations - SFO" (Income Producing Real Estate, Real Estate Development, Project Financing and Leveraged & Acquisition Finance), the methodology developed is also based on the calculation of the LPDR parameter using the same thresholds developed for the Business segment.

[1] Note that, for loan granting processes, the rating classes envisaged by the internal model are grouped into 5 homogeneous risk bands ("Low", "Medium-low", "Medium", "Medium-high" and "High").
[2] See previous note.
[3] Data from the CreditEdge platform of the Moody's rating agency.

The table below shows the percentage breakdown of exposures allocated to Stage 2 on the basis of various classification triggers, which shows that the breakdown of the exposures classified therein is influenced by both quantitative criteria based on the change in the probability of default, and on qualitative criteria. Exposures classified as Stage 2 solely due to the presence of more than 30 past-due days represent a negligible percentage.

Type[1]	Stage 2	of which: Large Corporate	of which: Mid Corp.Plus	of which: Mid Corporate	of which: Small Businesses	of which: SFO	of which: Private Individuals	of which: Banks	of which: unrated counterparties
Quantitative criteria	66.28%	79.54%	83.95%	68.90%	60.40%	68.53%	21.73%	84.64%	8.75%
Qualitative criteria	33.45%	20.46%	16.01%	31.04%	39.24%	31.47%	77.77%	15.36%	86.01%
Exposures over 30 days past due	0.27%	0.00%	0.04%	0.06%	0.36%	0.00%	0.50%	0.00%	5.24%
Total Stage 2	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

Expected Credit Loss - Stage 1 and Stage 2

The model for calculating Expected Credit Loss (ECL) to measure the impairment of performing instruments, differentiated based on the classification of the exposure in Stage 1 or Stage 2, is based on the following formula:

$$ECL = \sum_{t=1}^{T} PD_t * EAD_t * LGD_t * (1+r)^{-t}$$

Where:

PDt	represents the probability of default at each cash flow date. This is the probability of moving from performing status to non-performing status over the course of a year (1-year PD) or over the entire lifetime of the exposure (lifetime PD)
EADt	represents the counterparty's exposure at each cash flow date
LGDt	represents the associated loss by counterparty at each cash flow date. This is the percentage of loss in the event of default on the basis of historical experience over a given observation period, as well as the forward-looking evolution over the entire lifetime of the exposure
r	represents the discount rate
t	represents the number of cash flows
T	represents the total number of cash flows, limited to the following 12 months for accounts in Stage 1, and referring to the entire residual life for those in Stage 2

The models used to estimate said parameters leverage the equivalent ones used for capital requirements for credit risk, making specific adaptations to take account of the different requirements and purposes of the IFRS 9 impairment model and the prudential impairment model.

The definition of said parameters, compared to the regulatory parameters, considered the following objectives:

- removal of the downturn component considered in calculating the regulatory LGD to take account of the adverse economic cycle;
- removal of the MoC (Margin of Conservatism) component considered in the regulatory LGD calculation to take further margins of conservatism into account as requested by the EBA Guidelines;
- adjustment of loss rates to manage the difference between the discount rate used for the regulatory LGD estimate[2] and the Effective Interest Rate (EIR) used to calculate losses at amortised cost;
- inclusion of the conditions of the current economic cycle (Point-in-Time risk measures) instead of the measurement of the parameters through the economic cycle (TTC - Through the cycle), which is required for regulatory purposes;
- introduction of forecast information regarding future trends in macroeconomic factors (forward-looking risk) considered potentially capable of influencing the debtor's situation;
- extend risk parameters to a long-term perspective, accounting for the lifetime of the credit exposure to be assessed.

[1] In the case in which a position is classified as stage 2 due to different types of criteria, its exposure has been allocated to the first cluster according to the order in which the classification criteria were presented.

[2] The discount rate used for regulatory LGD estimates, in compliance with EBA Guidelines (*EBA/GL/2017/16*), corresponds to the 3-month Euribor with a prudential add-on of 5%.

As noted, the definition of default adopted is in line with that used for regulatory purposes.

In response to the health crisis, to mitigate its impact, the Government implemented substantial policies to sustain the economy (e.g. Heal Italy decree, Relaunch decree, Liquidity decree, etc.). In this context, the competent authorities (ECB, EBA, ESMA, BIS) invited the banks to take into consideration the mitigation measures set in place by the public authorities and to limit the impact of the macroeconomic shock when calculating provisioning containing the elements of procyclicality implied in IFRS 9.
To this end, Banco BPM included the government measure in its ECL calculation. The method adopted therefore enabled the share of exposure covered by these guarantees with relation to the total exposure of the transaction to be identified. The LGD associated with the transaction was therefore eliminated on said share and a "Stato Italia" (Italian State) average coverage assigned.
The provisions are therefore calculated as the sum of the expected credit loss on the share of the exposure not guaranteed by the State, plus an ECL calculated through the application of the "Stato Italia" coverage to the share of the exposure guaranteed by the State.

More detailed information on the way in which the Group has determined the aforementioned IFRS 9 compliant risk parameters, with specific reference to forward-looking factors, is provided below.
In that regard, it must be noted that the update of the time series of the parameters and, as a result, their recalibration, is carried out on an annual basis. In particular, in December 2022, in line with the provisions of internal processes, the risk parameters were updated to incorporate the effect of updating the time series on the PD, LGD, EAD risk parameters and on the thresholds in their estimation to identify the SICR.

<u>Estimating the PD parameter</u>

The PD values are obtained on the basis of regulatory ones, which are anchored to the average level of risk observed in the long term, suitably calibrated to reflect the current conditions of the economic cycle (Point in Time approach). Subsequently, the PD values are adjusted, from a Forward Looking perspective, through the application of the sector satellite models developed by the Group. Said values must be estimated not only with reference to the time horizon of the twelve months following the reporting date, but also in the future years, for the purpose of calculating lifetime provisions. The lifetime PD curves were constructed by multiplying, using a Markov approach, the migration matrices of the rating at 12 months, separately by risk segment (Large Corporate, Mid Corporate, Mid Corporate Plus, Small Business, Private) impacted by the forward-looking macroeconomic scenarios. Each rating class assigned to the counterparties using the A-IRB internal models is associated with its related lifetime PD curve.
The main methodological steps used to estimate the lifetime PD parameter are provided below:

- the construction of historical Point in Time (PiT) migration matrices for each risk segment defined by the rating models and on the basis of the average of these matrices and the attainment of the long-term Through The Cycle (TTC) migration matrices for each risk segment;
- the determination of future PiT matrices for the first three years following the reporting date, obtained on the basis of PiT migration matrices conditioned on the basis of macroeconomic scenarios, through the application of shocks resulting from internal satellite models of PDs differentiated by sector; the latter are able to express the sensitivity of the PD levels to changes in the main income statement items;
- obtaining cumulative PDs by rating class and scenario, via a matrix product (Markov chain techniques) of the future PiT migration matrices for the first three years, as previously calculated, while from the fourth year onwards so-called smoothed matrices are used, which allow for the gradual smoothing with the TTC migration matrix;
- the generation of the cumulative lifetime PD curve as the average of the cumulative PD curves of each selected macroeconomic scenario weighted by the respective probability of occurrence.

It should be noted that the matrices underlying the determination of the PD values were updated in December 2022 to incorporate the update of the time series, removing, however, the 2020 and 2021, in order to remove the distorting effects of the support measures set in place by the government in response to the pandemic crisis, through a special overlay. For further details, please refer to the following paragraph "Use of post-model adjustment and management overlay".

As regards the so-called "Structured Finance operations - SFO" (Income Producing Real Estate, Real Estate Development, Project Financing and Leveraged & Acquisition Finance), the PD Lifetime values are obtained through the use of the internal model developed for management purposes. The dedicated model provides for the calculation of the risk parameters related to the individual transaction to better exploit the specific characteristics deriving, for the most part, from the related business plans. The values thus obtained are then conditioned to the economic cycle in a forward-looking perspective through the use of internal PD satellite models.

Refer to the paragraph "Inclusion of forward-looking factors", below, for more details on the method of constructing the PD.

Estimating the LGD parameter

LGD values are assumed to be equal to the regulatory recovery rates calculated through the economic cycle (TTC) and suitably adjusted in order to remove some of the prudential elements established by the regulatory models, which are represented by indirect costs, the MoC (Margin of Conservatism) and the component associated with the adverse economic cycle (the downturn component), as well as to reflect the most current recovery rates (PiT), the difference between the discount rate used to estimate the regulatory parameters[1] and the Effective Interest Rate (EIR), and expectations concerning future (forward-looking) trends. In detail, the forward-looking estimate of the parameter takes account of the impact on the economic cycle of the components represented by the probability of non-performance (Psoff) and the Loss Given Non-Performance (LGNP) using specific forward-looking scaling factors to obtain point in time and forward looking LGDs. More specifically, the forward-looking effects are channelled to LGD estimates through the application of specific satellite models for the main components of the LGD model (Psoff and LGNP), which compare the changes in macro factors with the residual estimations of the two above-cited parameters on the historical horizon. It should be noted that in December 2022, under IFRS 9, the LGD models were calibrated to incorporate the update of the time series.

As regards the so-called "Structured Finance operations - SFO" (*Income Producing Real Estate, Real Estate Development, Project Financing and Leveraged & Acquisition Finance*) the LGD values are obtained through the use of the internal model developed for management purposes. The dedicated model provides for the calculation of the risk parameters related to the individual transaction to better exploit the specific characteristics deriving, for the most part, from the related business plans. The values thus obtained are then conditioned by the economic cycle in a forward-looking perspective through the use of internal LGD satellite models.

EAD Estimation

For on-balance sheet exposures, the EAD is represented, at each future payment date, by the remaining payable based on the repayment plan, plus any unpaid and/or past due instalments.
For off-balance sheet exposures, represented by guarantees and irrevocable or revocable commitments to disburse funds, the EAD is equal to the nominal value weighted by a specific credit conversion factor (CCF), determined in compliance with the previously validated internal models and using the standardised approach for the remaining exposures. With regard to the exposures covered by internal models as at December 2022 with regard to IFRS 9, the CCF (Credit Conversion Factor) models have been calibrated to reflect the update of the time series.

Inclusion of forward-looking factors

In accordance with IFRS 9, when estimating expected credit losses it is necessary to take forward-looking information[2] into account, conditioning the risk parameters according to the different macroeconomic scenarios in which it is expected to operate.
With a view to overcoming potential inconsistencies in the results determined by the satellite models ordinarily used before the impact of the Covid-19 emergency, sector satellite models were adopted from 2020, with a view to evaluate the highly diverse consequences of the pandemic on the different sectors of the Italian economy.
More specifically, note that in 2020, the Bank had utilised non-proprietary sector satellite models, supplied by a leading provider, as the models previously adopted did not have a sufficient level of granularity by economic sector of the borrower customer, and therefore would not have been able to reflect the significantly differentiated impacts of the crisis due to Covid-19 on the different economic sectors.

---

[1] The discount rate used for regulatory LGD estimates, in compliance with EBA Guidelines (EBA/GL/2017/16), corresponds to the 3-month Euribor with a prudential add-on of 5%.
[2] Conditioning of credit risk parameters (PD and LGD) calculated at a Point-in-Time, to estimate the future change based on the expected evolution of the main macroeconomic variables (e.g. GDP, rate of unemployment etc.).

Subsequently, in FY 2021, new proprietary sector satellite models were developed, which gradually replaced - limited to the sectors least impacted by the granting of moratoria introduced by the Italian Government following the pandemic crisis[1] - the sector satellite model acquired from third parties, as previously illustrated.

Starting from 30 September 2022, the use of proprietary sector satellite models, developed internally by the Bank, was extended to all sectors of the performing loan portfolio.

Lastly, to calculate the ECL as at 31 December 2022, the macroeconomic scenarios and the relative probabilities of occurrence were updated, based on the analyses conducted by the Scenario Council[2], in line with the processes already in use last year. To this end, the macroeconomic forecasts supplied by the leading provider, available in October 2022, were considered with reference to three different scenarios: "baseline", "adverse" and "favourable". To attribute the probabilities of occurrence of the aforementioned scenarios, given the uncertainty in the overall economic scenario deriving particularly from the negative effects of the energy crisis and inflationary dynamics related to the latter, in addition to these benchmarks, the provider developed an additional "adverse custom" scenario that was further stressed compared to the above-cited "adverse" scenario. The probabilities of occurrence of the three macroeconomic scenarios considered are indicated below:

- "Baseline": 50%;
- "Adverse" ("adverse custom"): 30%;
- "Favourable": 20%.

[1] In particular, this regards sectors in which the percentage of moratoria was higher than a threshold corresponding to the average value of the Group portfolio of non-financial corporations at the beginning of 2021.

[2] The Scenario Council consists of a team responsible for defining and updating or confirming the macroeconomic scenarios adopted in the Group's strategic processes in light of external events or specific vulnerabilities of the Bank. It is also responsible for identifying the processes impacted and their potential updating. The team is comprised by the Chief Financial Officer and the heads of the Planning and Control, Risk and Administration and Budget Functions, with the participation of the Head of the Audit Function as auditor.

The following table shows the values (expressed in terms of average annual percentage changes/absolute values for rates of return) of the main macroeconomic indicators for the period 2022-2025 for each of the three scenarios considered in the satellite models for the conditioning of the risk parameters to be used to calculate ECL:

Scenario	Macroeconomic indicators	2022 (*)	2023	2024	2025
adverse	GDP Italy	3.3	-1.2	0.1	0.9
baseline	**GDP Italy**	**3.4**	**0.1**	**1.0**	**1.4**
favourable	GDP Italy	3.6	1.4	1.6	1.7
adverse	Unemployment rate	8.17	8.79	9.64	10.43
baseline	**Unemployment rate**	**8.16**	**8.36**	**8.34**	**8.26**
favourable	Unemployment rate	8.13	7.89	6.98	5.97
adverse	Index of residential property prices	4.72	1.85	0.75	0.57
baseline	**Index of residential property prices**	**4.71**	**2.18**	**1.62**	**1.81**
favourable	Index of residential property prices	4.68	2.60	1.56	2.14
adverse	Household consumption	4.2	-0.9	0.3	0.9
baseline	**Household consumption**	**4.3**	**0.2**	**1.3**	**1.5**
favourable	Household consumption	4.4	1.7	2.2	2.0
adverse	Construction investments	12.2	-3.2	-3.0	-1.6
baseline	**Construction investments**	**12.6**	**0.9**	**-0.3**	**0.3**
favourable	Construction investments	13.0	3.5	0.5	1.2
adverse	3-month Euribor	0.32	2.10	2.09	1.81
baseline	**3-month Euribor**	**0.34**	**2.11**	**2.12**	**1.83**
favourable	3-month Euribor	0.33	2.12	2.13	1.84
adverse	ECB rate	0.87	2.50	2.50	2.06
baseline	**ECB rate**	**0.87**	**2.50**	**2.50**	**2.06**
favourable	ECB rate	0.87	2.50	2.50	2.06
adverse	Return on Italian 10-year government bonds	3.15	4.96	5.07	5.29
baseline	**Return on Italian 10-year government bonds**	**3.16**	**4.55**	**4.32**	**4.32**
favourable	Return on Italian 10-year government bonds	3.14	4.26	3.82	3.82
adverse	BTP/Bund Spread	2.03	2.85	2.99	3.15
baseline	**BTP/Bund Spread**	**2.02**	**2.33**	**2.07**	**2.03**
favourable	BTP/Bund Spread	2.00	2.03	1.56	1.51
adverse	Italian consumer price index	7.4	4.9	1.9	1.2
baseline	**Italian consumer price index**	**7.3**	**4.4**	**1.8**	**1.5**
favourable	Italian consumer price index	7.3	3.8	1.1	1.9
adverse	Imports	14.6	-0.5	0.5	2.3
baseline	**Imports**	**14.8**	**2.0**	**3.6**	**4.0**
favourable	Imports	15.2	5.3	5.5	4.6
adverse	Exports	10.6	0.7	0.8	2.7
baseline	**Exports**	**10.8**	**2.2**	**2.6**	**3.3**
favourable	Exports	11.2	4.4	3.7	3.2
adverse	Public administration expenditure	0.1	0.1	0.1	0.0
baseline	**Public administration expenditure**	**0.1**	**0.25**	**0.07**	**-0.03**
favourable	Public administration expenditure	0.1	0.2	0.1	-0.1

(*) the figures for 2022 encompass, for the fourth quarter, the last estimate available at the time, and cannot therefore be considered final.

In 2022, the global economic cycle weakened: on the one hand, there was the hoped-for and gradual abolition of Covid-19 restrictions, but at the same time the outbreak of the war in Ukraine caused a deep global energy crisis. Inflation exploded, with the consequent erosion of the purchasing power of households and widespread increases in costs for businesses, which led to a consequent tightening of monetary policies.
In this context, the "Baseline" scenario envisages that the tensions associated with the war, which are assumed to remain confined to the territories currently involved, will continue throughout the current year, continuing to sustain the prices of raw materials, maintaining a high level of uncertainty and also slowing down international trade. Energy supplies will not be a serious problem, thanks to the adequate level reached by stocks. The inflationary trend, albeit declining, will continue to have a negative impact on real household income and therefore on consumption.

Consequently, monetary policy will remain restrictive, despite the widespread slowdown in economic activity. The expected development of the main macroeconomic figures in the reference context is briefly described below:

- Italy's GDP will be stagnant for 2023, returning to moderate growth from 2024;
- the unemployment rate will rise to 8.4% and remain stable until 2024 and then decrease by around 10 basis points in 2025;
- inflation will explode at 7.3% and return to below the target rate of the ECB only from 2024;
- the uncertainty of this period will also affect household consumption, which in 2023 will be stagnant, but will show a modest recovery in 2024;
- exports will slow down significantly: +2.2% in 2023 and +2.6% in 2024;
- the yield of Italian government bonds will rise slightly above 4.5% and then fall to around 4.3% in subsequent years. The BTP-Bund spread will exceed 200 bps, also driven by the end of the ECB's accommodative policies.

As regards the "Adverse" scenario, a more critical development of the conflict in Ukraine is assumed. In this scenario, it is assumed that the war hostilities will intensify with some acute episodes that would increase the uncertainty of households and businesses. Moreover, the difficulty in reducing the dependence of the Eurozone and of Italy on supplies from Russia of Russian gas and oil would keep tensions high on supplies and prices: the average for the year Brent is assumed to remain above 100 USD in 2023. Monetary policies would remain forcibly restrictive, as a result of the persistence of inflationary tensions, reinforced by the trend in commodity prices. The Italian economy is assumed to experience a recessionary phase in 2023 that would touch on a condition of stagflation, which, however, would not materialise: from 2024 there would be a recovery of the economy and a reduction in inflation, which would continue in the following year. However, business failures would increase, with moderate repercussions on the credit quality of banks. Italy would also suffer from the consequences of high sovereign debt, exacerbated by low growth prospects, higher interest rates and lower ECB purchases.
More specifically, the following is expected:

- the Italian GDP will show a -1.2% in 2023, which will partially mitigate the recovery of 2022. After a stagnant 2024, GDP will return to modest growth in 2025;
- unemployment will steadily rise, reaching 10.4% in 2025;
- a substantial reversal of the trend of private investments is expected, both for machinery and for construction. In particular, in the case of the latter, it will fall from +12.2% in 2022 to -3% in 2023 and throughout 2024, a value heavily impacted by the end of the "Superbonus 110%" tax relief;
- the yield of 10-year Italian government bonds will sharply increase, reaching 5% in 2023 and exceeding it in the following 2 years. The increase will be due to both an increasingly wider BTP Bund spread, which will fluctuate around 300 bps, and a general increase in interest rates.

Lastly, the "Favourable" scenario assumes a gradual resolution of the conflict in Ukraine and a parallel recovery of the energy crisis. Already in the second quarter of 2023, there will be a decisive recovery of consumption and investments, which will stave off the prospects of stagnation in the economy. The more relaxed climate within the EU will encourage the definition of a new "Fiscal Compact" agreement that will facilitate the tax policy of the Member states, creating an optimal context to face the numerous challenges, from climate to demographic transition. In Italy, the implementation of the NRRP will regain momentum, significantly stimulating business investments. The more favourable trend of the economy and the reduction by investors of risk aversion will facilitate the management of Italian public debt, which will allow a moderate return to the scenario horizon, despite higher interest rates compared to 2022. Credit quality will improve and at the end of 2025 the stock of bad loans will be lower than the level at the end of 2021.
Specifically:

- annual growth of Italian GDP, which will be around 1.5% for 2023 and for the following two years;
- household consumption (+1.7% in 2023) will remain strong over the forecast horizon and will sustain the GDP trend;
- investments in construction will also be positive, although in 2024 growth will stop at 0.5%;
- the unemployment rate will fall to 7.9% in 2023, and will then improve further to levels below 6% in 2025;
- the yield of Italian 10-year government bonds will initially rise to 4.3% in 2023, and then fall to 3.8% in subsequent years, benefiting from an improvement in the BTP Bund spread;
- industrial production will be moderately affected by the negative aftermath of 2022, managing to record a modest growth of 0.7% for 2023, which will become more sustained both in 2024 and in 2025.

Use of post model adjustments and management overlays

In addition to the amendments illustrated (so-called in-model adjustments), at the time of preparation of the 2022 financial statements, confirmation of the application of further top-down interventions "post model adjustments/management overlays" was deemed necessary. These management overlays, which in fact significantly reduce the positive economic impacts that would otherwise have been recorded by applying the models in use, are mainly justified by the fact that the aforementioned models may not capture all the phenomena considered relevant for the purpose of determining the expected losses on performing credit exposures to customers (cash loans and unsecured loans).
In greater detail, for the above-mentioned exposures, the application of the overlays in question entailed the recognition of higher value adjustments for a total of 162.1 million, compared to the expected credit losses quantified on the basis of the models in use, which amount to 299.8 million. More specifically, adjustments from overlays refer for 89.5 million to exposures classified in Stage 2 and the remainder to exposures classified in Stage 1.
The quantification of these amounts was determined by conducting specific analyses, in a laboratory environment, based on the following interventions:

1) removal of the potential distorting effects on the risk parameters deriving from the Covid-19 pandemic and the consequent government measures to support household and business liquidity[1], which in 2020 and 2021 led to a break in the historical relationship between economic conditions and levels of risk of borrowers:
   - in 2020, against a marked reduction in Italy's GDP, default rates continued to decline, benefiting from government support measures;
   - in 2021, given the substantial rebound in economic conditions in our country, default rates showed a further but slight reduction.

   To remove the distorting effects deriving from the pandemic and the consequent government support measures from the PD Point in Time estimate, in line with previous adjustments, it was deemed appropriate to eliminate the data relating to the defaults observed in 2020 and 2021 (so-called "Covid year removal") from the historical series. Unlike the quantification of the same post model adjustment in the half-yearly report of June 2022, the last year (2022) was considered in addition to the last two pre-Covid years (2018 and 2019) to converge to a situation of ordinary application of the models. The sterilisation of the Covid years contributed to increasing the level of risk with an impact in terms of ECL of +109.5 million;
2) consideration of the foreseeable impacts that will result from the revision of the internal A-IRB models (and in particular the LGD, parameter mainly affected) for the calculation of the regulatory risk parameters, currently being validated by the ECB, which are used as a starting point to determine the point-in-time, lifetime and forward-looking parameters needed to calculate ECLs in full compliance with IFRS 9. Note that the new A-IRB models have been re-developed to achieve full compliance with EBA guidelines (EBA/GL/2017/16). The main effects of the new model framework as regards LGD IFRS 9 are linked to the changes made to the discounting methodology of the recovery flows that entail particular increases on mortgage and products paid by instalments. The impact recorded was +32.2 million;
3) assessment of the possible ESG effects deriving from the inclusion of physical and transition risk on the PD and LGD parameters, in compliance with the ESG operating plans communicated by the Group to the Regulator as part of the Targeted Review on Climate-related and Environmental Risks (known as the "Inclusion of ESG effects"), obtaining an impact in terms of higher ECL of +20.4 million. In greater detail, for transition risk, the Orderly Transition scenario prepared by the EBA for the 2022 Climate Stress Test was considered, based on the assumptions of the Net Zero 2050 scenario of the Network for Greening the Financial System (NGFS); for physical risk, the impact on mortgage collateral was assessed following a possible write-down of properties based on flood risk, as per the NGFS Flood 2022 scenario. For further details on the scenarios used and how they are incorporated for the purposes of calculating the PD and LGD risk parameters, please refer to the previous paragraph "Information on the inclusion of ESG factors in credit processes".

Compared to the process of preparing the half-yearly financial report as at 30 June 2022, following the application of the post-model adjustments illustrated above, no additional margin of conservatism was applied, as it was considered that the most significant uncertainties had been adequately factored, from a prudential perspective, within the above-mentioned overlays.

[1] The decision had been based on the EBA guidelines published at the end of June through which banks are asked to remove the distorting effects on risk parameters deriving from the pandemic and the ensuing government measures to support household and business liquidity.

Without prejudice to the transitory nature of the post-model adjustments linked to the adoption in IFRS 9 of the new model framework currently being validated in the regulatory sphere, to the progressive rejuvenation of the estimated time series with the gradual exclusion of the data impacted by Covid-19, in addition to the consideration that the results deriving from the models to calculate expected credit losses are influenced by macroeconomic scenarios largely dependent on phenomena not fully consolidated and in any case still subject to extreme variability and uncertainty.

Sensitivity analysis of expected credit losses

In accordance with the provisions of paragraphs 1 and 125 of IAS 1, the Notes must provide information on the key factors of uncertainty that characterise financial statement estimates. Paragraph 129 envisages that this disclosure must be provided in a manner that helps users of financial statements to understand the judgements that management makes about the future and the relative impacts. The examples mentioned to pursue this objective include sensitivity analyses, through which the reader is able to appreciate the impacts on financial statement estimates of alternative calculation models, reasonably foreseeable changes in inputs and assumptions underlying said estimates.
The adjusting provisions of performing credit exposures (ECL) are an example of financial statements values whose estimation process is characterised by the presence of substantial factors of uncertainty.
As described in the paragraph entitled "Significant accounting policies and uncertainties regarding the use of estimates in the preparation of consolidated financial statements" contained in "Section A.1 - General Part" in Part A of these Notes, the inclusion of forward-looking factors for the measurement of expected credit losses is a particularly complex exercise, insofar as it requires macroeconomic forecasts to be made, scenarios and relative probabilities of occurrence to be selected, as well as defining a model able to represent the relationship between the cited macroeconomic factors and the default rates of the exposures measured.
For this reason, to be able to appreciate the impacts on expected credit losses resulting from the selection of different macroeconomic scenarios and in compliance with ESMA recommendations, most recently set forth in the document of 13 May 2022, specific sensitivity analyses are provided below in terms of ECL as well as stage allocation. These analyses were performed by attributing 100% weighting to each individual macroeconomic scenario ("baseline", "adverse", "favourable") with respect to the multi-scenario approach adopted for the preparation of these financial statements which, as described above, consider three different alternative scenarios. Alongside the "baseline" scenario, retained the most likely - 50% is the relative probability of occurrence - an "adverse" scenario was considered, which was attributed a 30% probability of occurrence, and a "favourable" scenario with a 20% probability of occurrence.

The selection of a multi-factor sensitivity, obtained by varying more than one parameter simultaneously and implicit in the decision to consider alternative macroeconomic scenarios, is justified by the fact that there are numerous interrelations between the different macroeconomic factors so as to render a sensitivity analysis based on a single factor less representative (by way of example, a change in GDP would effectively be related to changes in many other macroeconomic variables).

The reference basis for the sensitivity analyses is represented by the ECL provision, before the application of management overlays and determined by the models in use, which amounts to approximately 300 million, referring to credit exposures to the Group's customers (cash loans and unsecured loans). However, it is believed that these adjustments have the same sensitivity to changes in the scenario and, for this reason, the results shown below can be extended to the total of the ECL including post model adjustment/management overlays.

In light of what has been described, the main results of the sensitivity analyses are summarised below:

- assignment of a 100% probability of occurrence to the adverse scenario: in this case, the ECL would increase by +106.1 million with respect to that calculated by adopting the multi-scenario approach (around +35% in percentage terms), against an increase in the percentage of exposures classified in Stage 2 of +2.57%. In this scenario, the average percentage coverage of performing credit exposures would increase by 9 bps;
- assignment of a 100% probability of occurrence to the baseline scenario: in this case, the ECL amount would decrease by -21.9 million with respect to the amount of ECLs calculated by adopting the multi-scenario approach (around -7% in percentage terms), against a decrease in the percentage of exposures classified in Stage 2 of -0.73%. In this scenario, the average percentage coverage of performing credit exposures would decrease by -2 bps;
- assignment of a 100% probability of occurrence to the favourable scenario: in this case, the ECL amount would decrease by -88.0 million with respect to the amount of ECLs calculated by adopting the multi-

scenario approach (around -29% in percentage terms), against a decrease in the percentage of exposures classified in Stage 2 of -2.31%. In this scenario, the average percentage coverage of performing credit exposures would decrease by -7 bps.

Expected Credit Loss - Stage 3

With regard to the models used to determine the expected losses on exposures classified under Stage 3, i.e. non-performing exposures, reference should be made to the section "Methods for determining impairment losses on IFRS 9 Financial Instruments" contained in Section "A.2 - Key financial statement items" in Part A of these Notes. As illustrated in detail in the cited paragraph, the quantification of the expected losses of the aforementioned exposures, in addition to the recovery expected through ordinary operations (internal workout), considered the flows retained recoverable from sales scenarios, in line with the disposal objectives established on each occasion by the Board of Directors.

As stated in the paragraph "Significant accounting policies and uncertainties regarding the use of estimates in the preparation of consolidated financial statements", contained in "Section A.1 - General Part" in Part A of these Notes, the determination of the expected losses on non-performing loans entails significant judgements, with specific reference to the estimate of flows deemed recoverable and the related timing of recovery.

In greater detail, the expected losses on non-performing loans were determined analytically, based on the recovery forecasts formulated by the manager or resulting from the application of the "collecting provisioning" calculation method, discounted based on the original effective interest rates and the relating timing of recovery. Considering that the recovery forecasts use the debtor's specific situation as reference, it is deemed impossible to prove any reasonable sensitivity analysis of the expected credit losses.
However, it cannot be ruled out that a deterioration in the debtor's credit situation, also as a result of possible negative effects on the economy relating to Covid-19 and the effects of the international geopolitical situation, may result in the recognition of additional, even significant, losses, in relation to those considered based on the conditions existing at the reporting date.

2.4 Credit risk mitigation techniques

The Group has always kept a watchful eye on the acquisition of loan collaterals and securities, i.e. the use of applications and techniques that mitigate credit risk. When deemed necessary, the typical bank guarantees are acquired, namely mortgages on properties, collaterals on securities in addition to personal guarantees issued by the guarantors.
In general, the decision on the acquisition of a guarantee is based on the customer's creditworthiness and on the characteristics of the transaction. Following this analysis, it may be deemed appropriate to obtain additional guarantees to mitigate credit risk, considering the estimated recoverable value offered by the collateral.
The system for the recording of collateral property used to guarantee lending transactions enables an automatic periodic assessment of the property's value and identifies which properties require updated appraisals, in line with the criteria established by current legislation.
The value of the financial collaterals is constantly and automatically monitored, enabling a comparison between the present value of the collateral and the initial one, and to allow the manager to act promptly in the event that the collateral incurs a significant impairment loss.
As regards collateral represented by a pledge on securities, an automatic warning system is in place, which is triggered when impairment goes beyond a certain threshold value, reporting the same to the customer relationship manager so that the same may take prompt action.
With regard to derivative transactions with market counterparties, we favour entities with which we have entered into agreements requiring the provision of collateral, especially ISDA - Credit Support Annex, to obtain a significant credit risk mitigation.

3. Non-performing credit exposures

3.1 Management strategies and policies

The classification of non-performing exposures is conducted in line with the criteria established by the EBA. More specifically, the classification as non-performing is made:

- automatically, for exposures that reach the thresholds envisaged by the provisions of the Supervisory Authority as regards Past Due;
- by means of a decision taken by an authorised Body (i) on a proposal generated automatically by the IT system, for exposures that reach the envisaged thresholds, on each occasion, by internal credit monitoring and management processes, or (ii) on the proposal of a proponent Body, for exposures that indicate the occurrence of events that may prejudice the "performing" status of the same.

The management of non-performing loans in Banco BPM Group is based, to a great extent, on a model that assigns the management of a specific set of loans (portfolio) to specialist resources. During 2022, the project to reorganise the management of the Group's non-performing loans continued for the fourth consecutive year, which in 2019 had seen the completion of the transfer of a business segment focused on bad loan collection to a specialised partner, with the subsequent assignment of a management mandate for most of the new flows of bad loans for the following ten years. From the finalisation of this agreement, the management of bad loans has mainly been conducted by a leading player in the sector, while the management of the remaining non-performing exposures has been handled by specialised internal personnel. Following the transfer of the business segment mentioned above, it was also agreed that the management of all the non-performing exposures would be unified within the unit reporting to the Chief Lending Officer (CLO).
Management responsibility changes depending on the classification status of the exposure:

- the management of exposures classified as Past Due and Unlikely to Pay is assigned, with the sole exception of exposures under a certain threshold, to specialist managers located in the CLO area. For these exposures, the managers of non-performing loans are responsible for the operating decisions relating to the loans assigned to the respective portfolios, in accordance with their decision making authority, and are assisted, as regards the administrative part, by (business) managers from the Network, where the portfolio containing the exposure is placed;
- management of exposures classified as Bad Loans is conducted by the specialised internal structures of the CLO, assisted (as part of the agreement mentioned above) for most of this, by Gardant Liberty Servicing coordinating with the structures of the CLO.

In addition to the recovery process, the managers are responsible for assessing loans with a view to calculating the amount of expected losses for individual positions that have an overall exposure exceeding the threshold defined for collective provisioning. Since 2019, this threshold has been raised from the previous 300 thousand euro to 1 million euro. When making said assessment, the manager must take the following into account:

- overall risk of the customer and of related accounts, as well as any Economic Group it belongs to;
- situation in the Italian Central Credit Register, with specific attention to any loans guaranteeing third parties;
- equity standing of the borrower and of any guarantors;
- value of the asset used as collateral;
- time needed to recover the debt.

To support the activities relating to the last two points, the Bank has estimated Haircut parameters on a statistical basis, defined as the difference to apply to the market value of the assets used as collateral, to align them to the amount that the Bank is likely to collect after their forced sale, and the timeframe that the manager has to consider in order to make an analytical assessment of the single position. The expected credit losses obtained in this way are periodically reviewed and continuously monitored.
The process described above is not applied to exposures classified as Unlikely to pay (UTP) and bad loans with a total exposure equal to or less than the materiality threshold of 1 million euro, and for all Past-due positions regardless of the exposure, for which the automatic valuation model is used, aimed at replicating the methodology applied by managers above the materiality threshold. This model, developed and maintained by the Credit Governance structure, is subject to validation by the Risk Function.

The expected credit losses valued analytically by the manager are periodically reviewed.

Strategy for disposal of non-performing credit exposures

The strategy to manage non-performing loans - in addition to the recovery activities carried out by the specific departments (known as internal work-out) as illustrated above - may envisage large-scale disposals to Group third-party counterparties, with a view to achieving specific derisking objectives, as resolved by the Board of Directors.
Given the forward-looking nature of the impairment model envisaged by IFRS 9, the presence of approved disposal targets must be adequately factored into the models that calculate expected credit losses, as illustrated in more detail in the paragraph entitled "Methods for determining impairment losses on IFRS 9 Financial Instruments" in "Section A.2 - Key financial statement items" in Part A of these Notes.

With regard to the derisking exercise undertaken by the Group in 2022, and in particular the objectives of the large-scale disposal of non-performing loans outstanding as at 31 December 2022, please refer to that illustrated in "Derisking activities" contained in the significant events during the year in the Report on operations.

Derisking activities

System of controls for credit processes

The structure of the control system relating to credit processes is based on:

- 1st level controls (or line controls), addressed to ensuring that the processes are correctly carried out. First level controls include so-called "automatic" controls, namely performed directly by applications procedures, controls performed directly by operating structures and hierarchical controls, performed within the same chain of responsibility. Second level controls are also implemented, through the CLO structures of Monitoring and Control and Credit Governance;
- 2nd level controls (or controls on risks and compliance), under the "Second-Level Controls" structure located within the Risk - Enterprise Risk Management Function. The controls are conducted constantly via immense analysis of the Group's credit portfolios and through the review of individual positions - statistically sampled or based on the specific risk profile, independent of the functions responsible for carrying out the activities subject to verification - are aimed at ensuring the correct implementation of the risk management process (set up by the operating structures) by verifying performance monitoring for individual exposures, especially non-performing loans, and the assessment of the consistency of classifications, the congruity of provisions and the adequacy of the recovery process, in line with internal and external regulations. The structure also provides opinions on MST in the credit area: proposals to i) grant new financing (extended in 2022 to Real Estate transactions); ii) change provisions; iii) assign forbearance measures, and iv) increase or decrease the risk of the administrative classification status.

3.2 Write-offs

For all positions classified as bad loans, the Group assesses whether it is appropriate to continue to maintain the non-performing loan because the out-of-court or judicial actions underway allow a reasonable expectation of recovery, even partial, or whether it is appropriate to proceed with a derecognition or write-off, total or partial, by virtue, respectively, of the conclusion of the recovery process or the circumstance that there is no reasonable prospect of recovery.
The write-off, in compliance with IFRS 9, and the "Guidelines for Banks on Non-Performing Loans (NPL)" issued by the ECB, is the reduction in the gross book value of the loan following the acknowledgement that there are no reasonable expectations of its recovery for amounts exceeding those considered collectable or already received.
It does not imply a waiver by the Bank of its legal right to recover the debt and must be carried out if all the information available indicates that the debtor is unable to repay all or part of the amount of the debt.
For further details on the definition of write-off, please refer to that illustrated in "Section A.2 – Key financial statement items" in Part A of these Notes.
The Group's credit monitoring processes envisage that, to supplement and support the decisions adopted by management, positions that require attention for write-off purposes are identified on a quarterly basis, with a view to making an operational assessment of the single positions and deciding whether or not to pursue the necessary approval procedures to finalise the write-off. Said list relates to exposures whose adjusting provisions are equal to or higher than a specific threshold and which have been classified as bad loans for longer than a certain number of years, differentiated by the type of guarantee and by the presence or otherwise of insolvency proceedings.

3.3 Acquired or originated impaired financial assets

With regard to the accounting treatment of these assets and the related presentation methods, reference should be made to that illustrated in "Section A.2 - Key financial statement items - Other information" in Part A of these Notes.

4. Financial assets subject to commercial renegotiations and forborne exposures

An analysis of forborne exposures is provided below, on the basis of seniority, distinguishing between non-performing and performing exposures.

Year of last forbearance	Performing exposures	Non-performing exposures	Total
2022	628,716	350,515	979,231
2021	1,629,353	641,147	2,270,500
2020	237,606	227,953	465,559
2019	135,619	332,651	468,270
2018	49,009	234,654	283,663
2017	76,164	112,445	188,609
2016	46,502	113,328	159,830
2015	9,691	86,586	96,277
2014	18,747	69,987	88,734
2013	2,502	29,606	32,108
2012	916	1,655	2,571
2011	857	645	1,502
previous years	3,466	4,497	7,963
Total	**2,839,148**	**2,205,669**	**5,044,817**

The above exposures, related to the scope of prudential consolidation, are broken down in the following table according to the number of forbearance measures granted to the counterparty (one measure, two measures, more than two measures).

Number of forbearance measures	Performing exposures	Non-performing exposures	Total
1	2,024,862	1,278,072	3,302,934
2	471,079	421,788	892,867
>2	343,207	505,809	849,016
Total	**2,839,148**	**2,205,669**	**5,044,817**

QUANTITATIVE INFORMATION

A. Credit quality

In this part, for the purposes of quantitative information on credit quality, the term "on-balance sheet credit exposures" means all financial assets held on-balance sheet with banks or customers, regardless of their portfolio of accounting allocations (at fair value through profit and loss, at fair value through other comprehensive income, at amortised cost, financial assets held for sale), but excludes equity instruments and UCIT units.

A.1 Non-performing and performing credit exposures: outstanding amounts, value adjustments, changes and economic distribution

A.1.1 Prudential consolidation – Distribution of financial assets by past due bands (book values)

Portfolios/risk stages	Stage 1			Stage 2			Stage 3			Acquired or originated impaired		
	From 1 day to 30 days	From more than 30 days to 90 days	Over 90 days	From 1 day to 30 days	From more than 30 days to 90 days	Over 90 days	From 1 day to 30 days	From more than 30 days to 90 days	Over 90 days	From 1 day to 30 days	From more than 30 days to 90 days	Over 90 days
1. Financial assets at amortised cost	710,357	43,709	4,452	275,829	154,216	18,321	48,690	114,339	1,253,463	104	2,195	17,186
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-	-	-	-	-	-	-
Total 31/12/2022	**710,357**	**43,709**	**4,452**	**275,829**	**154,216**	**18,321**	**48,690**	**114,339**	**1,253,463**	**104**	**2,195**	**17,186**
Total 31/12/2021	**306,822**	**23,041**	**1,901**	**130,913**	**93,672**	**17,428**	**32,622**	**89,041**	**1,971,266**	**301**	**2,451**	**80,639**

A.1.2 Prudential consolidation - Financial assets, commitments to disburse funds and financial guarantees given: changes in total value adjustments and total provisions

Causes/risk stages	Total value adjustments											
	Stage 1 assets						Stage 2 assets					
	Demand loans to banks and Central Banks	Financial assets at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual write-downs	of which: collective write-downs	Demand loans to banks and Central Banks	Financial assets at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual write-downs	of which: collective write-downs
Total value adjustments - opening balance	**21**	**127,662**	**2,745**	**772**	**-**	**131,200**	**-**	**322,278**	**382**	**124**	**-**	**322,785**
Increases in financial assets acquired or originated	-	-	-	-	-	-	-	-	-	-	-	-
Derecognitions other than write-offs	-	(390)	(468)	(772)	-	(1,630)	-	(940)	(118)	(124)	-	(1,182)
Net credit impairment losses/recoveries (+/-)	1	42,703	1,537	-	-	44,241	-	(46,242)	586	-	-	(45,656)
Contractual modification without derecognition	-	(184)	-	-	-	(184)	-	(2,311)	-	-	-	(2,311)
Changes in estimation methodology	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs not recognised directly in the income statement	-	(9,600)	-	-	-	(9,600)	-	(16,285)	-	-	-	(16,285)
Other changes	-	184	-	-	-	87	-	2,312	-	-	-	2,311
Total value adjustments - closing balance	**22**	**160,375**	**3,814**	**-**	**-**	**164,114**	**-**	**258,812**	**850**	**-**	**-**	**259,662**
Recoveries from collections on financial assets subject to write-off	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs recorded directly in the income statement	-	-	-	-	-	-	-	(1,599)	-	-	-	(1,599)

Causes/risk stages	Total value adjustments											Total provisions for commitments to disburse funds and financial guarantees given				
	Stage 3 assets						Acquired or originated impaired financial assets									
	Demand loans to banks and Central Banks	Financial assets at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual write-downs	of which: collective write-downs	Financial assets at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual write-downs	of which: collective write-downs	Stage 1	Stage 2	Stage 3	Commitments to disburse funds and financial guarantees given acquired and/or originated impaired	Tot.
Total value adjustments - opening balance	**-**	**2,896,223**	**-**	**1,818**	**2,860,985**	**37,053**	**260,052**	**-**	**-**	**290,490**	**(30,438)**	**13,564**	**7,546**	**20,971**	**314**	**3,654,472**
Increases in financial assets acquired or originated	-	-	-	-	-	-	X	X	X	X	X	-	-	-	-	**-**
Derecognitions other than write-offs	-	(576,319)	-	-	(576,319)	-	(99,887)	-	-	(99,887)	-	-	-	-	-	**(679,018)**
Net credit impairment losses/recoveries (+/-)	-	375,301	-	(1,818)	373,483	-	11,282	-	-	11,270	12	9,001	3,639	2,317	(15)	**398,292**
Contractual modification without derecognition	-	783	-	-	783	-	-	-	-	-	-	-	-	-	-	**(1,712)**
Changes in estimation methodology	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Write-offs not recognised directly in the income statement	-	(370,795)	-	-	(370,795)	-	(32,525)	-	-	(32,525)	-	-	-	-	-	**(429,205)**
Other changes	-	(7,439)	-	-	29,617	(37,053)	(109)	-	-	(40,498)	40,389	-	-	(1,396)	-	**(6,448)**
Total value adjustments - closing balance	**-**	**2,317,754**	**-**	**-**	**2,317,754**	**-**	**138,813**	**-**	**-**	**128,850**	**9,963**	**22,565**	**11,185**	**21,892**	**299**	**2,936,381**
Recoveries from collections on financial assets subject to write-off	-	5,834	-	-	5,834	-	-	-	-	-	-	-	-	-	-	**5,834**
Write-offs recorded directly in the income statement	-	(58,546)	-	(104)	(58,650)	-	(26,683)	-	-	(26,683)	-	-	-	-	-	**(86,932)**

A.1.3 Prudential consolidation - Financial assets, commitments to disburse funds and financial guarantees given: transfers between the different credit risk stages (gross and nominal values)

Portfolios/risk stages	Gross amounts/nominal value					
	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3	
	From Stage 1 to Stage 2	From Stage 2 to Stage 1	From Stage 2 to Stage 3	From Stage 3 to Stage 2	From Stage 1 to Stage 3	From Stage 3 to Stage 1
1. Financial assets at amortised cost	4,028,033	3,362,984	475,723	109,963	321,607	28,440
2. Financial assets measured at fair value through other comprehensive income	20,419	8,218	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-
4. Commitments to disburse funds and financial guarantees given	1,344,034	1,540,729	48,879	17,892	31,372	3,752
Total 31/12/2022	**5,392,486**	**4,911,931**	**524,602**	**127,855**	**352,979**	**32,192**
Total 31/12/2021	**8,010,231**	**2,134,675**	**724,441**	**98,331**	**219,328**	**24,534**

A.1.3a Loans subject to Covid-19 support measures: transfers between the different credit risk stages (gross values)

Portfolios/risk stages	Gross values					
	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3	
	From Stage 1 to Stage 2	From Stage 2 to Stage 1	From Stage 2 to Stage 3	From Stage 3 to Stage 2	From Stage 1 to Stage 3	From Stage 3 to Stage 1
A. Loans measured at amortised cost	**918,573**	**406,133**	**97,940**	**1,783**	**130,571**	**1,303**
A.1 subject to forbearance measures compliant with GL	2,004	413	334	-	259	-
A.2 subject to current moratorium measures no longer compliant with GL and not assessed as forborne	-	-	-	-	-	-
A.3 subject to other forbearance measures	8,853	-	19,161	1,428	508	-
A.4 new loans	907,716	405,720	78,445	355	129,804	1,303
B. Loans measured at fair value through other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**
B.1 subject to forbearance measures compliant with GL	-	-	-	-	-	-
B.2 subject to current moratorium measures no longer compliant with GL and not assessed as forborne	-	-	-	-	-	-
B.3 subject to other forbearance measures	-	-	-	-	-	-
B.4 new loans	-	-	-	-	-	-
Total 31/12/2022	**918,573**	**406,133**	**97,940**	**1,783**	**130,571**	**1,303**
Total 31/12/2021	**2,214,210**	**246,405**	**164,007**	**895**	**49,073**	**192**

The table in question envisaged by the Bank of Italy Communication of 21 December 2021, shows the transfers between the three stages of risk of exposures subject to Covid-19 support measures, if the risk stage at year-end is different to the risk stage that the exposures were classified as at the beginning of the year or on the date of initial recognition (if after the beginning of the year).

A.1.4 Prudential consolidation - On-balance sheet and off-balance sheet credit exposures to banks: gross and net values

Type of exposure/value	Gross exposure					Total value adjustments and total provisions					Net Exposure	Total partial write-offs*
		Stage 1	Stage 2	Stage 3	Acquired or originated impaired		Stage 1	Stage 2	Stage 3	Acquired or originated impaired		
A. On-balance sheet credit exposures												
A.1 On demand	**12,291,452**	**12,285,404**	**6,048**	**-**	**-**	**(9)**	**(9)**	**-**	**-**	**-**	**12,291,443**	**-**
a) Non-performing	-	X	-	-	-	-	X	-	-	-	-	-
b) Performing	12,291,452	12,285,404	6,048	X	-	(9)	(9)	-	X	-	12,291,443	-
A.2 Other	**6,878,731**	**6,513,051**	**64,740**	**-**	**-**	**(19,932)**	**(4,037)**	**(601)**	**-**	**-**	**6,858,799**	**-**
a) Bad loans	-	X	-	-	-	-	X	-	-	-	-	-
- of which: forborne exposures	-	X	-	-	-	-	X	-	-	-	-	-
b) Unlikely to pay	15,294	X	-	-	-	(15,294)	X	-	-	-	-	-
- of which: forborne exposures	-	X	-	-	-	-	X	-	-	-	-	-
c) Non-performing past-due exposures	-	X	-	-	-	-	X	-	-	-	-	-
- of which: forborne exposures	-	X	-	-	-	-	X	-	-	-	-	-
d) Performing past-due exposures	-	-	-	X	-	-	-	-	X	-	-	-
- of which: forborne exposures	-	-	-	X	-	-	-	-	X	-	-	-
e) Other performing exposures	6,863,437	6,513,051	64,740	X	-	(4,638)	(4,037)	(601)	X	-	6,858,799	-
- of which: forborne exposures	-	-	-	X	-	-	-	-	X	-	-	-
Total (A)	**19,170,183**	**18,798,455**	**70,788**	**-**	**-**	**(19,941)**	**(4,046)**	**(601)**	**-**	**-**	**19,150,242**	**-**
B. Off-balance sheet credit exposures												
a) Non-performing	-	X	-	-	-	-	X	-	-	-	-	-
b) Performing	5,577,798	1,751,390	177,688	X	-	(426)	(127)	(164)	X	-	5,577,372	-
Total (B)	**5,577,798**	**1,751,390**	**177,688**	**-**	**-**	**(426)**	**(127)**	**(164)**	**-**	**-**	**5,577,372**	**-**
Total (A+B)	**24,747,981**	**20,549,845**	**248,476**	**-**	**-**	**(20,367)**	**(4,173)**	**(765)**	**-**	**-**	**24,727,614**	**-**

(*) Value to be shown for disclosure purposes

A.1.5 Prudential consolidation - On-balance sheet and off-balance sheet credit exposures to customers: gross and net values

Type of exposure/value	Gross exposure					Total value adjustments and total provisions					Net Exposure	Total partial write-offs*
		Stage 1	Stage 2	Stage 3	Acquired or originated impaired		Stage 1	Stage 2	Stage 3	Acquired or originated impaired		
A. On-balance sheet credit exposures												
a) Bad loans	2,053,276	X	-	1,990,456	56,545	(1,331,948)	X	-	(1,279,671)	(46,748)	721,328	379,862
- of which: forborne exposures	381,740	X	-	367,668	13,440	(222,762)	X	-	(210,252)	(12,305)	158,978	27,888
b) Unlikely to pay	2,777,201	X	-	2,507,454	167,110	(1,147,214)	X	-	(1,015,977)	(82,102)	1,629,987	-
- of which: forborne exposures	1,809,030	X	-	1,559,115	153,176	(728,950)	X	-	(613,738)	(70,157)	1,080,080	-
c) Non-performing past-due exposures	82,205	X	-	82,190	1	(22,108)	X	-	(22,105)	(1)	60,097	-
- of which: forborne exposures	14,899	X	-	14,899	-	(3,275)	X	-	(3,275)	-	11,624	-
d) Performing past-due exposures	1,227,202	759,996	466,002	X	1,133	(19,166)	(1,477)	(17,637)	X	(51)	1,208,036	-
- of which: forborne exposures	165,020	13	164,165	X	842	(5,668)	(4)	(5,627)	X	(37)	159,352	-
e) Other performing exposures	139,339,756	128,126,702	10,400,852	X	142,327	(410,009)	(158,674)	(241,423)	X	(9,912)	138,929,747	-
- of which: forborne exposures	2,674,128	32	2,613,050	X	37,590	(89,795)	(4)	(88,447)	X	(1,344)	2,584,333	-
Total (A)	**145,479,640**	**128,886,698**	**10,866,854**	**4,580,100**	**367,116**	**(2,930,445)**	**(160,151)**	**(259,060)**	**(2,317,753)**	**(138,814)**	**142,549,195**	**379,862**
B. Off-balance sheet credit exposures												
a) Non-performing	664,896	X	-	335,197	3,794	(96,286)	X	-	(21,893)	(209)	568,610	-
b) Performing	56,944,040	40,760,125	3,220,379	X	9,619	(47,448)	(22,424)	(11,021)	X	(89)	56,896,592	-
Total (B)	**57,608,936**	**40,760,125**	**3,220,379**	**335,197**	**13,413**	**(143,734)**	**(22,424)**	**(11,021)**	**(21,893)**	**(298)**	**57,465,202**	**-**
Total (A+B)	**203,088,576**	**169,646,823**	**14,087,233**	**4,915,297**	**380,529**	**(3,074,179)**	**(182,575)**	**(270,081)**	**(2,339,646)**	**(139,112)**	**200,014,397**	**379,862**

(*) Value to be shown for disclosure purposes

A.1.5a Loans subject to Covid-19 support measures: gross and net values

Type of exposure/value	Gross exposure					Total value adjustments						
		Stage 1	Stage 2	Stage 3	Acquired or originated impaired		Stage 1	Stage 2	Stage 3	Acquired or originated impaired	Net exposure	Total partial write-offs*
A. Bad loans:	**87,745**	**-**	**-**	**87,745**	**-**	**(25,642)**	**-**	**-**	**(25,642)**	**-**	**62,103**	**-**
a) Subject to forbearance measures compliant with GL	131	-	-	131	-	(48)	-	-	(48)	-	83	-
b) Subject to current moratorium measures no longer compliant with GL and not assessed as forborne	-	-	-	-	-	-	-	-	-	-	-	-
c) Subject to other forbearance measures	6,335	-	-	6,335	-	(2,053)	-	-	(2,053)	-	4,282	-
d) New loans	81,279	-	-	81,279	-	(23,541)	-	-	(23,541)	-	57,738	-
B. Unlikely to pay loans:	**222,238**	**-**	**-**	**222,119**	**118**	**(54,487)**	**-**	**-**	**(54,439)**	**(47)**	**167,751**	**-**
a) Subject to forbearance measures compliant with GL	1,131	-	-	1,013	118	(183)	-	-	(136)	(47)	948	-
b) Subject to current moratorium measures no longer compliant with GL and not assessed as forborne	-	-	-	-	-	-	-	-	-	-	-	-
c) Subject to other forbearance measures	26,852	-	-	26,851	-	(8,768)	-	-	(8,768)	-	18,084	-
d) New loans	194,255	-	-	194,255	-	(45,536)	-	-	(45,535)	-	148,719	-
C. Non-performing past-due loans:	**17,258**	**-**	**-**	**17,258**	**-**	**(2,233)**	**-**	**-**	**(2,233)**	**-**	**15,025**	**-**
a) Subject to forbearance measures compliant with GL	-	-	-	-	-	-	-	-	-	-	-	-
b) Subject to current moratorium measures no longer compliant with GL and not assessed as forborne	-	-	-	-	-	-	-	-	-	-	-	-
c) Subject to other forbearance measures	1,262	-	-	1,262	-	(252)	-	-	(252)	-	1,010	-
d) New loans	15,996	-	-	15,996	-	(1,981)	-	-	(1,981)	-	14,015	-
D. Other performing past-due loans:	**106,490**	**49,349**	**57,142**	**-**	**-**	**(566)**	**(61)**	**(505)**	**-**	**-**	**105,924**	**-**
a) Subject to forbearance measures compliant with GL	78	-	78	-	-	(4)	-	(4)	-	-	74	-
b) Subject to current moratorium measures no longer compliant with GL and not assessed as forborne	-	-	-	-	-	-	-	-	-	-	-	-
c) Subject to other forbearance measures	4,339	-	4,339	-	-	(92)	-	(92)	-	-	4,247	-
d) New loans	102,073	49,349	52,725	-	-	(470)	(61)	(409)	-	-	101,603	-
E. Other performing loans:	**16,026,772**	**14,110,679**	**1,916,061**	**-**	**30**	**(13,688)**	**(5,953)**	**(7,735)**	**-**	**-**	**16,013,084**	**-**
a) Subject to forbearance measures compliant with GL	8,672	3,532	5,140	-	-	(207)	(4)	(203)	-	-	8,465	-
b) Subject to current moratorium measures no longer compliant with GL and not assessed as forborne	309	-	309	-	-	(14)	-	(14)	-	-	295	-
c) Subject to other forbearance measures	100,851	-	100,850	-	-	(772)	-	(772)	-	-	100,079	-
d) New loans	15,916,940	14,107,147	1,809,762	-	30	(12,695)	(5,949)	(6,746)	-	-	15,904,245	-
Total (A+B+C+D+E)	**16,460,503**	**14,160,028**	**1,973,203**	**327,122**	**148**	**(96,616)**	**(6,014)**	**(8,240)**	**(82,314)**	**(47)**	**16,363,887**	**-**

(*) Value to be shown for disclosure purposes

Based on the communication of the Bank of Italy dated 21 December 2021, the table shows the credit quality of the exposures subject to Covid-19 support measures, represented by loans for which moratoria have been granted or other forbearance measures not yet expired as at the reporting date of the financial statements, or by new loans disbursed through public guarantee mechanisms.

For an illustration of the content of the different types of moratoria envisaged in the table, along with the moratoria granted by the Bank, and of the relative credit quality of those still active, please refer to the content of the paragraph entitled "Most significant aspects for 2022 financial statement valuations" in "Section 5 - Other aspects" in Part A of these Notes.

For further quantitative information on the measures that meet the criteria contained in the EBA Guidelines (EBA/GL/2020/02), refer instead to the content of the document "Disclosure to the public by entities (Pillar III)" of Banco BPM, available on the website www.gruppo.bancobpm.it.

A.1.6 Prudential consolidation - On-balance sheet credit exposures to banks: changes in gross non-performing exposures

Causes/Categories	Bad loans	Unlikely to pay	Non-performing past-due exposures
A. Gross exposure: opening balance	**-**	**-**	**-**
- of which: exposures transferred but not derecognised	-	-	-
B. Increases	**-**	**15,294**	**-**
B.1 entries from performing exposures	-	-	-
B.2 entries from acquired or originated impaired financial assets	-	-	-
B.3 transfers from other categories of non-performing loans	-	-	-
B.4 contractual modification without derecognition	-	-	-
B.5 other increases	-	15,294	-
C. Decreases	**-**	**-**	**-**
C.1 exits to performing exposures	-	-	-
C.2 write-offs	-	-	-
C.3 collections	-	-	-
C.4 gains on disposal	-	-	-
C.5 losses on disposal	-	-	-
C.6 transfers to other categories of non-performing loans	-	-	-
C.7 contractual modification without derecognition	-	-	-
C.8 other decreases	-	-	-
D. Gross exposure: closing balance	**-**	**15,294**	**-**
- of which: exposures transferred but not derecognised	-	-	-

A.1.6 bis Prudential consolidation - On-balance sheet credit exposures to banks: changes in gross forborne exposures, broken down by credit quality

As at 31 December 2022, as in the previous year, there were no forborne exposures to banks. The related table is therefore omitted.

A.1.7 Prudential consolidation - On-balance sheet credit exposures to customers: changes in gross non-performing exposures

Causes/Categories	Bad loans	Unlikely to pay	Non-performing past-due exposures
A. Gross exposure: opening balance	**2,196,291**	**4,353,819**	**65,890**
- of which: exposures transferred but not derecognised	18,968	9,141	622
B. Increases	**618,152**	**1,029,057**	**85,999**
B.1 entries from performing exposures	166,430	733,353	78,753
B.2 entries from acquired or originated impaired financial assets	-	-	-
B.3 transfers from other categories of non-performing loans	424,776	27,609	568
B.4 contractual modification without derecognition	-	1,144	13
B.5 other increases	26,946	266,951	6,665
C. Decreases	**(761,167)**	**(2,605,675)**	**(69,684)**
C.1 exits to performing exposures	(626)	(137,169)	(10,047)
C.2 write-offs	(119,693)	(384,212)	(714)
C.3 collections	(181,974)	(557,374)	(16,875)
C.4 gains on disposal	(97,541)	(254,830)	(5,479)
C.5 losses on disposal	(137,236)	(172,043)	(41)
C.6 transfers to other categories of non-performing loans	-	(417,147)	(35,806)
C.7 contractual modification without derecognition	-	(1,940)	-
C.8 other decreases	(224,097)	(680,960)	(722)
D. Gross exposure: closing balance	**2,053,276**	**2,777,201**	**82,205**
- of which: exposures transferred but not derecognised	14,383	5,985	259

The trend of non-performing exposures and in particular those classified as unlikely to pay is influenced by the derisking strategy pursued by the Group, which carried out two important transactions (Argo and Wolf) as illustrated in the Report on operations of the Group and in the paragraph entitled "Other significant aspects relating to Group accounting policies" in "Section 5 - Other aspects" in Part A of these Notes.

With reference to the restructuring of non-performing loans, the item “other decreases” includes the gross amount of the exposures sold exceeding the sum of the realisable value and any loss on disposal; for the loans underlying the Wolf transaction, which as at 31 December 2021 had an exposure of 458.0 million, the aforementioned item includes the amount converted into participating financial instruments of 177.0 million and the residual exposure classified under “Other financial assets mandatorily measured at fair value” for 263.7 million.

A.1.7 bis Prudential consolidation - On-balance sheet credit exposures to customers: changes in gross forborne exposures broken down by credit quality

Causes/Quality	Forborne exposures: non-performing	Forborne exposures: performing
A. Gross exposure: opening balance	**3,449,524**	**3,245,180**
- of which: exposures transferred but not derecognised	7,307	6,666
B. Increases	**630,413**	**854,228**
B.1 entries from non-forborne performing exposures	54,921	721,376
B.2 entries from forborne performing exposures	262,776	X
B.3 entries from forborne non-performing exposures	X	113,305
B.4 entries from non-forborne non-performing exposures	-	-
B.5 other increases	312,716	19,547
C. Decreases	**(1,874,268)**	**(1,260,260)**
C.1 exits to non-forborne performing exposures	X	(705,490)
C.2 exits to forborne performing exposures	(113,305)	X
C.3 exits to forborne non-performing exposures	X	(262,776)
C.4 write-offs	(227,751)	-
C.5 collections	(312,885)	(291,629)
C.6 gains on disposal	(233,334)	-
C.7 losses on disposal	(185,851)	-
C.8 other decreases	(801,142)	(365)
D. Gross exposure: closing balance	**2,205,669**	**2,839,148**
- of which: exposures transferred but not derecognised	4,680	6,478

A.1.8 Prudential consolidation - Non-performing on-balance sheet credit exposures to banks: changes in total value adjustments

Causes/Categories	Bad loans		Unlikely to pay		Non-performing past-due exposures	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Total value adjustments - opening balance	**-**	**-**	**-**	**-**	**-**	**-**
- of which: exposures transferred but not derecognised	-	-	-	-	-	-
B. Increases	**-**	**-**	**15,294**	**-**	**-**	**-**
B.1 value adjustments of acquired or originated impaired financial assets	-	X	-	X	-	X
B.2 other value adjustments	-	-	-	-	-	-
B.3 losses on disposal	-	-	-	-	-	-
B.4 transfers from other categories of non-performing exposures	-	-	-	-	-	-
B.5 contractual modification without derecognition	-	-	-	-	-	-
B.6 other increases	-	-	15,294	-	-	-
C. Decreases	**-**	**-**	**-**	**-**	**-**	**-**
C.1 recoveries from valuation	-	-	-	-	-	-
C.2 recoveries from collection	-	-	-	-	-	-
C.3 gains on disposal	-	-	-	-	-	-
C.4 write-offs	-	-	-	-	-	-
C.5 transfers to other categories of non-performing exposures	-	-	-	-	-	-
C.6 contractual modification without derecognition	-	-	-	-	-	-
C.7 other decreases	-	-	-	-	-	-
D. Total value adjustments - closing balance	**-**	**-**	**15,294**	**-**	**-**	**-**
- of which: exposures transferred but not derecognised	-	-	-	-	-	-

A.1.9 Prudential consolidation - Non-performing on-balance sheet credit exposures to customers: changes in total value adjustments

Causes/Categories	Bad loans		Unlikely to pay		Non-performing past-due exposures	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Total value adjustments - opening balance	**1,289,617**	**298,817**	**1,934,756**	**1,255,384**	**15,669**	**1,613**
- of which: exposures transferred but not derecognised	4,998	335	713	406	45	25
B. Increases	**678,822**	**123,792**	**823,134**	**554,125**	**16,858**	**3,254**
B.1 value adjustments from acquired or originated impaired financial assets	-	X	-	X	-	X
B.2 other value adjustments	294,869	42,334	623,904	375,484	16,386	3,085
B.3 losses on disposal	137,236	52,784	172,043	133,068	41	-
B.4 transfers from other categories of non-performing exposures	225,697	27,769	3,398	796	119	-
B.5 contractual modification without derecognition	-	-	1,940	1,940	-	-
B.6 other increases	21,020	905	21,849	42,837	312	169
C. Decreases	**(636,491)**	**(199,847)**	**(1,610,676)**	**(1,080,559)**	**(10,419)**	**(1,592)**
C.1 recoveries from valuation	(47,301)	(10,483)	(297,157)	(178,837)	(2,090)	(412)
C.2 recoveries from collection	(40,027)	(8,642)	(43,514)	(30,100)	(32)	-
C.3 gains on disposal	(31,811)	(8,982)	(67,207)	(57,243)	-	-
C.4 write-offs	(119,693)	(17,628)	(384,212)	(210,123)	(714)	-
C.5 transfers to other categories of non-performing exposures	-	-	(222,231)	(27,668)	(6,983)	(897)
C.6 contractual modification without derecognition	-	-	(1,144)	(1,144)	(13)	(13)
C.7 other decreases	(397,659)	(154,112)	(595,211)	(575,444)	(587)	(270)
D. Total value adjustments - closing balance	**1,331,948**	**222,762**	**1,147,214**	**728,950**	**22,108**	**3,275**
- of which: exposures transferred but not derecognised	5,598	485	858	445	51	-

With regard to sales of non-performing loans, the item "Other decreases" includes the total amount of derecognitions other than accounting write-offs (i.e. for the amount equal to the difference between the gross credit exposure and the amount of the transfer).

A.2 Classification of exposures according to external and internal ratings

A.2.1 Prudential consolidation - Distribution of financial assets, commitments to disburse funds and financial guarantees given by external rating classes (gross values)

Exposures	External rating classes							Total
	AAA/AA-	A+/A-	BBB+/BBB-	BB+/BB-	B+/B-	below B-	Unrated	
A. Financial assets at amortised cost	**10,287,529**	**7,587,084**	**11,449,674**	**2,482,205**	**661,709**	**113,651**	**109,597,384**	**142,179,236**
- Stage 1	10,287,529	7,564,363	11,269,503	2,080,759	412,385	12,089	94,721,273	126,347,901
- Stage 2	-	22,721	180,171	400,534	239,921	28,389	10,012,383	10,884,119
- Stage 3	-	-	-	912	9,403	13,790	4,555,995	4,580,100
- Acquired or originated impaired	-	-	-	-	-	59,383	307,733	367,116
B. Financial assets measured at fair value through other comprehensive income	**4,085,448**	**2,081,937**	**2,544,275**	**63,605**	**70,570**	**-**	**253,501**	**9,099,336**
- Stage 1	4,082,851	2,073,006	2,525,630	55,043	61,828	-	253,501	9,051,859
- Stage 2	2,597	8,931	18,645	8,562	8,742	-	-	47,477
- Stage 3	-	-	-	-	-	-	-	-
- Acquired or originated impaired	-	-	-	-	-	-	-	-
C. Financial assets held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Stage 1	-	-	-	-	-	-	-	-
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
- Acquired or originated impaired	-	-	-	-	-	-	-	-
Total (A+B+C)	**14,372,977**	**9,669,021**	**13,993,949**	**2,545,810**	**732,279**	**113,651**	**109,850,885**	**151,278,572**
D. Commitments to disburse funds and financial guarantees given	**122,752**	**920,616**	**2,847,763**	**1,547,841**	**488,450**	**5,435**	**40,405,705**	**46,338,562**
- Stage 1	122,752	905,077	2,775,012	1,161,719	420,422	3,102	37,203,803	42,591,887
- Stage 2	-	15,539	72,751	386,122	68,028	542	2,855,084	3,398,066
- Stage 3	-	-	-	-	-	-	335,196	335,196
- Acquired or originated impaired	-	-	-	-	-	1,791	11,622	13,413
Total (D)	**122,752**	**920,616**	**2,847,763**	**1,547,841**	**488,450**	**5,435**	**40,405,705**	**46,338,562**
Total (A+B+C+D)	**14,495,729**	**10,589,637**	**16,841,712**	**4,093,651**	**1,220,729**	**119,086**	**150,256,590**	**197,617,134**

Banco BPM Group adopts the credit risk assessments issued by the following external credit assessment agencies (ECAIs): Standard & Poor's ratings Services, Moody's Investors Service, Fitch Ratings and Cerved Rating Agency S.p.A..

These agencies apply to all banks belonging to the Group. On the perimeter of securitisations, credit risk assessments can also be issued by the following external agencies: DBRS and Scope. Within this scope, the valuation of the individual transaction is requested by Banco BPM from one of the previous agencies. It should be noted that, where there are two assessments of the same customer, the most prudent one is adopted; in the presence of more than one assessment, the two assessments corresponding to the two

lowest weight factors are selected. If the two lowest weight factors are different, the highest factor is applied. If the two lowest weight factors are identical, said factor is applied (Art. 138 of Regulation (EU) no. 575/2013).
The table below shows the reconciliation between the risk classes and ratings of the agencies used.

CLASS	Fitch Ratings	Moody's	Standard & Poor's	Cerved Rating Agency SpA
AAA/AA-	*AAA to AA-*	*Aaa to Aa3*	*AAA to AA-*	*A1.1 to A1.3*
A+/A-	*A+ to A-*	*A1 to A3*	*A+ to A-*	*A2.1 to A3.1*
BBB+/BBB-	*BBB+ to BBB-*	*Baa1 to Baa3*	*BBB+ to BBB-*	*B1.1 to B1.2*
BB+/BB-	*BB+ to BB-*	*Ba1 to Ba3*	*BB+ to BB-*	*B2.1 to B2.2*
B+/B-	*B+ to B-*	*B1 to B3*	*B+ to B-*	*C1.1*
Below B-	*CCC+ and below*	*Caa1 and below*	*CCC+ and below*	*C1.2 and below*

A.2.2 Prudential consolidation - Distribution of financial assets, commitments to disburse funds and financial guarantees given by internal rating classes (gross values)

With the exception of the bank prospectus, the exposures shown in tables A.2.2 are associated with ratings also used to determine capital requirements for credit risks, limited to what can be traced back to the Business and Retail regulatory portfolios.
In particular, with regard to business customers, four separate rating models have been developed, based on the following customer segments: Large Corporate, Mid Corporate Plus, Mid Corporate and Small Business – and one for private customers. The counterparty rating system provides, at the level of each segment, twelve rating classes (eleven performing and one default) grouped below by risk category.

Exposures to banks	Internal rating classes								Unrated	Total
	AAA	AA	A	BBB	BB	B	CCC	Default		
A. Financial assets at amortised cost	**-**	**739,302**	**1,372,826**	**1,434,405**	**116,149**	**94**	**-**	**-**	**1,832,248**	**5,495,024**
- Stage 1	-	739,302	1,372,826	1,391,372	110,300	-	-	-	1,832,048	5,445,848
- Stage 2	-	-	-	43,033	5,849	94	-	-	200	49,176
- Stage 3	-	-	-	-	-	-	-	-	-	-
- Acquired or originated impaired	-	-	-	-	-	-	-	-	-	-
B. Financial assets measured at fair value through other comprehensive income	**4,847**	**130,468**	**397,354**	**540,627**	**-**	**-**	**-**	**-**	**9,470**	**1,082,766**
- Stage 1	2,440	130,468	392,758	532,066	-	-	-	-	9,470	1,067,202
- Stage 2	2,407	-	4,596	8,561	-	-	-	-	-	15,564
- Stage 3	-	-	-	-	-	-	-	-	-	-
- Acquired or originated impaired	-	-	-	-	-	-	-	-	-	-
C. Financial assets held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Stage 1	-	-	-	-	-	-	-	-	-	-
- Stage 2	-	-	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-	-	-
- Acquired or originated impaired	-	-	-	-	-	-	-	-	-	-
Total Financial assets	**4,847**	**869,770**	**1,770,180**	**1,975,032**	**116,149**	**94**	**-**	**-**	**1,841,718**	**6,577,790**
D. Commitments to disburse funds and financial guarantees given										
- Stage 1	2,000	255,157	623,475	656,040	121,665	3,600	-	-	120,076	1,782,013
- Stage 2	-	-	-	83,117	86,527	1,049	-	-	6,995	177,688
- Stage 3	-	-	-	-	-	-	-	-	-	-
- Acquired or originated impaired	-	-	-	-	-	-	-	-	-	-
Total commitments to disburse funds and financial guarantees given	**2,000**	**255,157**	**623,475**	**739,157**	**208,192**	**4,649**	**-**	**-**	**127,071**	**1,959,701**
Total	**6,847**	**1,124,927**	**2,393,655**	**2,714,189**	**324,341**	**4,743**	**-**	**-**	**1,968,789**	**8,537,491**

Exposures to customers	Internal rating classes							Total
	LOW	MEDIUM-LOW	MEDIUM	MEDIUM-HIGH	HIGH	Default	Unrated	
A. Financial assets at amortised cost	**30,862,869**	**33,876,763**	**18,425,936**	**4,973,103**	**2,070,940**	**4,063,383**	**335,371**	**94,608,365**
- Stage 1	30,254,117	31,937,070	14,939,721	2,740,564	348,188	-	322,005	80,541,665
- Stage 2	606,402	1,927,915	3,464,007	2,194,043	1,713,525	-	13,366	9,919,258
- Stage 3	-	-	-	-	44	3,846,689	-	3,846,733
- Acquired or originated impaired	2,350	11,778	22,208	38,496	9,183	216,694	-	300,709
B. Financial assets measured at fair value through other comprehensive income	**155,835**	**19,884**	**-**	**-**	**-**	**-**	**-**	**175,719**
- Stage 1	150,122	11,142	-	-	-	-	-	161,264
- Stage 2	5,713	8,742	-	-	-	-	-	14,455
- Stage 3	-	-	-	-	-	-	-	-
- Acquired or originated impaired	-	-	-	-	-	-	-	-
C. Financial assets held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Stage 1	-	-	-	-	-	-	-	-
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
- Acquired or originated impaired	-	-	-	-	-	-	-	-
Total (A + B + C)	**31,018,704**	**33,896,647**	**18,425,936**	**4,973,103**	**2,070,940**	**4,063,383**	**335,371**	**94,784,084**
D. Commitments to disburse funds and financial guarantees given								
- Stage 1	21,803,340	8,782,271	4,338,414	522,823	54,795	-	84,228	35,585,871
- Stage 2	478,311	659,539	1,486,329	304,736	110,896	-	628	3,040,439
- Stage 3	-	-	-	-	-	330,260	-	330,260
- Acquired or originated impaired	55	70	674	6,997	-	3,794	-	11,590
Total (D)	**22,281,706**	**9,441,880**	**5,825,417**	**834,556**	**165,691**	**334,054**	**84,856**	**38,968,160**
Total (A+B+C+D) by segment	**53,300,410**	**43,338,527**	**24,251,353**	**5,807,659**	**2,236,631**	**4,397,437**	**420,227**	**133,752,244**
Grand total	**-**	**-**	**-**	**-**	**-**	**745,232**	**54,582,167**	**55,327,399**
Total	**53,300,410**	**43,338,527**	**24,251,353**	**5,807,659**	**2,236,631**	**5,142,669**	**55,002,394**	**189,079,643**

Exposures	Internal rating classes							Total
	LOW	MEDIUM-LOW	MEDIUM	MEDIUM-HIGH	HIGH	Default	Unrated	
Large Corporate	12,136,347	3,758,910	3,889,858	379,904	19,666	125,306	5,646	20,315,637
Mid Corporate Plus	9,970,641	8,042,346	4,441,857	787,278	127,732	763,691	81,119	24,214,664
Mid Corporate	13,286,710	8,449,261	4,911,667	2,024,879	690,139	930,759	27,321	30,320,736
Small Businesses	7,898,365	6,512,508	8,452,680	2,004,261	602,462	1,857,467	258,567	27,586,310
Private	10,008,347	16,575,502	2,555,291	611,337	796,632	720,214	47,574	31,314,897
Total Exposures by segment	**53,300,410**	**43,338,527**	**24,251,353**	**5,807,659**	**2,236,631**	**4,397,437**	**420,227**	**133,752,244**

A.3 Distribution of secured credit exposures by type of guarantee

A.3.1 Prudential consolidation - On-balance sheet and off-balance sheet secured credit exposures to banks

	Gross exposure	Net exposure	Collateral (1)				Personal guarantees (2)									Total (1)+(2)
							Credit derivatives					Unsecured loans				
								Other derivatives								
			Real estate - Mortgages	Real estate - Loans for leases	Securities	Other collateral	CLN	Central counterparties	Banks	Other financial companies	Other entities	Public Administrations	Banks	Other financial companies	Other entities	
1. Secured on-balance sheet credit exposures:	**919,753**	**919,751**	**-**	**372**	**911,997**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**838**	**420**	**913,627**
1.1. fully secured	919,753	919,751	-	372	911,997	-	-	-	-	-	-	-	-	838	420	913,627
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2. partially secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Secured off-balance sheet credit exposures:	**168,244**	**168,233**	**-**	**-**	**136,420**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5,569**	**11,025**	**153,014**
2.1. fully secured	146,195	146,193	-	-	136,420	-	-	-	-	-	-	-	-	2,710	7,063	146,193
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2. partially secured	22,049	22,040	-	-	-	-	-	-	-	-	-	-	-	2,859	3,962	6,821
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.3.2 Prudential consolidation - On-balance sheet and off-balance sheet secured credit exposures to customers

	Gross exposure	Net exposure	Collateral (1)				Personal guarantees (2)									Total (1)+(2)
							Credit derivatives					Unsecured loans				
								Other derivatives								
			Real estate - Mortgages	Real estate - Finance leases	Securities	Other collateral	CLN	Central counterparties	Banks	Other financial companies	Other entities	Public Administrations	Banks	Other financial companies	Other entities	
1. Secured on-balance sheet credit exposures:	**83,235,834**	**81,053,492**	**42,061,190**	**618,917**	**3,308,403**	**1,583,298**	**204,860**	**-**	**-**	**43,718**	**12,996**	**18,223,577**	**38,409**	**397,777**	**6,877,347**	**73,370,492**
1.1. fully secured	65,530,993	63,620,785	42,037,293	618,917	3,128,817	1,507,021	31,014	-	-	12,917	2,598	8,523,813	10,278	358,325	6,535,355	62,766,348
- of which non-performing	3,630,523	2,007,735	1,402,325	98,746	4,534	152,879	-	-	-	44	-	189,086	476	6,646	118,676	1,973,412
1.2. partially secured	17,704,841	17,432,707	23,897	-	179,586	76,277	173,846	-	-	30,801	10,398	9,699,764	28,131	39,452	341,992	10,604,144
- of which non-performing	435,346	200,739	1,644	-	332	510	-	-	-	301	-	138,358	714	858	15,585	158,302
2. Secured off-balance sheet credit exposures:	**12,459,711**	**12,421,928**	**663,409**	**1,089**	**784,263**	**1,540,076**	**-**	**-**	**-**	**-**	**-**	**932,603**	**209,923**	**476,217**	**6,043,933**	**10,651,513**
2.1. fully secured	8,500,643	8,472,785	661,419	1,089	653,518	537,159	-	-	-	-	-	357,806	127,001	326,094	5,404,996	8,069,082
- of which non-performing	74,426	62,480	4,602	1,071	3,441	1,547	-	-	-	-	-	3,558	-	170	47,347	61,736
2.2. partially secured	3,959,068	3,949,143	1,990	-	130,745	1,002,917	-	-	-	-	-	574,797	82,922	150,123	638,937	2,582,431
- of which non-performing	46,546	39,581	-	-	1,195	3,246	-	-	-	-	-	3,872	-	7	18,142	26,462

Note that this table does not show the risk mitigations represented by CSA contracts on derivative instruments, as well as forms of support relating to synthetic securitisation transactions.

A.4 Prudential consolidation - Financial and non-financial assets obtained through the enforcement of guarantees received

	Derecognised credit exposure	Gross value	Total value adjustments	Book value	
					of which obtained during the year
A. Property, plant and equipment	**890,803**	**937,368**	**(441,006)**	**496,362**	**35,716**
A.1. Used in operations	53,587	62,604	(42,219)	20,385	-
A.2. For investment purposes	837,216	874,764	(398,787)	475,977	35,716
A.3. Inventories	-	-	-	-	-
B. Equity instruments and debt securities	**15,554**	**15,554**	**(6,601)**	**8,953**	**-**
C. Other assets	**-**	**-**	**-**	**-**	**-**
D. Non-current assets and disposal groups held for sale	**161,390**	**188,566**	**(110,294)**	**78,272**	**-**
D.1. Property, plant and equipment	161,390	188,566	(110,294)	78,272	-
D.2. Other assets	-	-	-	-	-
Total 31/12/2022	**1,067,747**	**1,141,488**	**(557,901)**	**583,587**	**35,716**
Total 31/12/2021	**1,012,294**	**1,113,045**	**(467,856)**	**645,189**	**37,551**

B. Breakdown and concentration of exposures

B.1 Prudential consolidation - Breakdown by sector of on- and off-balance-sheet credit exposures to customers

Exposures/Counterparties	Public Administrations		Financial companies		Financial companies (of which: insurance companies)		Non-financial companies		Households	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. On-balance sheet credit exposures										
A.1 Bad loans	-	-	5,933	(6,853)	-	-	509,229	(1,091,046)	206,166	(234,049)
- of which: forborne exposures	-	-	677	(947)	-	-	118,714	(192,535)	39,587	(29,280)
A.2 Unlikely to pay	360	(838)	74,286	(49,715)	-	-	1,143,245	(932,985)	412,096	(163,676)
- of which: forborne exposures	-	-	7,033	(6,944)	-	-	823,018	(645,583)	250,029	(76,423)
A.3 Non-performing past-due exposures	-	-	10	(2)	-	-	21,159	(6,629)	38,928	(15,477)
- of which: forborne exposures	-	-	-	-	-	-	6,274	(1,827)	5,350	(1,448)
A.4 Performing exposures	31,755,828	(7,269)	14,381,154	(25,039)	175,243	(157)	59,687,064	(291,351)	34,313,737	(105,516)
- of which: forborne exposures	1,731	(31)	21,938	(1,005)	-	-	2,032,032	(66,162)	687,984	(28,265)
Total (A)	**31,756,188**	**(8,107)**	**14,461,383**	**(81,609)**	**175,243**	**(157)**	**61,360,697**	**(2,322,011)**	**34,970,927**	**(518,718)**
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	825	(50)	3,088	(835)	-	-	554,445	(93,975)	10,252	(1,426)
B.2 Performing exposures	2,883,651	(123)	5,018,365	(2,143)	208,894	(31)	44,498,493	(38,460)	4,453,730	(6,722)
Total (B)	**2,884,476**	**(173)**	**5,021,453**	**(2,978)**	**208,894**	**(31)**	**45,052,938**	**(132,435)**	**4,463,982**	**(8,148)**
Total (A+B) 31/12/2022	**34,640,664**	**(8,280)**	**19,482,836**	**(84,587)**	**384,137**	**(188)**	**106,413,635**	**(2,454,446)**	**39,434,909**	**(526,866)**
Total (A+B) 31/12/2021	**35,103,610**	**(10,227)**	**20,531,920**	**(162,696)**	**364,004**	**(297)**	**103,596,299**	**(3,165,708)**	**39,026,355**	**(493,546)**

B.2 Prudential consolidation - Breakdown by geographic area of on- and off-balance sheet credit exposures to customers

Exposures/Geographic areas	Italy		Other European countries		America		Asia		Rest of the world	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. On-balance sheet credit exposures										
A.1 Bad loans	717,836	(1,316,629)	2,964	(11,679)	1	(632)	387	(2,712)	140	(296)
A.2 Unlikely to pay	1,614,680	(1,122,604)	14,440	(23,703)	866	(902)	1	(4)	-	(1)
A.3 Non-performing past-due exposures	60,033	(22,097)	64	(11)	-	-	-	-	-	-
A.4 Performing exposures	117,823,888	(424,484)	16,950,449	(2,453)	4,727,967	(1,860)	508,519	(358)	126,960	(20)
Total (A)	**120,216,437**	**(2,885,814)**	**16,967,917**	**(37,846)**	**4,728,834**	**(3,394)**	**508,907**	**(3,074)**	**127,100**	**(317)**
B. Off-balance sheet credit exposures	-	-	-	-	-	-	-	-	-	-
B.1 Non-performing exposures	567,738	(95,924)	79	(4)	-	-	793	(358)	-	-
B.2 Performing exposures	53,133,242	(47,312)	3,300,394	(100)	115,086	(16)	51,737	(14)	253,780	(6)
Total (B)	**53,700,980**	**(143,236)**	**3,300,473**	**(104)**	**115,086**	**(16)**	**52,530**	**(372)**	**253,780**	**(6)**
Total (A+B) 31/12/2022	**173,917,417**	**(3,029,050)**	**20,268,390**	**(37,950)**	**4,843,920**	**(3,410)**	**561,437**	**(3,446)**	**380,880**	**(323)**
Total (A+B) 31/12/2021	**176,878,745**	**(3,776,859)**	**14,978,584**	**(49,833)**	**5,563,031**	**(1,849)**	**459,799**	**(3,398)**	**378,025**	**(238)**

In greater detail the exposures of Italy are broken down by geographic area as shown in the following table:

Exposures/Geographic areas	North West Italy		North East Italy		Central Italy		South Italy and Islands	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. On-balance sheet credit exposures								
A.1 Bad loans	311,350	(524,787)	118,862	(197,166)	179,726	(401,088)	107,898	(193,588)
A.2 Unlikely to pay	811,372	(606,008)	255,173	(203,521)	357,436	(188,553)	190,699	(124,522)
A.3 Non-performing past-due exposures	25,815	(10,410)	11,549	(3,751)	12,122	(4,254)	10,547	(3,682)
A.4 Performing exposures	55,662,484	(223,319)	24,974,930	(92,031)	31,126,884	(81,951)	6,059,590	(27,183)
Total (A)	**56,811,021**	**(1,364,524)**	**25,360,514**	**(496,469)**	**31,676,168**	**(675,846)**	**6,368,734**	**(348,975)**
B. Off-balance sheet credit exposures								
B.1 Non-performing exposures	268,887	(55,623)	131,536	(18,107)	149,069	(19,910)	18,246	(2,284)
B.2 Performing exposures	27,323,036	(24,200)	13,574,102	(11,387)	10,131,914	(8,815)	2,104,190	(2,910)
Total (B)	27,591,923	(79,823)	13,705,638	(29,494)	10,280,983	(28,725)	2,122,436	(5,194)
Total (A+B) 31/12/2022	**84,402,944**	**(1,444,347)**	**39,066,152**	**(525,963)**	**41,957,151**	**(704,571)**	**8,491,170**	**(354,169)**
Total (A+B) 31/12/2021	**82,856,543**	**(1,957,689)**	**37,753,724**	**(694,316)**	**47,814,949**	**(787,373)**	**8,453,529**	**(337,481)**

B.3 Prudential consolidation - Breakdown by geographic area of on- and off-balance sheet credit exposures to banks

Exposures/Geographic areas	Italy		Other European countries		America		Asia		Rest of the world	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. On-balance sheet credit exposures										
A.1 Bad loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	(15,294)	-	-	-	-	-	-	-	-
A.3 Non-performing past-due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	15,751,923	(2,542)	3,064,538	(1,649)	223,165	(237)	29,055	(61)	81,561	(158)
Total (A)	**15,751,923**	**(17,836)**	**3,064,538**	**(1,649)**	**223,165**	**(237)**	**29,055**	**(61)**	**81,561**	**(158)**
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	837,166	(64)	3,750,706	(98)	146,892	(95)	558,502	(93)	231,851	(76)
Total (B)	**837,166**	**(64)**	**3,750,706**	**(98)**	**146,892**	**(95)**	**558,502**	**(93)**	**231,851**	**(76)**
Total (A+B) 31/12/2022	**16,589,089**	**(17,900)**	**6,815,244**	**(1,747)**	**370,057**	**(332)**	**587,557**	**(154)**	**313,412**	**(234)**
Total (A+B) 31/12/2021	**41,766,871**	**(1,806)**	**4,166,523**	**(793)**	**273,130**	**(82)**	**543,375**	**(86)**	**249,333**	**(166)**

B.4 Large exposures

From 30 June 2021, the prudential requirements for banks and investment firms contained in Regulation (EU) no. 575/2013, as updated by Regulation (EU) no. 876/2019 (CRR 2), later amended by Regulation (EU) no. 873/2020 and in Directive no. 2013/36/EU, as updated by Regulation (EU) 878/2019 (CRD V) came into force. These transpose the standards defined by the Basel Committee on Banking Supervision.
In July 2022, Delegated Regulation no. 1011/2022, which regulates the recognition of indirect exposures in derivatives for contracts which, even if not directly entered into with a customer, are in any case traced back to the customer as the issuer of the underlying debt or equity instrument. Where the multi-underlying instruments are involved and it is not possible or excessively burdensome to identify the individual underlying instruments, the exposure must be attributed to the unknown client.
This item shows the amount ("non-weighted value" and "weighted value") and the number of the "risk positions" that represent a "large exposure" according to the provisions of Art. 14 of Implementing Regulation (EU) no. 451/2021, laying down implementing technical standards with regard to supervisory reporting of institutions.

An entity's exposure to a customer or a group of related customers is considered a large exposure if the value is equal to or more than 10% of the entity's eligible capital ("CRR 2", Art. 392). In any event, customers or groups of customers with an exposure exceeding 300 million, even if not considered large exposures must be disclosed in the consolidated financial statements.
Taking into account the effect of the exemptions and the credit risk mitigation, large exposures must, in any case, individually respect the limit of 25% of the entity's eligible capital: said limit is set at 150 million if the 25% of the eligible capital is lower.
As at 31 December 2022, the eligible capital coincides with the amount of Tier 1 capital.

In addition to the implementing technical standards for the supervisory reporting of entities, the reporting of Large Exposures was produced, applying the EBA Guidelines (EBA/GL/2017/15) on connected clients, limited to the alternative approach to Central Governments.

On the basis of the new combined provisions, at said date there were 33 risk positions classified as "large exposures" for a total ("non-weighted") amount of 724,285.7 million corresponding to a net ("weighted") exposure of 25,593.4 million.

The main Groups identified as "large exposures" have the following risk assets:
- the Ministry of Economy and Finance for 35,381.9 million (820.5 million considering the weight factors and the exemptions pursuant to Art. 400 of the CRR), mainly consisting of the government bonds in the portfolio, the guarantees issued and tax assets. The exposures of this Central Government are in turn included in each group of connected clients, identified separately for directly-controlled or directly-related legal entities, as better specified in paragraph 5 (Alternative approach for exposures to central governments) of the previously-cited EBA guidelines;
- Euronext for 21,315.9 million (23.8 million considering the weight factors and the exemptions pursuant to Art. 400 of the CRR), mainly consisting of repurchase agreements with Cassa Compensazione e Garanzia;
- four Central Governments of foreign countries for a total of 19,099.7 million (0 million considering the weight factors and the exemptions pursuant to Art. 400 of the CRR), consisting exclusively of the government bonds in the portfolio;
- the Bank of Italy for 13,508.5 million (139.1 million considering the weight factors and the exemptions pursuant to Art. 400 of the CRR), mainly consisting of demand deposits and for the minimum reserve.

The remaining 26 positions are those of leading banking, financial and industrial groups, both national and foreign. Each of the positions reported respects the limit of 25% of the eligible capital.

	31/12/2022	31/12/2021
a) Amount (book value) (*)	724,285,739	689,746,479
b) Amount (weighted value) (*)	**25,593,425**	**20,804,227**
c) Number	33	32

(*) figures in thousands of euro

In 2022, the Group monitored the levels of exposure to Related Parties and Large Exposures at consolidated level and to individual legal entities, verifying compliance with regulatory and management limits, the latter seeks to anticipate and prevent the possible exceeding of the former. Based on quarterly Supervisory Reporting, the report transposes the recent legislative updates (specifically, the 34th update of Circular 285/2013) with a view to rendering them more consistent with the rules for Supervisory Reporting on Exposure to Related Parties, in line with the principles of Basel III. To this end, the Risk Function has extended its scope of reporting as regards the monitoring of Related Parties which, starting from 2022, also includes the monitoring of Large Exposures and of the relative limits.
During the year, the Group set up a working group that includes, in addition to the CLO and the Risk function units, the pertinent corporate functions of the CFO, Commercial and Banca Akros areas, in order to periodically monitor the future evolution of limits, in terms of both exposures and capital, also considering changes in the reference scenario to be able to proactively manage Related Parties and Large Exposures.

C. Securitisation transactions

This section illustrates the Group's exposure in terms of securitisations, both those in which the Group acts as the Originator of the receivables, and those in which the Group acts as an investor.

Traditional securitisations acting as originator

The completion of the transactions in question, with underlying assets sold by the Group as originator, seeks mainly to diversify the sources of funding and reduce the cost of funding for the Group, rather than carrying out derisking actions on non-performing credit exposures (bad loans and unlikely to pay).

In greater detail, for securitisations used for funding purposes, for which the Group also acts as Servicer, the structuring is followed by a Finance function of Banco BPM, which also monitors the transaction, through specific monthly and quarterly reports containing the trend in principal and interest collections and the status of receivables.

For securitisations used for derisking purposes, the structuring is carried out by a function belonging to the Chief Lending Officer area of Banco BPM, which conducts monitoring on the basis of monthly and quarterly reports provided by the Servicers outside the Group.

Information is provided below on the main events that took place during the year and on transactions in progress. In line with the instructions of the Bank of Italy Circular no. 262, for "self-securitisation" transactions in which the Group has fully subscribed the securities issued by the SPE, please refer to paragraph "1.4 - Liquidity risk", contained in "Section 2 - Risks of prudential consolidation" of Part E of these Notes to the consolidated financial statements.

QUALITATIVE INFORMATION

The following table lists the securitisation transactions in place as at 31 December 2022, showing the relative accounting treatment - derecognition or not from the financial statements of the assets sold to the SPE - depending on the significant transfer of the risks and benefits, as illustrated in the Part A - Accounting policies of these Notes.

SPE	Originator	Securities issue date	Transaction	Type of securitisation
Securitisations not derecognised from the financial statements				
BP Mortgages S.r.l.	Banco BPM	June 2007	BP Mortgages 2	Performing residential mortgage loans
Lilium SPV S.r.l.	Banco BPM	December 2022	Wolf Project	Performing loans
Securitisations fully derecognised from the financial statements				
Red Sea SPV S.r.l.	Banco BPM	June 2018	Project Exodus	Bad loans
Leviticus SPV S.r.l.	Banco BPM	February 2019	Project Ace	Bad loans
Tiberina SPV S.r.l.	Banco BPM	December 2020	Project Django	UTP and Bad loans
Titan SPV S.r.l.	Banco BPM and Release	December 2020	Project Titan	Bad loans
Aurelia SPV S.r.l.	Banco BPM	June 2021	Project Rockets	Bad loans
Tevere SPV S.r.l.	Banco BPM	June 2022	Project Argo	UTP and Bad loans

The new transactions not completed during the period and those closed are illustrated below.

New transactions of the period

Tevere SPV S.r.l (Project Argo)

On 16 June 2022, the sale without recourse, against payment and en bloc of a portfolio of loans classified as UTP (unlikely to pay) and bad loans, originated by Banco BPM S.p.A. (hereinafter also the “Transferor” or “Originator”) was finalised for a total gross value of 656.0 million.
More specifically, the transaction was finalised through the sale of the loans to Tevere SPV S.r.l., the securitisation SPE specifically established and not belonging to Banco BPM Group, pursuant to Italian Law 130/99.

The purchase of the loans by the SPE was settled in part in cash for 24 million and in part through the issue, on 22 June 2022, of 4 tranches of securities (Senior, Mezzanine, Mezzanine Lower and Junior), which were subscribed by the Originator and by third-party investors belonging to the Elliott Fund, for a nominal value effectively subscribed and paid of 149.5 million. The Senior, Mezzanine and Lower Mezzanine securities were fully subscribed. Only the Junior security was partly paid with respect to the nominal value at the time of issue, as illustrated in the table below.

In compliance with the regulations on the retention rule, the Bank originally subscribed 100% of the Senior notes and 5% of the other categories of notes subscribed and paid.
The companies of the Elliott fund directly subscribed 95% of the Mezzanine and Junior securities.

Class	Partly paid	Nominal issue value	Nominal value subscribed	% Retention Banco BPM
A - Senior	No	104,658	104,658	100%
B1 - Mezzanine	No	22,427	22,427	5%
B2 - Lower Mezzanine	No	11,214	11,214	5%
J - Junior	Yes	18,684	11,214	5%
Total		**156,983**	**149,513**	

The finalisation of this sale resulted in the significant transfer of the risks and rewards of the loans sold, which were, therefore, derecognised from the financial statements, based on the regulations set out in the accounting standard IFRS 9.

The situation at the date of the subscription and as at 31 December 2022, of the securities subscribed by the Parent Company is summed up below:

Class	Type	Nominal value	Nominal amount subscribed by Banco BPM	Initial recognition value	Value as at 31/12/2022	Maturity	Rating	Interest rate
Class A Asset-Backed Fixed Rate Notes due December 2041	Senior	104,658	104,658	104,658	96,023	05/12/2041	Unrated	Fixed @ 2%
Class B1 Asset-Backed Floating Rate Notes due December 2041	Mezzanine	22,427	1,122	1,122	1,054	05/12/2041	Unrated	Euribor 3M (floor 0%) + 6% + Detachable coupon @3%
Class B2 Asset-Backed Floating Rate Notes due December 2041	Mezzanine	11,214	561	561	567	05/12/2041	Unrated	Euribor 3M (floor 0%) + 9% + Detachable coupon @3%
Class J Partly Paid Asset-Backed Variable Return Notes due December 2041	Junior	18,684	935	561	561	05/12/2041	Unrated	n.a.
Total		**156,983**	**107,276**	**106,902**	**98,205**			

For further details on the transaction and its accounting treatment, refer to the paragraph entitled "Other significant aspects relating to Group accounting policies" contained in Part A - "Accounting policies" of these Notes.

Lastly, it should be noted that in January 2023, the sale to the SPE Tevere SPV of a further three revolving credit facilities was completed, which concerned a total amount of approximately 0.7 million.
The sale was financed by the reserves that the SPE had already set up and there was no need to revise the structure of the notes.

Lilium SPV S.r.l (Project Wolf)

In December 2022, the Group completed a complex transaction for the restructuring of credit exposures classified as unlikely to pay for a nominal value of 495.8 million (including default interest), carried out through the sale without recourse to a securitisation vehicle (Lilium SPV S.r.l.). For details on the transaction and its accounting treatment, refer to the paragraph entitled "Other significant aspects relating to Group accounting policies" contained in Part A of these Notes.

The following table shows the securities issued by the SPE Lilium SPV S.r.l. and the share held by the Group as at 31 December 2022.

Class	Partly paid	Nominal value	Notes subscribed and retained by BBPM as at 31 December 2022	Notes initially subscribed by BBPM, and then transferred to third parties	Notes subscribed by third parties
AS - Senior	Yes	142,500			11,829
AJ – Mezzanine	Yes	7,125			591
AX – Mezzanine	Yes	375			31
B1 – Mezzanine	Yes	17,680	17,680		
B2 – Mezzanine	No	3,120		3,120	
C1 – Mezzanine	No	31,790	31,790		
C2– Mezzanine	No	5,610		5,610	
D1 – Mezzanine	No	24,735	24,735		
D2 – Mezzanine	No	4,365		4,365	
E1 - Junior	No	326,804	326,804		
E2 - Junior	No	81,701		81,701	
Total		**645,805**	**401,009**	**94,796**	**12,452**

In greater detail, on 12 December 2022, Banco BPM fully subscribed the notes of the B, C, D and E classes, for a total nominal value equal to that of the loans sold; the relative payment obligation for Banco BPM was offset against the payment obligations of the SPE for the loans purchased.
As a result of the agreement for the restructuring of the credit exposures sold to the SPE, effective on 28 December 2022, with value date 29 December 2022, the sub-classes B2, C2, D2, E2 were sold to third-party investors; the payment of the consideration is expected to take place on a deferred basis during 2023.
The transaction also envisages the issue of Class A notes to finance work on properties to guarantee credit exposures (so-called capex), in execution of the provisions of the restructuring agreements. As at 31 December 2022, these notes, issued in the "partly paid" form, were partially subscribed by third-party investors, for a value of 12.5 million.

The following table shows the nominal value of the notes held by the Group as at 31 December 2022, the relative remuneration and the recognition value (fair value) on the basis of the recoverable cash flows expected as a result of the restructuring agreement:

Class	Type	Nominal value	Fair value as at 31/12/2022	Maturity	Rating	Interest rate
Class B1 Asset-Backed Floating Rate Notes due December 2032	Mezzanine	17,680	17,680	31/12/2032	Unrated	Fixed @3.00%
Class C1 Asset-Backed Floating Rate Notes due December 2032	Mezzanine	31,790	31,790	31/12/2032	Unrated	Fixed @6.00%
Class D1 Asset-Backed Floating Rate Notes due December 2032	Mezzanine	24,735	24,735	31/12/2032	Unrated	Fixed @7.50%
Class E1 Asset-Backed Floating Rate Notes due December 2032	Junior	326,804	126,500	31/12/2032	Unrated	n.a.
Total		**401,009**	**200,705**			

Since this is a transaction without derecognition, note that the aforementioned securities are not included in the assets, but are shown as a reduction of the liability recorded against the loans sold and not derecognised. For the transaction in question, in fact, it was deemed that the Group should substantially retain the risks and benefits of the assets transferred, as illustrated in the aforementioned paragraph "Other significant aspects relating to Group accounting policies" contained in Part A of these Notes, to which reference is made for further details.

Lastly, the transaction also envisaged the release by Banco BPM of a credit line of 10 million to the SPE, the repayment of which must precede the more senior tranches; as at 31 December 2022, the value drawn down was 4.8 million, repaid at an annual fixed interest rate of 4.5%.

Transactions closed during the year

Italfinance Securitization Vehicle S.r.l. in liquidation

In March 2022, following the liquidation process, Italfinance Securitization Vehicle S.r.l in liquidation was removed from the relevant Companies' Register. It should be recalled that, following the early closure of the last outstanding securitisation, in July 2021 the early dissolution and liquidation of the SPE was resolved.

Existing and significant securitisation transactions during 2022

BP Mortgages 2 (June 2007)

On 22 June 2007, Banca Popolare di Novara and Credito Bergamasco, both now Banco BPM sold a portfolio of residential landed mortgage loans and residential mortgage loans backed by a voluntary mortgage on the property to the SPE BP Mortgages S.r.l. The portfolio sold amounted to 1,610 million; on 29 June 2007, the SPE issued four classes of rated securities that were placed with institutional investors and two classes of unrated junior securities subscribed by the Originators; all of the classes of securities were listed on the Irish Stock Exchange.
The Originator Banks, now only Banco BPM, acted as Servicers and managed the loan collection.

Loans portfolio

Bank	Value 31/12/2022	Value 31/12/2021
Banco BPM	145,709	180,251

The amounts indicated represent performing, unlikely to pay, non-performing past due and bad loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.

Issue characteristics

Class	Type	Issue value	Value as at 31/12/2022	Interest rate	Maturity	Rating Moody's/S&P/ Fitch (4)
A1	Senior	147,300	-	3-month Euribor + 0.07%		
A2	Senior (1)	1,382,000	20,515	3-month Euribor + 0.13%	July 2044	Aa3/AA/AA
B	Mezzanine	28,200	28,200	3-month Euribor + 0.25%	July 2044	Aa3/AA/AA
C	Mezzanine (1)	36,200	36,200	3-month Euribor + 0.66%	July 2044	Aa3/AA/AA
M1	Junior (2)	8,639	8,639	3-month Euribor + 2% + Additional return	July 2044	unrated
M2	Junior (3)	7,479	7,479	3-month Euribor + 2% + Additional return	July 2044	unrated
Total		**1,609,818**	**101,033**			

(1) Following their placement on the market, Banco BPM (former Banco Popolare) purchased Senior securities amounting to a nominal value of 685.8 million and mezzanine securities for a nominal value of 11.4 million.
(2) The class M1 junior security was subscribed by the former Banca Popolare di Novara, now Banco BPM.
(3) The M2 class junior security was subscribed to by the former Credito Bergamasco, now Banco BPM.
(4) Rating as at 31 December 2022.

Accessory financial transactions
To immunise the interest rate risk to which the SPE is exposed owing to the mismatch between the securitised mortgage rates and the yield of the issued bonds, the Originator Banks, now Banco BPM, a market counterparty and the SPE entered into an interest rate swap agreement with Banca Akros as intermediary.

Contractual agreements with an obligation to provide financial support to the SPE (IFRS 12, par. 14)
In June 2012, following the loss of the minimum rating needed for the issue of the guarantee relating to the agreement called "First Demand Guarantee", Banco BPM (formerly Banco Popolare), set up a collateral account, segregated with respect to the company's separate equity, the amount of which is reviewed annually on the Interest Payment Date in July, to take into account the amortisation of the portfolio assigned. As at 31 December 2022, the amount of collateral paid in was 8.4 million.

Financial support provided to the entity (IFRS 12, par. 15)
During the year no financial support other than that envisaged under the agreement was given.

Aurelia SPV S.r.l. (Project Rockets)

On 3 June 2021, the sale without recourse, against payment and en bloc of a portfolio of loans classified as bad loans, originated by Banco BPM S.p.A. (hereinafter also the "Transferor" or "Originator") had been finalised for a total gross value of 1,509.5 million.
More specifically, the transaction was finalised through the sale of the loans to Aurelia SPV S.r.l., the securitisation SPE specifically established and not belonging to Banco BPM Group, pursuant to Italian Law 130/99.

The purchase of the loans by the SPE was funded through the issue, on 22 June 2021, of three tranches of securities (Senior, Mezzanine and Junior), which were fully subscribed pro-rata by the Originator, for a total nominal amount of 394 million, as illustrated in the following table.

Class - Type	Issue value
Class A - Senior, for which the State Guarantee on the Securitisation of Bad Loans ("GACS") has been obtained	342,000
Class B - Mezzanine	40,000
Class J - Junior	12,000
Total	**394,000**

The structure also envisaged the establishment of a Cash Reserve corresponding to 4.5% of the nominal value of the Senior (Class A) securities outstanding on each payment date, corresponding to 13.1 million as at 31 December 2022.
Said reserve was established by means of a Limited Recourse Loan disbursed by Banco BPM to the special purpose entity Aurelia SPV, for an initial value of 15.6 million, remunerated on the basis of a fixed annual interest rate of 1.75%, antedated with respect to the Senior securities.

The securities fully subscribed by Banco BPM, were subsequently sold, specifically a share of 95% of the Mezzanine and Junior securities, to a third-party investor.
The finalisation of this sale resulted in the significant transfer of the risks and rewards of the loans sold, which were, therefore, derecognised from the financial statements, based on the regulations set out in the accounting standard IFRS 9.

The situation at the date of the subscription and as at 31 December 2022, of the securities subscribed by the Parent Company is summed up below:

Type	Type	Nominal value subscribed by Banco BPM on the issue date	Outstanding nominal value of Banco BPM as at 31 December 2022	Value as at 31/12/2022	Maturity	Rating	Interest rate
Class A Asset Backed Floating Rate Notes due July 2047	Senior	342,000	342,000	266,554	30/07/2047	DBRS: BBB Scope: BBB	Euribor 6M + 0.5%
Class B1 Asset Backed Floating Rate Notes due July 2047	Mezzanine	2,000	2,000	643	30/07/2047	Unrated	Euribor 6M + 8%
Class J Asset Backed Floating Rate and Variable Return Notes due July 2047	Junior	600	600	-	30/07/2047	Unrated	Euribor 6M + 10%
Total		**344,600**	**344,600**	**267,197**			

Tiberina SPV S.r.l (Project Django)

On 11 December 2020, the contract for the sale of loans between Banco BPM and Tiberina SPV was signed, as part of the securitisation transaction, pursuant to Italian Law 130/99. The sale regarded a portfolio of 40 positions classified as Unlikely to Pay and 1 position classified as Bad Loan, for a total gross value of 288 million.
On 22 December 2020, the purchase of the loans portfolio was funded by the SPV through the issue of the following asset backed securities for a total nominal value of 120.0 million:

- Class A Senior for a nominal value of 84.0 million;
- Class B1 Mezzanine for a nominal value of 18.0 million;
- Class B1 Mezzanine for a nominal value of 9.0 million;
- Class J Junior for a nominal value of 9.0 million.

The Senior tranche was entirely subscribed by Banco BPM, together with 5% of the Mezzanine tranche and of the Junior tranche - in accordance with the retention rule envisaged by regulatory provisions - for a total nominal value of 85.8 million.
The remaining 95% of the Mezzanine and Junior tranches was instead subscribed by Credito Fondiario.
The finalisation of this sale resulted in the significant transfer of the risks and rewards of the loans sold, which were, therefore, derecognised from the financial statements, based on the regulations set out in the accounting standard IFRS 9.

The situation of the securities subscribed by the Parent Company as at 31 December 2022, is summarised below:

Type	Type	Nominal value subscribed by Banco BPM on the issue date	Outstanding nominal value of Banco BPM as at 31 December 2022	Value as at 31/12/2022	Maturity	Rating	Interest rate
Class A Asset Backed Floating Rate Notes due October 2040	Senior	84,037	41,900	42,171	01/10/2040	Unrated	Euribor (floor @0%) +2%
Class B1 Asset Backed Floating Rate Notes due October 2040	Mezzanine	901	529	542	01/10/2040	Unrated	Euribor (floor @0%) +9%
Class B2 Asset Backed Floating Rate Notes due October 2040	Mezzanine	451	451	466	01/10/2040	Unrated	Euribor (floor @0%) +12%
Class J Asset Backed Variable Return Notes due October 2040	Junior	451	451	451	01/10/2040	Unrated	n.a.
Total		**85,840**	**43,331**	**43,630**			

Titan SPV S.r.l. (Project Titan)

On 12 December 2020, a multi-originator securitisation transaction was stipulated (Banco BPM S.p.A., Release S.p.A. and Alba Leasing S.p.A.), where the underlying was a portfolio of Lease NPL with a gross contractual value totalling 335.4 million (value referred to the valuation date, which under the contract was 31 December 2019).

On 28 December 2020, the purchase of the portfolio sold was funded by the SPE through the issue of the following asset backed securities for a nominal value of 115.6 million, including the issue to fund Alba Leasing:

- Class A Senior for a nominal value of 90.5 million, for which the State Guarantee on the Securitisation of Bad Loans ("GACS") has been obtained;
- Class B Mezzanine for a nominal value of 15.0 million;
- Class J Junior for a nominal value of 10.1 million. The issue of the tranche in question, in addition to funding the purchase of the loans, also covered the 6.5 million initial expenses of the securitisation.

On the issue date, the securities were entirely subscribed pro-rata by the originators; more specifically, the share of the securities issued to fund the Group's portfolio amounted to 41.7 million (22.3 million relating to the Parent Company and 19.4 million to Release). Subsequently, 95% of the Group's Mezzanine and Junior tranches was placed with a third-party investor and Release sold the Parent Company the tranches of the securities it had subscribed.

The finalisation of this sale resulted in the significant transfer of the risks and rewards of the loans sold, which were, therefore, derecognised from the financial statements, based on the regulations set out in the accounting standard IFRS 9.

The situation of the securities subscribed by the Parent Company as at 31 December 2022, is summarised below:

Type	Type	Nominal value subscribed by Banco BPM on the issue date	Outstanding nominal value of Banco BPM as at 31 December 2022	Value as at 31/12/2022	Maturity	Rating as at 31 December 2022	Interest rate
Class A Asset Backed Floating Rate Notes due January 2041	Senior	32,343	24,176	24,261	01/01/2041	DBRS: BBB Scope: BBB	Euribor 6M + 0.5%
Class B1 Asset Backed Floating Rate Notes due January 2041	Mezzanine	269	269	82	01/01/2041	Unrated	Euribor 6M + 8%
Class J Asset Backed Variable Return Notes due January 2041	Junior	200	200	-	01/01/2041	Unrated	n.a.
Total		**32,812**	**24,645**	**24,343**			

Leviticus SPV S.r.l. (Project Ace)

In December 2018, a transaction to sell a portfolio of bad loans was set in motion, pursuant to the law on securitisation (Italian Law no. 130/99). On the sale date, the gross value of the portfolio sold amounted to around 6 billion, net of write-offs of around 1.1 billion (the nominal value was 7.4 billion, before write-offs, related to the date of accrual established in the contract as at 30 June 2018).

The transaction was finalised on 6 February 2019 through the issue, by Leviticus SPV S.r.l., of the following classes of securities, fully subscribed by Banco BPM:

- Class A Senior corresponding to 1,440.0 million, for which the guarantee from the Italian State was obtained pursuant to Italian Decree Law 18/2016 ("GACS");
- Class B - Mezzanine for 221.5 million;
- Class J - Junior for around 248.8 million.

Subsequently, the sale to a third party of 95% of the Mezzanine tranche and 95% of the junior tranche was completed. In compliance with the retention rule set out in the supervisory regulations, Banco BPM retained ownership of 5% of those securities. Banco BPM also retained ownership of 100% of the senior securities.

The finalisation of this sale resulted in the significant transfer of the risks and rewards of the loans sold, which were, therefore, derecognised from the financial statements, based on the regulations set out in the accounting standard IFRS 9.

The situation of the securities subscribed by the Parent Company as at 31 December 2022, is summarised below:

Type	Type	Nominal value subscribed by Banco BPM on the issue date	Outstanding nominal value of Banco BPM as at 31 December 2022	Value as at 31/12/2022	Maturity	Rating as at 31 December 2022	Interest rate
Class A Asset Backed Floating Rate Notes due July 2040	Senior	1,440,033	740,711	743,629	31/07/2040	DBRS: BB; Scope: BB+	6M Euribor +0.6%
Class B Asset Backed Floating Rate Notes due July 2040	Mezzanine	11,078	11,078	4,485	31/07/2040	Unrated	6M Euribor +8%
Class J Asset Backed Variable Return Notes due July 2040	Junior	12,443	12,443	-	31/07/2040	Unrated	n.a.
Total		**1,463,554**	**764,232**	**748,114**			

Red Sea SPV S.r.l. (Project Exodus)

In June 2018, Banco BPM finalised the sale of a portfolio of bad loans for a gross nominal value of around 5.1 billion to Red Sea SPV S.r.l..

The transaction was carried out through the issue, by the special purpose entity, of securities totalling around 1.9 billion, broken down as follows:

- Class A Senior corresponding to 1,656.5 million, for which the guarantee from the Italian State was obtained pursuant to Italian Decree Law 18/2016 ("GACS");
- Class B Mezzanine for 152.9 million;
- Class J Junior for 51 million.

The securities fully subscribed by Banco BPM, were subsequently sold, specifically a share of 95% of the mezzanine and junior securities, to a third-party investor. With the placement of the mezzanine and junior securities, the requirements were met for the derecognition of the bad loans sold to the SPE.

The situation of the securities subscribed by the Parent Company as at 31 December 2022, is summarised below:

Type	Type	Nominal value subscribed by Banco BPM on the issue date	Outstanding nominal value of Banco BPM as at 31 December 2022	Value as at 31/12/2022	Maturity	Rating as at 31 December 2022	Interest rate
Class B Asset Backed Floating Rate Notes due October 2038	Senior	1,656,504	760,614	761,090	29/10/2038	Moody's: Baa2; Scope: BBB-	6M Euribor +0.6%
Class B Asset Backed Floating Rate Notes due October 2038	Mezzanine	7,646	7,646	2,969	29/10/2038	Unrated	6M Euribor +6%
Class J Asset Backed Variable Return Notes due October 2038	Junior	2,549	2,549	-	29/10/2038	Unrated	n.a.
		1,666,699	**770,809**	**764,059**			

Synthetic securitisations acting as originator

Synthetic securitisations envisage, through the contracting of collateral arrangements, the purchase of protection from the credit risk underlying a portfolio of loans, of which the Originator retains full ownership. Thus, the purpose of those transactions is to transfer the credit risk from the Originator to an external counterparty, without derecognising the assets, which are therefore kept in the Originator's financial statements.
The characteristics of these transactions allow regulatory and economic capital to be freed up due to the reduction in the level of risk of the underlying portfolio ("Significant Risk Transfer" pursuant to prudential regulations), thereby contributing to creating value by optimising the use of capital.
The reference regulation for those transactions is EU Regulation no. 575/2013 (Capital Requirements Regulation, "CRR"). Art. 245 of the CRR establishes the conditions at which the Significant Risk Transfer (SRT) criterion is met, i.e. the significant transfer of risk to third parties using collateral or personal guarantees as credit protection. Those conditions must be constantly monitored for the entire duration of the transaction.

QUALITATIVE INFORMATION

The following table shows synthetic securitisation transactions in place as at 31 December 2022.

Guarantor	Originator	Transaction date	Type of securitisation
European Investment Fund	Banco BPM	December 2020	Performing loans
European Investment Fund	Banco BPM	December 2021	Performing loans
Market investor	Banco BPM	December 2021	Performing loans
Market investors and insurance company	Banco BPM	December 2022	Performing loans
Market investor	Banco BPM	December 2022	Performing loans

New synthetic securitisation transactions in the year

Specialised Lending synthetic securitisation 2022 - Project Sofia

In December 2022, Banco BPM concluded a synthetic securitisation transaction with specialised investors and an insurance company.
The securitised portfolio consists of approximately 1.5 billion in Project Finance and Real Estate loans.
The structure of the transaction envisages, net of retention, the risk of which remains with the Bank in order to meet the requirement of maintaining a net economic interest of at least 5% (retention rule), the subdivision of the portfolio into three tranches with an increasing level of risk, with the junior risk hedged by market investors and the mezzanine risk by an insurance policy.
As at 31 December 2022 , the portfolio involved in the transaction, including retention, amounted to 1.4 billion and the net exposure of Banco BPM was 1.2 billion.

Synthetic securitisation SME 2022 - Project Greta

In December 2022, Banco BPM concluded a synthetic securitisation transaction with the involvement of a market investor.
The securitised portfolio consists of approximately 1.7 billion in performing loans granted to 3,500 Mid Corporate Plus, Mid Corporate and SME Retail companies.
The structure of the transaction envisages, net of retention, the risk of which remains with the Bank in order to meet the requirement of maintaining a net economic interest of at least 5% (retention rule), the subdivision of the portfolio into three tranches with an increasing level of risk, with the mezzanine risk hedged by a market investor.
As at 31 December 2022, the portfolio involved in the transaction, including retention, amounted to 1.6 billion euro and the net exposure of Banco BPM was 1.6 billion.

Outstanding synthetic securitisation transactions

The synthetic securitisation transactions in place as at December 2022 are shown below:

- European Investment Fund 2020: transaction concluded in December 2020 that provides for the hedging of the mezzanine tranche by the European Investment Fund. Against the guarantee, the Bank disbursed a portfolio of new loans to support investments and working capital for an amount of approximately 462 million. As at 31 December 2022, the portfolio involved in the transaction, including retention, amounted to approximately 626 million in loans to SMEs and Corporate customers and the net exposure of Banco BPM was 604 million;
- European Investment Fund 2021 - Project Audrey: transaction completed in December 2021 that provides for the hedging of junior risk by the European Investment Fund. Against the guarantee, the Bank committed to disbursing a portfolio of new loans to support investments and working capital for an amount of approximately 954 million. The disbursement of these loans began in the first quarter of 2022. As at 31 December 2022, the portfolio involved in the transaction, including retention, amounted to approximately 1.1 billion in loans to SMEs and Corporate customers and the net exposure of Banco BPM was 1.1 billion;
- Large Corporate 2021- Project Brigitte: in December 2021, Banco BPM finalised the first transaction concluded with the involvement of a market investor for the hedging of the junior tranche. As at 31 December 2022, the portfolio involved in the transaction, including retention, amounted to approximately 1.5 billion in loans to Corporate customers and the net exposure of Banco BPM was 1.4 billion.

Investments in traditional securitisations acting as sponsor

The Group is also active in the market of financing the receivables of its corporate customers through the securitisation of trade receivables in which the Group acts as sponsor, pursuant to Art. 6, paragraph 3 (a) of Regulation (EU) no. 2017/2402, and as senior investor.
As at 31 December 2022, there is one transaction in place.

QUALITATIVE INFORMATION

Securitisations in the energy sector - Sun Spv

The securitisation programme regards performing trade receivables for a maximum revolving amount of around 50 million, increased to a total of 80 million during 2022, originated by a Group customer, operating in the energy distribution sector, and resulting from the provision of natural gas and electricity.
The Group acts as senior noteholder, sponsor and account bank.

The revolving purchase by SUN SPV S.r.l was financed through the issue of three tranches of unrated ABS (Senior, Mezzanine and Junior classes).

The table below shows the total securities issued by the SPE and the part subscribed by Banco BPM.

Class – Type	Nominal issue value	BANCO BPM		
		Nominal value subscribed by Banco BPM on the issue date	Outstanding nominal value of Banco BPM as at 31/12/2022	Value as at 31/12/2022
Senior security (*)	66,304	66,304	66,304	62,275
Mezzanine security (*)	10,860	545	545	513
Junior security	2,400	120	120	124
Total	**79,564**	**66,969**	**62,917**	**62,912**

(*) The Senior and the Mezzanine Securities are classified as partly paid variable funding.

Investments in traditional securitisations

QUALITATIVE INFORMATION

In 2022, the Group held ABS securities relating to three securitisation transactions of loans structured in 2021, for which Banca Akros acted as Arranger. In 2022, Senior securities of two securitisation transactions of trade receivables were also subscribed.

The transactions envisaged the issue of different classes of ABS (Asset-Backed Securities) by several SPEs established pursuant to Italian Law 130/99.
Banco BPM intervened by purchasing all or part of the Senior tranche alone.

New transactions of the period

Securitisation of the Steel Sector - SPV Project 2104

The securitisation programme concerns the sale without recourse of trade receivables originated by a company operating in the steel sector.
Banco BPM Group acted as senior noteholder.

The table below shows the total securities issued by the SPE and the share subscribed by Banco BPM: 44.6% of class A1, 23.5% of class A2 and 8.7% of class A3. The transaction is currently in the revolving phase (revolving period in which subsequent portfolios are sold on a monthly basis).

Class – Type	Nominal issue value	BANCO BPM		
		Nominal value subscribed by Banco BPM on the issue date	Outstanding nominal value of Banco BPM as at 31/12/2022	Value as at 31/12/2022
Senior Security - Class A1(*)	102,012	45,508	45,508	44,366
Senior Security - Class A2(*)	150,000	35,300	11,247	10,965
Senior Security - Class A3(*)	150,000	13,053	3,245	3,163
Junior security(**)	133,603	-	-	-
Total	**535,615**	**93,861**	**60,000**	**58,494**

(*) The Senior Security is classified as partly paid crystallised.
(**) The structure benefits from credit support provided by a Deferred Purchase Price corresponding to 17.5% of the nominal value of the loans sold.

General SPV securitisation

The securitisation programme concerns the sale without recourse of loans deriving from factoring contracts originated by Generalfinance S.p.A. as part of the factoring activity, to General SPV S.r.l.
Banco BPM acts as senior noteholder together with a pool of banks.

The General SPV transaction envisages the issue of three different tranches of ABS securities based on the degree of subordination in absorbing losses: Senior securities classified as variable funding, Mezzanine securities and Junior securities, both of which classified as partly paid.

In December 2022, Banco BPM subscribed 100% of the class of newly issued Senior A3 Securities.
The table below shows the total securities issued by the SPE and the share subscribed by Banco BPM. The transaction is currently in the revolving phase (revolving period in which subsequent portfolios are sold on a weekly basis).

Class – Type	Nominal issue value	BANCO BPM			
		Nominal value subscribed by Banco BPM on the issue date	*of which: Committed Credit Line*	Outstanding nominal value as at 31/12/2022	Value as at 31/12/2022
Senior Security - Class A1, A2(*)	200,000	-	-	-	-
Senior Security - Class A3(*)	100,000	100,000	*50,000*	6,003	5,758
Mezzanine Security - Class B1, B2, B3	26,500	-	-	-	-
Junior Security(**)	18,500	-	-	-	-
Total	**295,000**	**50,000**	***50,000***	**6,003**	**5,758**

(*) The Senior Security is classified as partly paid variable funding.
(**) The structure also benefits from a Deferred Purchase Price of 52.1 million.

Outstanding transactions

SPV Project 2011 S.r.l.

The transaction regarded several Project Finance loans disbursed to companies operating in the wind power and photovoltaic sector. The transaction is currently being amortised and the Senior security held by Banco BPM has been partially repaid.

The table below shows the total securities issued by the SPE and the part subscribed by Banco BPM.

Class – Type	Nominal issue value	BANCO BPM		
		Nominal value subscribed by Banco BPM on the issue date	Outstanding nominal value of Banco BPM as at 31/12/2022	Value as at 31/12/2022
Senior security	16,500	15,675	4,128	4,141
Junior security	9,068	-	-	-
Total	**25,568**	**15,675**	**4,128**	**4,141**

Perseveranza SPV S.r.l.

The transaction regards a portfolio of loans granted to SMEs secured by a guarantee of the Central Guarantee Fund for SMEs, as envisaged by the provisions of the law issued following the Covid-19 emergency.

In 2022, the amount issued was increased for all classes of securities.
This is an ABS classified as partly paid and envisages the payment by the investor of the amount subscribed in different tranches, on the request of the issuer. Banco BPM invested exclusively in Class A - Senior, which concluded the progressive investment phase in 2022 (the so-called ramp-up phase).

The table below shows the total securities issued by the SPE and the part subscribed by Banco BPM.

Class – Type	Nominal issue value	BANCO BPM		
		Nominal value subscribed by Banco BPM on the issue date	Outstanding nominal value Banco BPM as at 31/12/2022	Value as at 31/12/2022
Class A - *Senior (*)*	285,000	51,600	51,204	51,399
Class B - *Mezzanine (*)*	28,000	-	-	
Class C - Junior	35,000	-	-	-
Total	**348,000**	**51,600**	**51,204**	**51,399**

(*) The Senior and the Mezzanine securities are classified as partly paid.

Igloo SPV S.r.l.

The transaction regards a portfolio of loans granted to SMEs and Mid-Caps, secured by a guarantee of the Central Guarantee Fund for SMEs or by SACE, as envisaged by the provisions of the law issued following the Covid-19 emergency.

This is a partly paid bond and envisages the payment by the investor of the amount subscribed in different tranches, on the request of the issuer. During 2022, the gradual investment phase (ramp-up phase) continued, which had not yet been completed at the end of the year.

The table below shows the total securities issued by the SPE and the part subscribed by Banco BPM.

Class – Type	Nominal issue value	BANCO BPM		
		Nominal value subscribed by Banco BPM on the issue date	Outstanding nominal value of Banco BPM as at 31/12/2022	Value as at 31/12/2022
Class A1, A2 – Senior	134,700	35,000	15,949	15,924
Class B – Upper Mezzanine	23,300	-	-	
Class Y – Lower Mezzanine	7,800	-	-	
Class J – Junior	4,200	-	-	-
Total	**170,000**	**35,000**	**15,949**	**15,924**

(*) The Senior and the Mezzanine securities are classified as partly paid.

QUANTITATIVE INFORMATION

C.1 Prudential consolidation - Exposures deriving from the main "own" securitisation transactions broken down by type of securitised asset and by type of exposure

On-balance sheet exposures:

Type of securitised assets/Exposures	On-balance sheet exposures					
	Senior		Mezzanine		Junior	
	Book value	Losses/ Recoveries	Book value	Losses/ Recoveries	Book value	Losses/ Recoveries
A. Fully derecognised	**2,036,069**	**(4,199)**	**10,808**	**-**	**1,012**	**-**
Non-performing assets:						
A.1 Bad loans	2,036,069	(4,199)	10,808	-	1,012	-
Performing assets:						
A.2 Leases	-	-	-	-	-	-
B. Partially derecognised						
C. Not derecognised	**4,712,152**	**(6,333)**	**104,177**	**-**	**222,598**	**(214)**
Performing assets:						
C.1 Residential mortgage loans	18,230	-	29,745	-	67,657	-
C.2 Loans	4,848	-	74,432	-	126,500	-
C.3 Loans to businesses (*)	4,689,074	(6,333)	-	-	28,441	(214)

(*) The sub-item "Loans to businesses" relates to the synthetic securitisation transaction. As at 31 December 2022, the value of the retention withheld by Banco BPM is equal to 1,155.6 million.

Credit lines

Type of securitised assets/Exposures	**Credit lines**					
	Senior		**Mezzanine**		**Junior**	
	Book value	**Losses/ Recoveries**	**Book value**	**Losses/ Recoveries**	**Book value**	**Losses/ Recoveries**
A. Fully derecognised	**-**	**-**	**-**	**-**	**-**	**-**
Non-performing assets:						
A.1 Bad loans	-	-	-	-	-	-
Performing assets:						
A.2 Leases	-	-	-	-	-	-
B. Partially derecognised	-	-	-	-	-	-
C. Not derecognised	**5,162**	**-**	**-**	**-**	**-**	**-**
Performing assets:						
C.1 Residential mortgage loans	-	-	-	-	-	-
C.2 Loans	5,162	-	-	-	-	-
C.3 Loans to businesses (*)	-	-	-	-	-	-

The part of the table relative to the guarantees issued is omitted inasmuch as there are none.

C.2 Prudential consolidation - Exposures deriving from the main "third party" securitisation transactions broken down by type of securitised asset and by type of exposure

Type of securitised assets/Exposures	On-balance sheet exposures					
	Senior		Mezzanine		Junior	
	Book value	Losses/ Recoveries	Book value	Losses/ Recoveries	Book value	Losses/ Recoveries
A.1 BNT PORT 14-42 TV					23,961	
Mortgage loans FV						
A.2 PHARMA FIN.SR3 TV 28	858					
Other FV						
A.3 PHARMA FIN.SRL TV 28			350			
Other FV						
A.4 PHARMA FIN.EUR TV 28			3,164			
Other FV						
A.5 *FAW3 SPV 23 A-1-S 2% (*)*	8,009	(5)				
Loans						
A.6 SUN SPV 21-28 TV A	62,275	(21)				
Loans						
A.7 GENER. SPV TV 22-31A3	5,758	(254)				
Loans						
A.8 SUN SPV 21-28 TV B			513			
Other FV						
A.9 SUN SPV 21-28 TV J					124	
Other FV						
A.10 PERSEVER. 21-31 TV A	51,399	(152)				
Loans						
A.11 IGLOO 21-31 TV A1	15,924	(29)				
Loans						
A.12 SPV PROJ 21-28 TV A	4,141	(24)				
Loans						
A.13 SPV PROJ ZC A1 22-23 TV A	44,366	(660)				
Loans						
A.14 SPV PROJ ZC A2 22-23 TV A	10,965	(163)				
Loans						
A.15 SPV PROJ ZC A3 22-23 TV A	3,163	(47)				
Loans						

(*) This was a single tranche, typically indicated as a Senior security.

The part of the table relative to the guarantees issued and the credit facilities is omitted inasmuch as there are none.

Exposures deriving from third party securitisation transactions amounted to 235.0 million, of which 29.0 million is classified in the portfolio of "Financial assets at fair value through profit and loss c) other financial assets mandatorily measured at fair value", and the remaining 206.0 million in the portfolio of "Financial assets at amortised cost". For the main exposures, please refer to the previous paragraphs "Investments in traditional securitisations acting as sponsor" and "Investments in traditional securitisations".

The exposure relative to "BNT Port 14-42 TV", classified under "Financial assets at fair value through profit and loss: c) other financial assets mandatorily measured at fair value" is referred to instead in the following paragraph.

C.3 Prudential consolidation - Shareholdings in securitisation SPEs

The SPEs in which the Banking Group companies have been involved in the structuring activity and in which a shareholding is held are illustrated below.
They are, in particular, SPEs created to finalise their own securitisation transactions, as described in "Part A – Accounting policies", "3. Scope of consolidation and methods", the separate capital is consolidated inasmuch as the Group holds contractual rights for the management of the entity's relevant assets and is exposed to the variable returns of the same, regardless of the voting rights.
In addition, the shareholding in the company "BNT Portfolio SPV" is worth mentioning. This is an SPE established in 2014 for the securitisation of agricultural loans of Banca della Nuova Terra, financed by the issue of a single tranche of securities for a nominal value of 397.8 million subscribed by the member banks of Banca della Nuova Terra, including the former Banco Popolare. Under the agreements entered into, the former Banco Popolare had subscribed the said security for a nominal value of 84.6 million; as at 31 December 2022, the fair value of the security, posted under the "Financial assets at fair value through profit and loss: c) other financial assets mandatorily measured at fair value" came to 24.0 million net of collections.

The following table shows all the assets and liabilities of the separate capital of the SPE.

Name of Securitisation/ Name of SPE	Registered office	Consolidation	Assets			Liabilities		
			Loans	Debt securities	Other	Senior	Mezzanine	Junior
BNT Portfolio SPV S.r.l.	Milan	no	131,859	-	14,342	-	-	236,846
BP Mortgages Jun 2007	Milan	accounting	146,892	-	36,624	20,580	64,649	16,229

C.4 Prudential consolidation - Non-consolidated SPEs for securitisation

Non-consolidated SPEs for securitisation are those in which the Group does not hold any equity interest. For each of these SPEs, used for transactions in which the Group acts as originator, the table below shows the Group's assets and liabilities due to and from those SPEs, mainly attributable to the senior securities subscribed by the Group, classified in the portfolio of "Loans to customers".

In this regard, it is noted that these companies have no off-balance sheet exposures, non-revocable credit facilities or financial guarantees, therefore the maximum exposure to the risk of loss corresponds to the difference between the assets and liabilities held in respect of the SPE. The only exception was the SPE Lilium, to which a credit line of 10 million was granted, of which 4.8 million had been drawn down as at 31 December.

(thousands of euro)	Red Sea SPV	Leviticus SPV	Tiberina SPV	Titan SPV	Aurelia SPV	Tevere SPV	Lilium SPV (*)
Total assets	**804,931**	**790,614**	**43,630**	**31,345**	**280,533**	**98,205**	**4,848**
Other financial assets mandatorily measured at fair value	2,969	4,485	1,459	82	643	2,182	-
Loans to customers	800,925	786,077	42,171	31,263	279,608	96,023	4,848
Other assets	1,038	52	-		281	-	-
Total liabilities	**7,693**	**-**	**-**	**3,374**	**27**	**-**	**18,295**
Guarantees given and commitments	**-**	**-**	**-**	**-**	**-**	**-**	**5,162**

(thousands of euro)	Red Sea SPV	Leviticus SPV	Tiberina SPV	Titan SPV	Aurelia SPV	Tevere SPV	Lilium SPV *
Net interest income	6,449	5,907	1,275	465	1,592	1,235	10

(*) The liability towards Lilium SPV of 18.3 million is represented by the payable recognised against the loans sold to the SPE but not derecognised from the financial statements to substantially maintain the risks and benefits, net of the securities held by Banco BPM as at 31 December 2022. In light of the above, there is no exposure in securities to the SPE in the asset portfolio. For more details, please see the paragraph entitled "Other significant aspects relating to Group accounting policies", contained in section 5 - Other aspects in Part A of these Notes.

C.5 Prudential consolidation - Servicer activities – own securitisations: collections of securitised loans and redemptions of securities issued by the SPE for the securitisation

In 2022, the Group did not act as a servicer for its own securitisation transactions in which the assets sold were derecognised from the financial statements.

C.6 Prudential consolidation - Consolidated SPEs for securitisation

There are no SPEs for securitisation that are part of the Banking Group.

D. Sale transactions

A. Financial assets sold and not fully derecognised

QUALITATIVE INFORMATION

As at 31 December 2022, the following sale transactions did not involve the derecognition from the financial statements of the underlying financial assets:

- securitisation transactions of credit exposures to customers (364.7 million);
- repurchase agreements payable on treasury securities mainly classified in the portfolio of "Financial assets measured at fair value through other comprehensive income" and "Financial assets at amortised cost".

For repurchase agreements, the non-derecognition of the security of the repurchase agreement derives from the fact that the Bank substantially holds the risks and rewards linked to the security, having the obligation of the forward repurchase at a contractually established price. Therefore the securities transferred continue to be represented in the relative accounting portfolio; the payment for the sale is posted under the "Financial liabilities at amortised cost: a) due to banks or b) due to customers", according to the type of counterparty. To this regard, it must be noted that the following table does not include the repurchase agreements payable on securities not posted in the financial statements if its availability is consequent to reverse repurchase agreements (see the paragraph "Other information" in Part B of these Notes).

The securitisation transactions described in the preceding paragraph "C. Securitisation transactions" are not derecognised due to the Group's subscription of the tranches of junior securities or similar exposures which involve the first loss risk for the Group and, similarly, the reward linked to the yield of the portfolio of the transferred assets. The payment collected for the transfer is posted as a balancing entry of a payable due to the SPE, net of the tranches of the underlying securities subscribed or the use of forms of liquidity support for the SPE for the payment of the principal. The loan to the SPE, thus posted, will decrease by effect of the sums collected from the originator in its capacity as servicer and transferred to said SPE.
With regard to the consolidated SPE (BP Mortgage), by effect of the consolidation of its equity, the latter liability is not posted in the consolidated financial statements. Otherwise, the securities issued by the SPE not subscribed by companies of the Group will be posted under liabilities.

QUANTITATIVE INFORMATION

D.1 Prudential consolidation - Fully recognised financial assets sold and associated financial liabilities: book values

	Fully recognised financial assets sold				Associated financial liabilities		
	Book value	of which: subject to securitisation transactions	of which: subject to repurchase agreements	of which non-performing	Book value	of which: subject to securitisation transactions	of which: subject to repurchase agreements
A. Financial assets held for trading	**248,063**	**-**	**248,063**	**X**	**256,994**	**-**	**256,994**
1. Debt securities	632	-	632	X	637	-	637
2. Equity instruments	247,431	-	247,431	X	256,357	-	256,357
3. Loans	-	-	-	X	-	-	-
4. Derivatives	-	-	-	X	-	-	-
B. Other financial assets mandatorily measured at fair value	**222,219**	**222,219**	**-**	**188**	**18,295**	**18,295**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Equity instruments	-	-	-	X	-	-	-
3. Loans	222,219	222,219	-	188	18,295	18,295	-
C. Financial assets designated at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	**3,055,179**	**-**	**3,055,179**	**-**	**3,104,518**	**-**	**3,104,518**
1. Debt securities	3,055,179	-	3,055,179	-	3,104,518	-	3,104,518
2. Equity instruments	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
E. Financial assets at amortised cost	**6,886,836**	**142,490**	**6,744,346**	**13,932**	**6,517,849**	**31,259**	**6,486,590**
1. Debt securities	6,744,346	-	6,744,346	-	6,486,590	-	6,486,590
2. Loans	142,490	142,490	-	13,932	31,259	31,259	-
Total 31/12/2022	**10,412,297**	**364,709**	**10,047,588**	**14,120**	**9,897,656**	**49,554**	**9,848,102**
Total 31/12/2021	**12,269,558**	**180,251**	**12,089,307**	**22,975**	**12,241,962**	**45,482**	**12,196,480**

D.2 Prudential consolidation - Partly recognised financial assets sold and associated financial liabilities: book values

As at 31 December 2022 there were no partly recognised financial assets sold or associated financial liabilities.

D.3 Prudential consolidation - Sale transactions with liabilities with recourse only against the assets sold and not fully derecognised: fair value

This table shows the fair value of assets and related liabilities resulting exclusively from securitisation transactions, inasmuch as they are considered the only types existing for the Group in which the transferor, i.e. the SPE, has exclusive recourse against the transferred assets, being in fact the only cash flows available for the payment of the securities issued.

	Fully recognised	Partly recognised	Total	
			31/12/2022	31/12/2021
A. Financial assets held for trading	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-
2. Equity instruments	-	-	-	-
3. Loans	-	-	-	-
4. Derivatives	-	-	-	-
B. Other financial assets mandatorily measured at fair value	**222,219**	**-**	**222,219**	**-**
1. Debt securities	-	-	-	-
2. Equity instruments	-	-	-	-
3. Loans	222,219	-	222,219	-
C. Financial assets designated at fair value	**-**	**-**	**-**	**3,932**
1. Debt securities	-	-	-	-
2. Loans	-	-	-	3,932
D. Financial assets measured at fair value through other comprehensive income	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-
2. Equity instruments	-	-	-	-
3. Loans	-	-	-	-
E. Financial assets at amortised cost (fair value)	**135,631**	**-**	**135,631**	**187,050**
1. Debt securities	-	-	-	-
2. Loans	135,631	-	135,631	187,050
Total financial assets	**357,850**	**-**	**357,850**	**190,982**
Total associated financial liabilities	**49,554**	**-**	**X**	**X**
Net value as at 31/12/2022	**308,296**	**-**	**357,850**	**X**
Net value as at 31/12/2021	**145,500**	**-**	**X**	**190,982**

B. Financial assets sold and fully derecognised with recognition of continuous involvement

The Group has none of this type at the reporting date.

D.3 Prudential consolidation - financial assets sold and fully derecognised

Multi-originator sales of loans to mutual investment funds

This Section provides the qualitative and quantitative information relating to multi-originator sales of loan portfolios attributable to the scheme of sale to a mutual investment fund with allocation of the relative units to the originators.

During the year and in previous years, Banco BPM Group concluded several sales of classified exposures to mutual investment funds in exchange for units issued by the same funds.

QUALITATIVE INFORMATION

General objectives of the loan sale transactions carried out through the mutual investment fund scheme
In general, the business and strategic objective in this case is to assign the management of several exposures classified as high risk to specialist, independent operators (i.e. represented by asset management companies, hereinafter also "SGR"), which, through changes in management, should enable more effective company turnaround than what the Bank could achieve by continuing to manage its own exposure. The strategies pursued by the asset management company specifically focus on managerial leverage that is difficult for single banks to activate, such as, merely by way of example: converting the loans into equity, joining the management bodies of the companies to carry out effective operational turnaround, developing distressed M&A operations to safeguard the value of the companies through business partnerships, directly repossessing the property in the case of real estate operators and, lastly, third party investors contributing new financing to relaunch the companies.
In that view, the intervention of an asset management company enables the creation of suitable mechanisms to safeguard the rights of the contributing banks, through the powers assigned to specific investor committees. In addition, in order to align the interests of the asset management company with those of the contributing banks, the structure of fees to the asset management company generally entails management fees consistent with the net assets of the fund, as well as performance fees or a carried interest on the extra yield of the transaction.

Accounting treatment
In accounting terms, pursuant to the accounting standard IFRS 9, the above sale transactions resulted in the derecognition of the loans sold, as the Group did not substantially retain the risks or rewards of the transferred assets, and also did not retain any substantial control over the assets, as the control was instead assumed by the fund management company. In particular, the risks and rewards that the Group may obtain from the units held in exchange for the loans are not anchored to the occurrence, amount or timing of the events that involve the loans sold, given that the economic and financial dynamics linked to the single loans will not automatically or directly influence the returns of individual unitholders (including Banco BPM) which, instead, will depend on the general performance of the fund managed by the asset management company. In that regard, it must be noted that, as these are multi-originator transactions, the loans contributed by the single participants may differ from those contributed by other participants and, where these concern the same debtor, may also change the percentage of exposure contributed by each participant.
In relation to said derecognition, the fund units obtained as a conversion from the sale were recognised in the accounting portfolio of "Other financial assets mandatorily measured at fair value". The difference between these derecognised loans and the recognition value of the fund units was recognised in the income statement as an effect of the loans, based on the regulations set out in paragraph 3.2.12 of the accounting standard IFRS 9.
With regard to the need to consolidate the mutual funds subscribed - in line with that illustrated in "Part A – Accounting policies" with regard to the requirements of the accounting standard IFRS 10 for holding control over an entity - no funds were identified that required consolidation. Based on the powers assigned to the bodies establishing the fund (Board of Directors, Investors Committee, Investors' Meeting) and the majorities required to pass the related resolutions, no funds were identified in which the Group is deemed to hold the power to manage significant activities.

New transactions of the period

Credit & Corporate Turnaround Fund (Illimity SGR)

Objectives and main characteristics of the fund

The multi-originator transaction called Credit & Corporate Turnaround Fund (hereinafter "iCCT") was completed on 3 October 2022, through the sale of loans to the iCCT Fund managed by Illimity SGR - the first Fund launched by Illimity SGR that invests in UTP exposures and in general in loans to companies in financial distress with turnaround and relaunch prospects - and the simultaneous subscription of the Fund units. The iCCT Fund is a single-segment fund with two classes of units (Credit Units and Finance Units), in addition to a special category (C Units) reserved to the SGR and the management team, which give them the right to receive the carried interest.
The Fund has a duration of 8 years (extendable by one year) while the Finance Units, according to the Fund's Regulations, may fluctuate between 10% and 50% of the Credit Units.

More specifically, the transaction in question regards the sale of a portfolio of Corporate Large & Medium Size loans classified as Unlikely to Pay (hereinafter also UTP), resulting from loans granted to companies in financial distress, with different risk profiles in terms of territorial distribution, intended use and lifecycle of the underlying assets.
The purpose of the transaction is to ensure a more proactive and effective management of secured loans, through i) the disbursement of new loans where deemed necessary to develop the business and/or rebalance the corporate debt, ii) the possibility of intervening directly in the equity of the target companies, changing their governance and guiding restructuring processes, and iii) a better and more effective restructuring of the company, exploiting the specific skills of the Group of the assignee SGR.

Amount of loans sold and Banco BPM's stake

The participants in the Wave sold their credit exposures to the fund for a total gross value of 50 million; the total loans managed therefore exceed 250 million.
Banco BPM sold 8 exposures classified as UTP to the SPE, for a gross value of 49.2 million, corresponding to an initial assignment value of 31.7 million. Against the cited transaction, Banco BPM received 32,006,366 units of the iCCT Fund. More specifically, this assignment involved several counterparties from which Illimity SGR had already purchased portions of loans from other banks: the aim of Banco BPM's assignment was therefore, inter alia, to increase iCCT's share of wallet vis-à-vis the counterparties sold, thus increasing its negotiating power at restructuring tables, with a view to boosting the recovery for the shareholders.

Accounting treatment

On 3 October 2022, the loans sold were derecognised from the financial statements, as a balancing entry to the recognition of the units of the iCCT fund.
The fair value of the iCCT fund, based on the Discounted Cash Flow method (DCF) illustrated in the paragraph below, was 29.3 million, showing a decrease of around 7.8% with respect to the contribution value indicated by the SGR at the time of the contribution (31.7 million).
Considering the recognition value of the loans and the collections to be repaid, the sale transaction entailed the recognition of a negative economic effect, attributable to the loans sold, of 4.4 million.

As at 31 December 2022, the total fair value of the fund was 26.5 million euro.

Methodologies for determining fair value and sensitivity analysis of fair value

Based on the Discounted Cash Flow method, the fair value is obtained by analysing the expected cash flows from the recovery of the overall exposures held by the fund at a discount rate determined using the Weighted Average Cost of Capital ("WACC") method.
In detail, the WACC is the calculation procedure that identifies the rate representing the weighted average cost of capital, and expresses the remuneration requested by investors for a purchase at normal market conditions of a similar asset to the one being valued.

In particular, the WACC was calculated by applying the following formula:

$$WACC=Ke * (E/(D+E)) + Kd * (1-t) * (D/(D+E))$$

where:
Ke = β*(Mrp)+Rf: represents the cost of capital, calculated using the Capital Asset Pricing Model (CAPM), based on which the return on a risk asset is equal to the sum of a risk-free rate (Rf) and an adequate risk premium, determined based on the indicator β, as illustrated in greater detail below.
β: Beta ratio, which indicates the risk of a specific equity instrument out of the stock market as a whole. To that end, the unlevered adjusted β for the sector in which the single companies subject to sale operate was considered, weighting the result obtained based on the weight of each credit exposure out of the total.
Mrp: represents the premium, i.e. the differential yield requested by investors for an investment in equity securities with respect to a risk-free investment. To that end, the implied equity risk premium is considered (source: Damodaran)
Rf: represents the risk-free rate, i.e. the yield on risk-free assets identified based on the yield of 10-year Italian government securities (source: Bloomberg)

Kd: represents the cost of debt, determined based on the rate of the new financing envisaged in the individual transactions. Where there are numerous rates, an average weighted rate was calculated
t: represents the tax rate;
(E/(D+E) and (D/(D+E): represents the financial structure of each operation, in terms of the combination of capital (E: *Equity*) and debt (D: *Debt*).

The fair value determined this way is classified in level 3 of the fair value hierarchy envisaged by the accounting standard IFRS 13, as it is significantly influenced by discretionary parameters not observable on the market.

Based on the DCF method, the table below sets out a sensitivity analysis of the fair value of the iCCT Fund in relation to changes in the most significant non-observable input, which, in this case, is represented by cash flows of the fund from recovery (a positive or negative change of 5% was considered) and the cost of capital Ke (a positive or negative change of 1% was considered).

iCCT Fund Change in fair value in absolute value (and percentage) as a result of changes of +1%/-1% and of +5%/-5%, respectively, in expected cash flows				
		Ke -1%	**Ke%**	**Ke +1%**
Change in cash flows	**+5%**	+2.28 (+8.58%)	+1.33 million (+5%)	+420k (+1.58%)
	0	+905k (+3.4%)	-	-863k (-3.25%)
	-5%	-466k (-1.76%)	-1.33 million (-5%)	-2.15 million (-8.09%)

Efesto (Finint SGR - Waves 8 and 10)

Objectives and main characteristics of the fund

The multi-originator transaction called Efesto Fund (hereinafter "Efesto") was finalised in two different Waves on 6 July 2022 and 16 November 2022, through the sale of loans to the Efesto Fund - a fund launched by Finint SGR that invests in UTP and NPL exposures and in general loans to companies in financial distress with prospects of turnaround or liquidation - and the simultaneous subscription of the Fund units at values corresponding to the sale price of the loans. Italfondiario acts as servicer of the asset management company and collects and manages the loans sold to the Fund. The Efesto Fund is a single-segment fund with two classes of units (Credit Units and Finance Units), in addition to a special category (C Units) reserved to the SGR and the management team, which give them the right to receive the *carried interest*.
The Fund has a duration of 10 years (extendable for a further two years) while the Finance Units, according to the Fund's Regulations, may fluctuate between 10% and 50% of the Credit Units.
More specifically, the transaction in question regards the sale of a portfolio of Corporate Large & Medium Size loans classified as Unlikely to Pay (hereinafter also UTP), resulting from loans granted to companies in financial distress, with different risk profiles in terms of territorial distribution, intended use and lifecycle of the underlying assets.
The purpose of the transaction is to ensure a more proactive and effective management of secured loans, through i) turn-around activities and extraordinary distressed M&A transactions, disbursement of new finance and private equity-style management, ii) settlement activities out-of-court and in the structuring of composition procedures.

Amount of loans sold and Banco BPM's stake

The participants in the Wave sold their credit exposures to the fund for a total gross value of approximately 800 million referring to more than 150 Italian companies.
Banco BPM sold 17 exposures classified as UTP or NPL to the SPE, for a gross value of 21.4 million in Wave 8 and 71.6 million in Wave 10, corresponding to an initial assignment value of 16.9 million. Against the cited transaction, Banco BPM received 20,962,668 units of the iCCT Fund. More specifically, this assignment involved several counterparties from which Finint SGR had already purchased portions of loans from other banks: the aim of Banco BPM's assignment was therefore, inter alia, to increase the Efesto Fund's share of wallet vis-à-vis the counterparties sold, thus increasing its negotiating power at restructuring tables, with a view to boosting the recovery for the shareholders.

Accounting treatment

On 6 July 2022, for Wave 8, and on 16 November 2022 for Wave 10, the loans sold were derecognised from the financial statements, as a balancing entry to the recognition of the units of the Efesto Fund.
The fair value of the Efesto Fund, based on the Discounted Cash Flow method (DCF) illustrated in the paragraph below, was 16.8 million, showing a decrease of around -5.0% with respect to the value contributed by the Fund at the time of the contribution (17.7 million).
Considering the recognition value of the loans and the collections to be repaid, the sale transaction entailed the recognition of a negative economic effect, attributable to the loans sold, of 1.9 million in total at the time of recognition of the shares.

As at 31 December 2022, the total fair value of the fund was 17.5 million euro.

Fair value sensitivity analysis

Based on the DCF method, illustrated in the previous paragraph, the table below sets out a sensitivity analysis of the fair value of the Efesto Fund in relation to changes in the most significant non-observable input, which, in this case, is represented by cash flows of the fund from recovery (a positive or negative change of 5% was considered) and the cost of capital Ke (a positive or negative change of 1% was considered).

Efesto Fund Change in fair value in absolute value (and percentage) as a result of changes of +1%/-1% and of +5%/-5%, respectively, in expected cash flows				
		Ke -1%	**Ke%**	**Ke +1%**
Change in cash flows	**+5%**	+1.06 (+6.03%)	+1.03 million (+5.88%)	+367k (+2.09%)
	0	+172k (+1.0%)	-	-486k (-2.77%)
	-5%	-713k (-4.07%)	-1.03 million (-5.88%)	-1.34 million (-7.63%)

UTP Italia (Sagitta SGR - Wave 1)

Objectives and main characteristics of the fund

The multi-originator transaction called UTP Italia (hereinafter "UTP Italia") was completed on 11 November 2022, through the sale of loans to the UTP Italia Fund managed by Sagitta SGR - the first Fund launched by Sagitta SGR to invest in small ticket UTPs and, in general, in loans to individuals and SMEs in financial distress - and the simultaneous subscription of Fund units. The iCCT Fund is a single-segment fund with two classes of units (Credit Units and Finance Units).
The Fund has a duration of 8 years (extendable by two years) while the New Finance Units, according to the Fund Regulations, may reach a maximum of 50% of the total nominal value of the Fund.
More specifically, the transaction in question regards the sale of a portfolio of Corporate Small-Medium Size loans classified as Unlikely to Pay (hereinafter also UTP), resulting from loans granted to retail entities and SMEs in financial distress, with different risk profiles in terms of territorial distribution, intended use and lifecycle of the underlying assets.
The aim of the transaction is to ensure a more proactive and effective management of secured loans, through i) the disbursement of new loans where deemed necessary to develop the business and/or rebalance the counterparty's indebtedness, ii) a better and more effective restructuring of the borrower, taking advantage of the specific skills of the Group of the assignee SGR and iii) proactive management of the loan portfolio according to the principles of ethical management of exposures inspired by the ESG framework.

Amount of loans sold and Banco BPM's stake

The first Wave involved 4 of the main Italian banks, which sold their credit exposures to the fund for a total gross value of approximately 160 million.
Banco BPM sold 170 exposures classified as UTP to the SPE, for a gross value of 70 million, corresponding to an initial assignment value of 40.6 million. Against the cited transaction, Banco BPM received 40,591,705 units of the UTP Italia Fund.

Accounting treatment

On 21 November 2022, the loans sold were derecognised from the financial statements, as a balancing entry to the recognition of the units of the UTP Italia Fund.
The fair value of the UTP Italia Fund, based on the Discounted Cash Flow method (DCF) illustrated in the paragraph below, was 37.7 million, showing a decrease of around 7.1% with respect to the contribution value indicated by the SGR at the time of the contribution (40.6 million).
Considering the recognition value of the loans and the collections to be repaid, the sale transaction entailed the recognition of a negative economic effect, attributable to the loans sold, of 19.6 million.

As at 31 December 2022, the total fair value of the fund was 35.4 million.

Fair value sensitivity analysis

Based on the DCF method, illustrated in the previous paragraph, the table below sets out a sensitivity analysis of the fair value of the UTP Italia Fund in relation to changes in the most significant non-observable input, which, in this case, is represented by cash flows of the fund from recovery (a positive or negative change of 5% was considered) and the cost of capital Ke (a positive or negative change of 1% was considered).

UTP Italia Fund
Change in fair value in absolute value (and percentage) as a result of changes of +1%/-1% and of +5%/-5%, respectively, in expected cash flows

		Ke -1%	**Ke%**	**Ke +1%**
Change in cash flows	**+5%**	+3.63 (+10.25%)	+1.77 million (+ 5%)	+38k (+0.11%)
	0	+1.77 million (+ 5.0%)	-	-1.64 million (-4.66%)
	-5%	-89k (-0.25%)	-1.77 million (-5%)	-3.34 million (-9.43%)

QUANTITATIVE INFORMATION

Breakdown of units of mutual investment funds held as at 31 December 2022

As at 31 December 2022, the value of mutual investment funds in the financial statements deriving from the transactions in question totalled 211.4 million (180.5 million as at 31 December 2021), fully referring to the Parent Company. The table below provides the breakdown of funds held, indicating the fund management company, the first closing date and the subsequent contributions, as well as the investment policy followed by the fund.

Fund name	Total book value as at 31/12/2022(*)	Asset Management Company	First closing date/subsequent contributions	Fund investment policy
IDeA Corporate Credit Recovery I	1,385	Dea Capital Alternative Funds SGR	23 June 2016 27 June 2017 4 July 2019	Past due loans, unlikely to pay or corresponding or similar categories of loans and/or loans subject to restructuring disbursed to target companies, participating financial instruments or shares issued by the above and, possibly, short-term loans deriving from self-liquidating credit lines granted to said target companies
IDeA Corporate Credit Recovery II	14,688	Dea Capital Alternative Funds SGR	28 December 2017 18 February 2019	Past due loans, unlikely to pay or corresponding or similar categories of loans and/or loans subject to restructuring disbursed to target companies, from participating financial instruments or shares issued by the above and, possibly, short-term loans deriving from self-liquidating credit lines granted to said target companies
IDeA Corporate Credit Recovery II – USD Shipping segment	35,791	Dea Capital Alternative Funds SGR	21 December 2018	Past due loans, unlikely to pay or corresponding or similar categories of loans and/or loans subject to restructuring disbursed to target companies operating in the field of shipping and maritime transport, without specific sector restrictions, from participating financial instruments or shares issued by the above and, possibly, short-term loans deriving from self-liquidating credit lines granted to said target companies
Clessidra Restructuring Fund	25,937	Clessidra SGR	25 September 2019	Past due loans, unlikely to pay, forborne performing and non-performing loans, performing high risk loans disbursed to target companies, from participating financial instruments/shares/convertible bonds issued by said companies, loans disbursed in the form of debtor in possession financing transactions to support the target companies in restructuring the debt disbursed
Back2bonis	54,103	Prelios SGR	23 December 2019 20 December 2021	Untranched asset backed securities issued as part of securitisation transactions carried out pursuant to Law 130/99, whose underlying is represented by receivables mainly classifiable as "unlikely to pay" loans, not due from consumer debtors, as well as loans disbursed to those debtors as part of debt restructuring transactions, recovery and/or turnaround and/or similar operations or as part of repossessions and similar actions on collateral
iCCT Fund	26,532	Illimity SGR	3 October 2022	Unlikely to Pay loans disbursed to "Corporate Large & Medium Size" customers deriving from loans granted to companies in financial distress. The purpose of the transaction is to ensure a more proactive and effective management of secured loans, through i) the disbursement of new loans where deemed necessary to develop the business and/or rebalance the corporate debt, ii) the possibility of intervening directly in the equity of the target companies, changing their governance and guiding restructuring processes, and iii) a better and more effective restructuring of the company, exploiting the specific skills of the Group of the assignee SGR.
Efesto Fund	17,544	FinInt SGR	6 July 2022 16 November 2022	Unlikely to Pay and non-performing loans disbursed to "Corporate Large & Medium Size" customers deriving from loans granted to companies in financial distress. The purpose of the transaction is to ensure a more proactive and effective management of secured loans, through i) turn-around activities and extraordinary distressed M&A transactions, disbursement of new finance and private equity-style management, ii) settlement activities out-of-court and in the structuring of composition procedures.
UTP Italia Fund	35,401	Sagitta SGR	11 November 2022	Unlikely to Pay and, to a lesser extent, non-performing loans disbursed to "Small-Medium" customers deriving from loans granted to retail entities and SMEs in financial distress. The aim of the transaction is to ensure a more proactive and effective management of secured loans, through i) the disbursement of new loans where deemed necessary to develop the business and/or rebalance the counterparty's indebtedness, ii) a better and more effective restructuring of the borrower, taking advantage of the specific skills of the Group of the assignee SGR and iii) proactive management of the loan portfolio according to the principles of ethical management of exposures inspired by the ESG framework.

(*) Assets included in the financial statement item "20 c. Financial assets at fair value through profit and loss - other financial assets mandatorily measured at fair value".

The negative change in the year, totalling 30.8 million, is attributable to the increase of UTP Italia units due to the sale on 11 November 2022 (+37.7 million), in Efesto due to sales on 6 July 2022 and 16 November 2022 (+16.8 million), in iCCT for the sale on 3 October 2022 (+29.2 million), to distributions received from the SGRs (-55.4 million), to the valuation losses during the year (-3.6 million), as well as to the effects of the conversion of the investment into dollars held in the "IDeA Corporate Credit Recovery II - Shipping segment" fund (+6.1 million).

The fair value measurement of the above funds is made through a valuation technique based on the discounting of the expected recovery flows based on a discount rate that is considered to reflect the remuneration requested by the market for a similar asset.

It is also specified that the fund units held represent the Group's maximum exposure to risk; with regard to the above transactions, there are no guarantees or irrevocable credit lines issued to the fund, nor are there commitments to subscribe additional units of the fund.

For the transactions carried out through the scheme of the sale of loans to a securitisation SPE pursuant to Law 130/99 and the concurrent subscription of ABS by the assigning intermediaries, refer to that illustrated in "C. Securitisation transactions" above.

D.4 Prudential consolidation - covered bond transactions

Covered bond issue programmes

QUALITATIVE INFORMATION

Strategic goals

The Covered Bonds ("CB") issue is part of Banco BPM Group's strategic plan, and represents a tool to diversify sources of funding, to reduce the relative cost and to extend the maturities of liabilities.

Banco BPM Group has three Covered Bond issue programmes in place: specifically, the "BP CB1", "BPM CB1" and "BPM CB2" programmes.

For the former Banco Popolare Group, during 2010 the first programme of CB issues concerning residential mortgages ("Residential CB" or "BP CB1") was launched. The maximum amount of CB that may be issued under the programme was extended from the initial 5 billion to 10 billion in February 2011.
At the former BPM Group level, on 13 November 2007, the Board of Directors of Banca Popolare di Milano authorised a CB issue programme ("BPM CB1"), for a maximum amount of 10 billion, relative to only residential landed and mortgage loans, structured, however, to also include commercial mortgages. Subsequently, on 10 March 2015, the Board of Directors of the former BPM Group approved a second CB programme ("BPM CB2") structured to only include the assignment of residential landed and mortgage loans for a maximum amount of 10 billion.

Structure of the Programmes

Following the merger by incorporation of BPM S.p.A. into Banco BPM, which was completed in November 2018, Banco BPM acted as sole Originator Bank for the assets pursuant to Art. 7-bis of Italian Law no. 130 of 30 April 1999, as well as Issuer Bank for the Group's CB programmes.

With reference to the "BP CB1" Programme, Banco BPM provided for without-recourse transfers to the SPE BP Covered Bond S.r.l. (60%-owned by Banco BPM), the related monetary receivables deriving mortgage loans having the characteristics set forth in Art. 2, paragraph 1, letter a) of the MEF Decree (Mortgage Loans).

With reference to the "BPM CB1" and "BPM CB2" Programmes, the pecuniary claims deriving from residential landed and mortgage loans with the features set out in Art. 2 of the MEF Decree (Mortgage Loans), and the commercial loans of only the BPM CB1 Programme, were transferred to the SPE BPM Covered Bond S.r.l. (of which Banco BPM holds 80%) within the sphere of the "BPM CB1" Programme and to the SPE BPM Covered Bond 2 S.r.l. (of which Banco BPM holds 80%) within the sphere of the "BPM CB2" Programme.

Subordinated loan

For all Banco BPM Group's CB programmes, the Originator Banks (now only Banco BPM) granted a Subordinated Loan to the SPEs on the sale of assets to provide them with the financial resources required to acquire the related

receivables (except when the SPE provided for the direct payment of the assets purchased). The SPEs must repay the subordinated loans on the final repayment date, also taking into account the extension of the deferral of the repayment date in the event of the Issuer's default, in accordance with the applicable priority of payments and within the limits of the funds available. In any event, at each interest payment date, there is an option to repay the subordinate loans in advance provided that the residual principal amount of the loans is equal to or higher than the residual debt of the Covered Bonds outstanding and that the tests contemplated by the regulations and by contract are complied with. Interest is paid on subordinated loans at a fixed rate or at a rate equal to the average interest rate of the CB Series issued, plus any excess spread generated by the structure.
The "BPM CB2" Issue Programme has one derivative contract in place called "Covered Bond Swap" subscribed by the SPE and a market counterparty; said swap is an interest rate swap that hedges, at consolidated level and also in the case of the Issuer's default, the interest rate risk deriving from the misalignment between the interest flows of the portfolio of assets sold to the SPE and the interest flows on the CBs issued.

Instead, no "Covered Bond Swap" contracts are in place for the "BPM CB1" and "BP CB1" Programmes.

Lastly, there are no longer any Mortgage Pool Swap contracts in place for any of the three CB Programmes of the Group.

Guarantees

In order to guarantee the repayment of the Covered Bonds should the Issuer not fulfil its obligations to pay, the SPEs have issued an unconditional and irrevocable primary guarantee valid for separate assets for the benefit of the investors that will subscribe the Covered Bonds. The guaranteed amount is equal to total interest and principal that must be paid to the investors on each class of Covered Bond. The regulations require that the integrity of the guarantee should be ensured during the life of the Covered Bonds and to this end, specific tests are envisaged that take the amount and the characteristics of both the assets assigned and the CB issued into account. The tests are carried out quarterly by the Group's Finance Organisational Structure and are checked by the Risk Management Organisational Structure. The accuracy of the tests carried out when the individual CB series are issued and then on a quarterly basis is also checked by an external party, the Asset Monitor, which, in accordance with the Supervisory Regulations, must be an audit firm other than that assigned to audit the financial statements. The Asset Monitor must also check the quality and integrity of the assets sold and draw up an annual report containing the results of the checks carried out. The control system also avails of the Internal Audit department, which verifies the adequacy of the internal checks, also on the basis of the annual report drawn up by the Asset Monitor.

Regulatory and contractual tests

Regulatory tests, conducted quarterly on the portfolios of each of the issue programmes, are as follows:

- the Nominal Value Test, which verifies that the nominal value of the residual loans in the portfolio sold is higher than the nominal value of the outstanding CB;
- the NPV Test, which checks that the present value of the residual credit portfolio is greater than the present value of the outstanding CBs;
- the Interest Coverage Test, which verifies that the interest collected and to be collected, net of the costs of the SPE, is higher than the interest to be paid to the holders of CB.

If the requirements of all of the tests are met, payments may be made in accordance with the "order of payment". In accordance with the contractual documentation of the programmes, the Asset Coverage Test on the portfolio should also be respected, which checks that the nominal value of the loans, weighted on the basis of any delays in the payment of the latter and the level of over-collateralisation envisaged by the contracts, is higher than the nominal value of the outstanding CBs. The infringement of the regulatory and contractual tests leads to an obligation for the originator banks to add to the portfolio.

Collection and administrative management services

For each BP Programme of the Group, the collection and management of transferred receivables is carried out by Banco BPM, which acts in the capacity of the sole Servicer.

In particular, with reference to each CB Programme of the Group, the amounts collected are paid into the accounts held in the name of the respective SPEs (BP Covered Bond S.r.l. for the "BP CB1" Programme, BPM Covered Bond S.r.l. for the "BPM CB1" Programme and BPM Covered Bond 2 S.r.l. for the "BPM CB2" Programme) opened at Banco BPM and, on a daily basis, are transferred to the accounts of the respective SPEs opened at Banco BPM. Banco BPM also acts as Administrative Servicer, namely it provides administrative services and fulfils tax-related requirements on behalf of all three SPEs.

QUANTITATIVE INFORMATION

Existing and significant programmes during 2022

Banco Residential CB Programme ("BP CB1")

During previous years, Banco BPM, in its capacity as the Originator Bank, sold a total of twelve mortgage portfolios to the SPE BP Covered Bond S.r.l. for a total residual debt of 16.8 billion; the SPE paid the purchase prices of the various portfolios using the revolving Subordinated Loan granted by the same originator bank and the available liquidity deriving from the amortisation of the loan portfolio deposited in its current accounts held at Banco BPM. Banco BPM acted as Servicer, managing the collection of the receivables.

The table below shows the overall value of the loans sold to the SPE as at 31 December 2022:

Bank	Value as at 31/12/2022	Value as at 31/12/2021
Banco BPM	2,960,175	3,426,788

The amounts indicated represent performing, unlikely to pay, non-performing past due and bad loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.

The table below shows non-performing loans:

Bank	Value as at 31/12/2022	Value as at 31/12/2021
Banco BPM	102,496	129,767

In 2022, the mortgage loans portfolio generated collections totalling 510.1 million, of which 448 million represented principal and 62.1 million represented interest.

Bonds issued by Banco BPM

As part of the BP CB1 Programme, Banco BPM issued twelve series of CBs, listed on the Luxembourg Stock Exchange, and an unlisted Registered Covered Bond. These securities were subscribed to by institutional investors or by Banco BPM.

Overall, the securities issued by Banco BPM amounted to 14,950 million, of which 12,700 million was redeemed. Therefore, as at 31 December 2022, the securities issued and outstanding amounted to 2,250 million, and break down as follows:

Date of issue	Series/Tranche	Notional value	Coupon	Maturity	Issue Price (flat quotation)	Moody's/ DBRS Rating (***)
24/01/2011	Registered CB (1)	100,000	5.250%	03/04/2029	96.590	Aa3/A high
05/04/2013	6th Series 1st tranche (2)	150,000	4.000%	31/03/2023	99.482	Aa3/A high
08/01/2014	7th Series 1st tranche (3) (4)	1,000,000	Eur 3M + 100 bps	31/03/2023(*)	100.000	Aa3/A high
28/03/2018	12th Series 1st Tranche (3)	1,000,000	Eur 1M + 30 bps	30/06/2025 (**)	100.000	Aa3/A high
		2,250,000				

(1) The securities were placed in the form of a private placement with market investors.
(2) The securities were subscribed by Banca Generali S.p.A.
(3) The securities were fully subscribed by Banco BPM and used as collateral in monetary policy operations with the Eurosystem.
(4) On 27 March 2019 partial early redemption was carried out for 500 million.
(*) In March 2016, the Maturity Date was extended from 31 March 2016 to 31 March 2019. In March 2019, the Maturity Date was extended from 31 March 2019 to 31 March 2023.
(**) In April 2021, the maturity date was extended from 30 June 2021 to 30 June 2025.
(***) Rating as at 31 December 2022.

Other information

The Ninth Series of CB for a nominal value of 1,000 million was fully redeemed by Banco BPM at the maturity of the security on 31 March 2022; on the same date, the Covered Bond Swap agreement in place between the SPE BP Covered Bond S.r.l. and the market counterparty was closed.
In March 2022, Banco BPM repurchased the positions classified as bad loans as at 28 February 2022 "en bloc" and the relative price was paid to the SPE in March 2022.
In November 2022, Banco BPM arranged for (i) the repurchase "en bloc" of the positions classified as bad loans as at 31 October 2022 and (ii) the repurchase of a portion of mortgages previously sold to the SPE and no longer classifiable as eligible. The considerations for these repurchases were paid to the SPE in November 2022.
During the year, the SPE redeemed part of the subordinated loan granted by Banco BPM for a total amount of 730 million in advance (of which 500 million on the Guarantor Payment Date of 31 March 2022 and 230 million on the Guarantor Payment Date of 30 September 2022).
In October 2022, the rating agency DBRS increased the rating of the Securities from "A" to "A high".

BPM Covered Bond Programme ("BPM CB1")

In previous years, a total of ten portfolios of eligible assets were sold to the SPE BPM Covered Bond S.r.l., with total residual debt of 12.6 billion.

In March 2022, by signing the related contracts, Banco BPM sold a new portfolio of residential mortgage loans, including disbursements to employees of the Group, and commercial mortgage loans, for a total residual debt of approximately 419 million to the SPE BPM Covered Bond S.r.l. ("Fourth Banco BPM Portfolio", eleventh sale to the SPE).

The SPE paid the purchase prices of the various portfolios using the Subordinated Loans granted by the Originator Banks, now Banco BPM, and the available liquidity deriving from the amortisation of the loan portfolio deposited in its current accounts held at Banco BPM. The Originator Banks, now Banco BPM, acted as Servicer, managing the collection of the receivables.

The table below shows the overall value of the loans sold to the SPE as at 31 December 2022:

Bank	Value as at 31/12/2022	Value as at 31/12/2021
Banco BPM	4,675,223	5,158,058

The amounts indicated represent performing, unlikely to pay, non-performing past due and bad loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.

The table below shows non-performing loans:

Bank	Value as at 31/12/2022	Value as at 31/12/2021
Banco BPM	90,281	115,868

In 2022, the mortgage loans portfolio generated collections totalling 866.8 million, of which 776.6 million represented principal and 90.2 million represented interest.

Bonds issued by Banco BPM

As part of the "BPM CB1" Programme, Banco BPM issued eleven CB Series, listed on the Luxembourg Stock Exchange, for a total of 11,150 million, originally subscribed by institutional investors or by Banco BPM itself. These have been redeemed for a total of 6,700 million.

As at 31 December 2022, there are four Series of covered bonds outstanding, fully repurchased by Banco BPM, and used for refinancing operations with the ECB or for Repo transactions with market counterparties, for a total of 4,450 million, broken down as follows:

Date of issue	Series/Tranche	Notional value	Coupon	Maturity	Issue Price (flat quotation)	Moody's Rating (*)
19/11/2015	7th Series	900,000	3-month Euribor + 60 bps	19/11/2027 (1)	100.00	Aa3
07/11/2016	8th Series	1,000,000	3-month Euribor + 30 bps	07/11/2025 (2)	100.00	Aa3
26/04/2018	9th Series	1,900,000	3-month Euribor + 30 bps	26/04/2025 (3)	100.00	Aa3
25/09/2019	11th Series	650,000	3-month Euribor + 80 bps	25/03/2025	100.00	Aa3
Total		**4,450,000**				

(1) In November 2022, the maturity date was extended from 19 November 2022 to 19 November 2027.
(2) In October 2021, the maturity date was extended from 7 November 2021 to 7 November 2025.
(3) In April 2021, the maturity date was extended from 26 April 2021 to 26 April 2025.
(*) Rating as at 31 December 2022.

Other information

In March 2022, inter alia, Banco BPM repurchased the positions classified as bad loans as at 28 February 2022 "en bloc" and the relative price was paid to the SPE in March 2022.
In November 2022, Banco BPM arranged, inter alia, (i) the repurchase "en bloc" of the positions that as at 31 October 2022 were classified as bad loans and (ii) the repurchase of a portion of mortgages previously sold to the SPE and no longer be classifiable as "eligible". The considerations for these repurchases were paid to the SPE in November 2022.
In November 2022, the Final Terms of the retained Seventh Series were amended in order to extend the maturity from 19 November 2022 to 19 November 2027. At the maturity date of 23 November 2022, Banco BPM fully redeemed the Tenth Series of Covered Bonds for a nominal value of 600 million.
On the Guarantor Payment Dates of 17 January, 15 April, 15 July and 17 October 2022, the subordinated loan granted by Banco BPM to the SPE was repaid for a total of 835 million.

Events occurring after the end of the year

The subordinated loan granted by Banco BPM to the SPE was repaid for 490 million on the Guarantor Payment Date of 16 January 2023.

BPM Covered Bond 2 Programme ("BPM CB2")

During previous years, eleven residential and landed mortgage loan portfolios were sold to the SPE BPM Covered Bond 2 S.r.l. for a total value of approximately 11.7 billion.

In March 2022, by signing the relative contracts, Banco BPM sold a new portfolio of residential mortgage loans, excluding disbursements to Group employees, for a total residual debt of 1,754 million to the SPE BPM Covered Bond 2 S.r.l. ("Seventh Banco BPM Portfolio", twelfth sale to the SPE).

To pay the purchase price of the portfolios, the SPE used a subordinated credit facility granted by the Originator Banks. The Originator Banks, now Banco BPM, acted as Servicer, managing the collection of the receivables.

The table below shows the overall value of the loans sold to the SPE as at 31 December 2022:

Bank	Value as at 31/12/2022	Value as at 31/12/2021
Banco BPM	8,154,742	7,280,076

The amounts indicated represent performing, unlikely to pay, non-performing past due and bad loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.

The table below shows non-performing loans:

Bank	Value as at 31/12/2022	Value as at 31/12/2021
Banco BPM	58,790	65,447

In 2022, the mortgage loans portfolio generated collections totalling 990 million, of which 855.7 million represented principal and 134.3 million represented interest.

Bonds issued by Banco BPM

As part of the "BPM CB2" Programme, Banco BPM issued seven CB Series, which are listed on the Luxembourg Stock Exchange, for a total nominal value of 5,000 million, of which 1,000 million was redeemed. All bonds issued by the programme have been placed on the capital market.

As at 31 December 2022, there are six Series of covered bonds in place for a total of 4,000 million, broken down as follows:

Date of issue	Series/Tranche	Notional value	Coupon	Maturity	Issue Price (flat quotation)	Moody's Rating (*)
02/12/2015	2nd Series	750,000	1.500%	02/12/2025	98.946	Aa3
08/06/2016	3rd Series	750,000	0.625%	08/06/2023	99.761	Aa3
23/01/2018	4th Series	750,000	1.000%	23/01/2025	99.792	Aa3
25/07/2018	5th Series	500,000	1.125%	25/09/2023	99.446	Aa3
05/12/2019	6th Series	500,000	0.500%	05/12/2025	100.000	Aa3
15/03/2022	7th Green Series	750,000	0.750%	15/03/2027	99.868	Aa3
Total		**4,000,000**				

(*) Rating as at 31 December 2022.

Other information

In March 2022, Banco BPM repurchased the positions classified as bad loans as at 28 February 2022 "en bloc" and the relative price was paid to the SPE in March 2022.
On 15 March 2022, Banco BPM issued the Seventh Series of CBs for a nominal value of 750 million euro (first issue of Green Covered Bonds). On the maturity date of 14 September 2022, Banco BPM arranged for the full repayment, by natural settlement, of the First Series of CBs issued for a nominal value of 1,000 million and at the

same time the Covered Bond Swap contracts in place between the SPE Covered Bond 2 S.r.l. and the market counterparties were extinguished.
In November 2022, Banco BPM arranged for (i) the repurchase "en bloc" of the positions that as at 31 October 2022 were classified as bad loans and (ii) the repurchase of a portion of mortgages previously sold to the SPE and no longer classifiable as "eligible". The considerations for these repurchases were paid to the SPE in November 2022.
On the Guarantor Payment Dates of 18 January, 19 April, 18 July and 18 October 2022, the subordinated loan granted by Banco BPM to the SPE was repaid for a total of 890 million.

Events occurring after the end of the year

The subordinated loan granted by Banco BPM to the SPE was repaid for 220 million on the Guarantor Payment Date of 18 January 2023.

Accounting representation

On the consolidated financial statements of Banco BPM S.p.A. (as Issuer Parent Company and originator bank) the SPE belong to the Group and are included in the consolidation on a line-by-line basis.
The main balance sheet items linked to the issue of CB are shown below:

- loans sold by the originator banks to the SPEs continue to be posted under the balance sheet assets under item "40 b) - Loans to customers", and the relative interest is posted under item 10 of the income statement "Interest and similar income". As at 31 December 2022 the book value of the mortgages is (i) 2,962 million for the BP CB1 programme, (ii) 4,673 million for the BPM CB1 programme and (iii) 8,151 million for the BPM CB2 programme. Said value is specifically indicated under the "Assets pledged to secure own liabilities and commitments" in the Section "Other information" in "Part B – Information on the Balance sheet" of these Notes;
- the CBs issued are posted under debt securities in issue (item 10 c) of the Liabilities) and valued according to the fair value hedge accounting rules, hedged by the interest rate hedging derivative stipulated by the SPE ("Covered Bond Swap"). The securities issued also include funding transactions by means of repurchase agreements on the series of CB repurchased, in line with the clarifications to this regard set out by the Supervisory Authority. The book value of the CBs as at 31 December 2022 amounts to (i) 272 million relative to the BP CB programme, (ii) 2,558 million relative to the BPM CB1 programme and (iii) 3,979 million relative to the BPM CB2 programme. Note that the issues of part of the BPM CB1 programme and part of the BP CB1 programme are not posted inasmuch as used as collateral for monetary policy operations with the Eurosystem, as described previously;
- the Covered Bond Swap contracts, between the SPEs and the market counterparties outside the Group, are classified under item 50 "Hedging derivatives" in assets and/or under item 40 "Hedging derivatives" in liabilities.

The consolidated income statement has the following components:

- interests on the loans sold (cover pool), as mentioned above, posted under the item "Interest and similar income";
- interest on the Covered Bonds issued, posted under the item "Interest and similar expense";
- the differentials relative to the hedging derivatives (which transform the Covered Bond rate from fixed to floating) which are posted under the "Interest and similar income" or "Interest and similar expense" according to the balance;
- the fair value delta of the hedging contracts and of the items covered, posted under item 90 "Fair value gains/losses on hedging derivatives".

E. Prudential consolidation - Credit risk measurement models

When measuring the credit risk of portfolios, the Bank uses an econometric model for management purposes, supported by an extensive set of data and risk variables, known as the Portfolio Model.
The model allows for, through the use of Credit-VaR metrics, the definition of the probability distribution of losses in the loan portfolio. This distribution is used to measure the maximum potential loss over a yearly time period and with a specific level of confidence.

More specifically, in order to obtain this distribution, the model's processing engine uses a Monte Carlo simulation approach, which simulates a sufficiently high number of scenarios so as to provide a good empirical approximation of the theoretical distribution of loan portfolio losses.
The calculation of the maximum potential loss, which can be broken down into the classic measures of Expected Loss and Unexpected Loss (Economic Capital), is affected by concentration risk and systematic risk, respectively.
Concentration risk derives from large exposures to single counterparties – name concentration – or types of peer counterparties in terms of industries, whose credit risk depends on one or more systematic factors (industry concentration).
On the other hand, systematic risk derives from the impact of unexpected changes in macroeconomic factors on risk parameters (PD and LGD) of the single accounts, using the elasticity estimated using satellite models capable of linking PD and LGD of peer counterparties and accounts and a set of (international and domestic) economic-financial factors.
Lastly, the portfolio model periodically undergoes stress testing to evaluate the credit risk sensitivity of the Group's portfolio to extreme changes in economic and financial factors.

As at 31 December 2022, the expected loss, calculated on the Basel III validation perimeter (for which Banco BPM was authorised by the Regulator to use internal rating systems to calculate the capital requirements on credit risks), was 0.41% of the exposure to default, while the overall loss (expected and unexpected loss measured by the C-VaR method with a 99.9% confidence level within the A-IRB perimeter) amounted to 2.07% of the exposure to default.

The internal models for estimating PD, LGD and EAD are subject to an internal validation process by the Risk Function and to a third-tier control by the Audit Function. The outcome of these processes is outlined in special reports submitted to the Corporate Bodies and sent to the European Central Bank/Bank of Italy.

Lastly, please note that the changes made starting from June 2020 to the risk parameter stress testing methodologies, particularly with reference to the PD satellite models based on sector default rate projections, already cited with reference to the impacts resulting from the Covid-19 pandemic, were accordingly incorporated within the methodological framework of operational measures through the portfolio model.
In 2022, further refinements were also made to the methodology applied.

Outcome of backtesting of rating systems

In order to calculate capital requirements against Credit Risk and only on the scope of the Parent Company, Banco BPM Group adopts internal estimates of PD, LGD and EAD for Business and Private customer portfolios.
The comparison between estimates and empirical data is made separately for PD, LGD and CCF, by means of backtesting conducted by the Internal Validation function.

With reference to the PD models, Banco BPM Group adopts performance measurements to check the accuracy ratio (AR) of the estimates and calibration tests ("classical" binomial tests on a multi-period and single period basis) to compare the default rates (DRs) recorded over an annual time horizon with the estimated PD values.
Regarding the Business customer segment, the latest backtesting showed a good discriminatory power of models, both in terms of single modules and final integrated scores, which produced values comparable and at times superior to those obtained during the development phase. With regard to the calibration, satisfactory values were found for all models.
Overall, the model performed well for the Private customer segment. In several modules, the performance recorded was in line with that obtained in the development phase. With regard to calibration, the results of the binomial tests were satisfactory.

With regard to the LGD parameter, testing was conducted on both the performing and in default components. Internal Validation did not detect significant problems with the estimates generated for the private and business models. However, there are elements for further improvements of the portfolios guaranteed by real estate that still need to be studied, especially for the private segment.

Testing was conducted in relation to retail CCF. Internal Validation did not detect significant problems with the estimates generated for both the retail and corporate models.

In general, the models were fine-tuned, mainly with a view to making the model more compliant with legislative requirements.

1.2 MARKET RISKS

Impacts resulting from the Russia-Ukraine war

The conflict in Ukraine has generated greater market volatility across all asset classes (equities, interest rates, credit spreads, foreign exchange and commodities), and therefore amplified daily variations in market parameters. As a result, risk measures in general have become more volatile, although, with appropriate derisking by the trading desks, a limited risk profile was maintained. However, there was an increase in backtesting overruns, for the Parent Company in particular, for which reference should be made to the paragraph below entitled "Regulatory trading book: internal models and other sensitivity analysis methods".

Impacts resulting from the Covid-19 pandemic

With regard to the impacts of the Covid-19 pandemic, the risk measurement methods and processes, with a view to continuity, did not change. In fact, the Group continued with its daily monitoring, guaranteeing the reliability of the risk assessments and the fair value measurements of the financial instruments in the portfolio.

1.2.1 Interest rate risk and price risk - regulatory trading book

QUALITATIVE INFORMATION

A. General aspects

Market risk is the risk that the Bank may generate less revenues than expected, or suffer from the impairment of balance sheet items or capital losses from financial positions held, due to sharp and adverse changes in market conditions, in particular interest rates, share prices, exchange rates, commodities and the associated volatilities and correlations (generic risk), or due to events that may impair the issuer's redemption capability (default risk) or which in any event result in a change in the solvency of the issuer (credit spread risk). Market risks can materialize both with regard to the trading book, which includes trading instruments and the associated derivative instruments, and with regard to the banking book, which includes financial assets and liabilities that are accounted for differently than those included in the trading book.
The organisational model adopted by Banco BPM Group for the trading books exposed to interest rate risk and price risk requires:

- the centralisation of the management of treasury and of proprietary portfolio positions in the Parent Company Finance function;
- the centralisation in the subsidiary Banca Akros of the risk positions and the operating flows associated with trading of securities, currency, OTC derivatives and other financial assets.

With reference to the internal model for the calculation of capital absorption against market risk, it should be noted that, starting from 31 December 2020, Banco BPM Group has used the extended model to calculate the Market Risk capital requirement. Said requirement is therefore calculated on the basis of VaR and Stressed VaR, including the specific risk of debt securities, and of IRC.
On 11 January 2023, Banco BPM received the Final Decision from the ECB that approved the implementation of the relative change in the IRC calculation method requested in January 2022. The new method guarantees a more accurate estimate of the P&Ls associated with rating migration events through a greater number of financial instruments used to calibrate the spread levels of the worst rating classes. A forward structure with different maturities (1, 3, 5, 7, 10 years) for the different rating classes and sectors was also introduced in the Asset Swap Spread matrix and a CDS spread matrix was created to calculate the P&L associated with the shock spreads of the CDS, with the same forward structure (1, 3, 5, 7, 10 years). Therefore, the new method has been used to calculate capital absorption/RWA starting from the first quarter of 2023. The ECB decision in question also provides for the removal of the 10% IRC add-on. As regards the latter metric, a limitation was actually in place with a 10% add-on on an individual and consolidated basis, until several relative methodological findings were resolved.

Parent Company's Portfolio

Two main types of trading operations can be identified within the Parent Company:

- the investment portfolio, which represents the main source of interest rate risk and equity risk, that are recorded in the accounting category Trading. The bond portfolio was radically derisked in the second half of the year. At the end of 2022, the Parent Company's bond portfolio amounted to a nominal value of only 9 million, almost entirely comprised by foreign government securities. The sensitivity to the overall interest rate risk at the end of the financial year, calculated assuming a parallel change in the interest rate curve of 1 basis point, was approximately +11 thousand euro per b.p., deriving from a net prevalence of short-term exposure on the Euro rate curve. This portfolio also presents a negligible overall exposure to credit spread risk of around -3 thousand euro, considering a 1 basis point shock. In addition to the bond portfolio, there is the price risk component of the equity trading portfolio, which has a small exposure of approximately 7 million;
- the Treasury portfolio contained no securities at the date of the financial statements.

The above-cited risk exposures of the Parent Company are monitored on a daily basis to verify their compliance with the operating thresholds, on the entire portfolio and on the single underlying assets, set by the Board of Directors.

Trading book of Banca Akros, held as part of its Investment Banking activities

Banca Akros holds a trading book, the main interest rate risk exposures of which concern transactions on both money markets and the associated hedging derivatives, as well as those on the markets for OTC derivatives and structured products and listed derivatives.
Transactions in both plain vanilla and structured instruments and listed and unlisted derivatives, including trades on the secondary market of structured products issued or sold by the banks of the Group. The destructuring of complex transactions based on the underlying enables the centralised management of the interest rate, exchange rate and price risks within the specific offices of the Bank's Global Markets Department, which use sophisticated position keeping systems.
Trading in interest rate derivatives mainly consists of optimising the flows generated by the need to hedge interest rate risk by institutional customers (for example, Banks, Funds and Insurance companies), and corporate customers of Banca Akros and the Parent Company, taking on the risk as its own and managing it using dynamic hedging strategies. Banca Akros operates as a market maker on OTC derivatives, mainly on the Euro interest rate curves. The process of rebalancing risks on an ongoing basis entails, also based on market liquidity, the use of trading in regulated futures and the related options on short and medium/long-term interest rates.
Trading in bonds issued by financial companies or corporates, traded on the secondary market (Eurobonds) derives from the need to meet customer requests, mainly from institutional customers. On the secondary market, the Bank operates as a market maker on bonds from corporate, financial and supranational issuers, primarily denominated in Euro, through trading on multilateral trading facilities or OTC.
More specifically, at year-end, net bond exposure, excluding Banco BPM issues, amounted to a nominal value of around 142 million, represented by 136 million in Italian financial securities, 59 million in Corporate bonds, 11 million in Supranational bonds, and a short position in German government bonds (-40 million) and foreign financial bonds (-26 million), the latter mainly comprised by financial CDS Itraxx to hedge the positions in financial securities.
The exposure to credit spread risk totalled approximately -22 thousand euro (net of Banco BPM issues), considering a shock of 1 basis point, deriving mainly from financial securities (credit spread sensitivity: approximately -26 thousand euro), most of which Italian. Instead, the exposure to Italian government bonds at the end of the year was substantially nil, equal to a credit spread sensitivity of around -0.5 thousand euro, considering a shock of 1 basis point.
The sensitivity (delta) to the overall interest rate risk at the end of the year, net of long and short exposures on the various currencies and yield curve nodes, was +104 thousand euro, assuming a parallel change in the interest rate curve of 1 b.p.. The greatest exposure to interest rate risk was recorded on the Euro and USD curves.

The main exposures to equity risk are related to trading on cash markets and associated listed or plain vanilla derivatives, on the derivatives and OTC structured products market and the listed derivatives market.
Specifically, the scope includes portfolios of equities and related listed derivatives, held for trading purposes, for market making transactions on individual stock futures and options and for activities related to specialist services (continuous exposure of proposals to buy/sell), as well as transactions in structured instruments and listed derivatives.
The destructuring of complex operations based on the underlying enables the centralised management of the interest

rate, exchange rate and price risks within the specific offices, which use a sophisticated position keeping system specialised in both interest rate and credit spread sectors as well as in price/exchange rate ones. The system is integrated with pricing models and risk measurement (Greeks) developed in-house by the Financial Engineering function and validated by the Parent Company's Risk Function.
At the end of the year, the overall exposure to the price risk of the equity portfolio is equivalent to a delta equivalent long position of about +3 million, concentrated in the Eurozone (+14 million), USA (-12 million) and Asia (+1 million). With regard to the indicator Vega (sensitivity to changes in the implicit volatility of the underlying), relating to the equity risk class, at the end of 2022 the exposure was a positive +600 thousand euro, considering a parallel shock of 1% on volatility levels. That exposure mainly originates from liquid share indices and Large Cap single stocks.
Lastly, the sensitivity to the dividend risk factor, considering a parallel shock of 10% on the levels of this parameter, was approximately +700 thousand euro at the end of the year, concentrated mainly in the Oil&Gas and Utilities sectors.

Banca Akros' risk to the aforementioned exposures are monitored daily to ensure that the operating limits set by the Board of Directors are complied with for the entire portfolio and for the individual underlying assets.

B. Interest-rate risk and price risk management processes and measurement methods

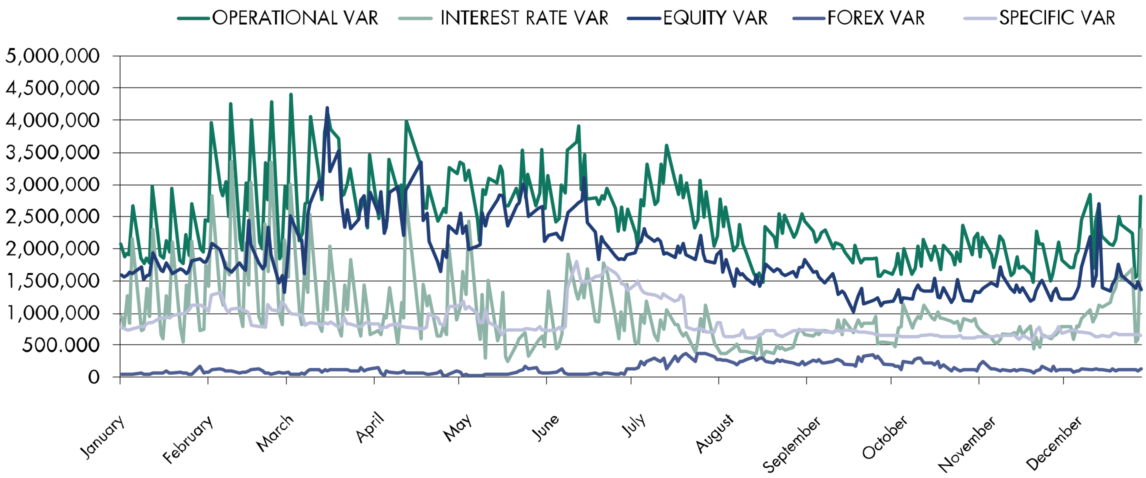
The task of controlling the financial risk management, with a view to identifying the different types of risk, defining the methods to measure the same, to controlling limits at strategic level and verifying the consistency between the operations of the same and the risk/return targets assigned, is centralised in the Parent Company under the responsibility of the Risk Function for all Group banks.
Risk analyses of the Trading book are carried out by means of indicators, both deterministic, such as the sensitivity to market risk factors, and probabilistic, such as VaR (Value at Risk), which measures the maximum potential loss of the portfolio over a certain time horizon and with a given level of confidence.
With respect to the scope of Banco BPM and Banca Akros, risk capital estimates under the VaR approach are made using the historical simulation method, considering a time horizon of one working day and a statistical confidence interval of 99%. VaR is calculated by applying a Lambda coefficient (decay factor) of 0.99, so as to render the estimate more reactive to the most recent changes in market parameters, and by equal-weighting historic observations. The latter coefficient is used, if higher than the VaR calculated with the cited decay factor, in order to estimate the risk.
In addition to the Regulatory VaR calculated under current conditions, a Regulatory VaR under stressed conditions (Stressed VaR) is calculated, which adopts the period between June 2011 and June 2012 for Banca Akros (February 2020 - February 2021 for the Parent Company) as the most severe scenario. The period of stress is monitored with a frequency and a method defined by internal regulations, which enable it to be promptly identified when changes in the composition of the portfolio occur, at the same time guaranteeing a certain degree of stability.
As envisaged by prudential requirements, that model is used to calculate the capital requirement for market risk, as well as for operational purposes.
The operational Value at Risk (VaR) measurement considers the interest rate risk, equity risk, foreign exchange risk and credit spread risk, as well as the benefit of correlation between the risks. Correlation risk and dividend risk are also considered, measured through stress testing techniques, with the benefit of diversification with respect to the first risk group cited.
The capital requirement for supervisory purposes is measured with an internal validated model, for equity risk, exchange rate risk, general interest rate risk and specific credit risk (from November 2020), while it is measured with the standard method for other risk factors (exchange risk of the banking book and commodity risk).

QUANTITATIVE INFORMATION

Regulatory trading book: internal models and other sensitivity analysis methods

The Value at Risk (VaR) measurement considers interest rate risk, equity risk, exchange rate risk and credit spread risk, as well as the benefit of correlation between risks. Correlation risk and dividend risk are also considered, measured through stress testing techniques, with the benefit of diversification with respect to the first risk group cited.
The performance graph and a table containing the operational VaR figures are shown below for 2022, referring to the regulatory trading book of Banco BPM Group.

Daily VaR and VAR by risk factor
BANCO BPM GROUP: TRADING Book



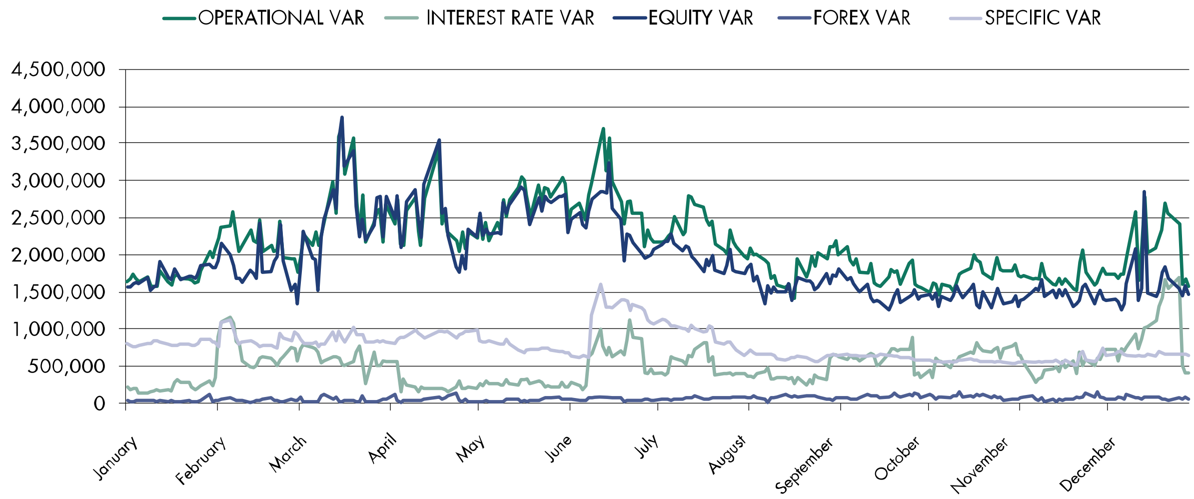
Regulatory trading book *(in millions of euro)*	**2022**			
	30 December	**average**	**maximum**	**minimum**
Interest Rate Risk	2.298	0.976	3.360	0.251
Exchange Rate Risk	0.135	0.139	0.379	0.023
Equity Risk	1.370	1.882	4.196	1.027
Dividend and Correlation Risk	0.543	0.745	1.237	0.379
Specific Debt Securities Risk	0.653	0.858	1.804	0.576
Total uncorrelated	4.999			
Diversification effect	-2.185			
Combined Risk(*)	2.815	2.458	4.394	1.472

(*) Overall operational VAR.

Looking at the graph and the table shown above, it can be noted that the prevailing risk component identified in 2022 was that related to equity risk (with the exception of the peak of interest rate risk at the end of the year due to a technical change of the repo curves at year-end) most of which due to positions of Banca Akros.

The performance graph and a table containing the operational VaR figures are shown below for 2022, referring to the regulatory trading book of Banca Akros.

Daily VaR and VAR by risk factor
BANCA AKROS: TRADING Book



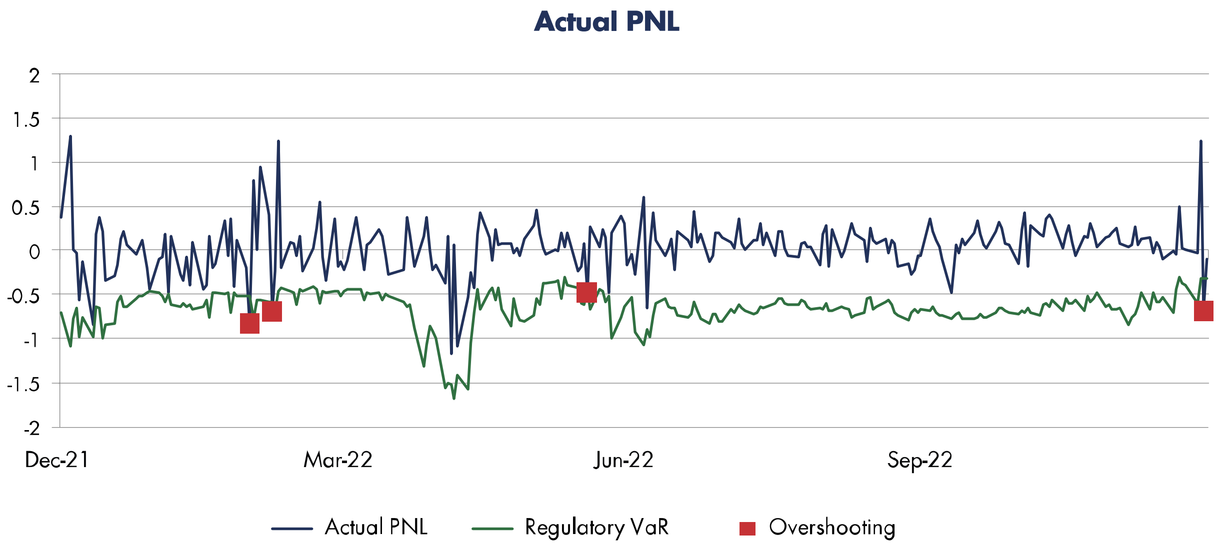
Regulatory trading book *(in millions of euro)*	**2022**			
	30 December	**average**	**maximum**	**minimum**
Interest Rate Risk	0.411	0.519	1.704	0.135
Exchange Rate Risk	0.061	0.065	0.157	0.010
Equity Risk	1.469	1.923	3.862	1.256
Dividend and Correlation Risk	0.595	0.769	1.178	0.480
Specific Debt Securities Risk	0.652	0.778	1.613	0.515
Total uncorrelated	3.187			
Diversification effect	-1.615			
Combined Risk(*)	1.572	2.145	3.741	1.418

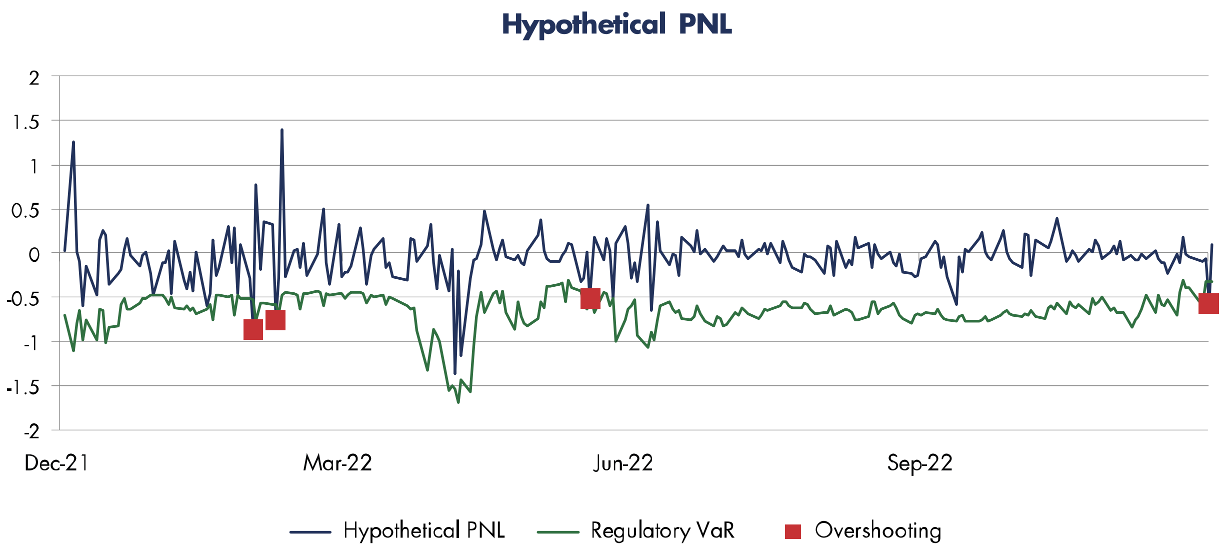
(*) Overall operational VaR.

From the analysis of the graph, the preponderance of equity risk can be noted (with reference to both the delta component and the vega component), deriving from positions in equity instruments, both derivatives and cash. In the second half of the year, the specific risk component on debt securities decreased further.

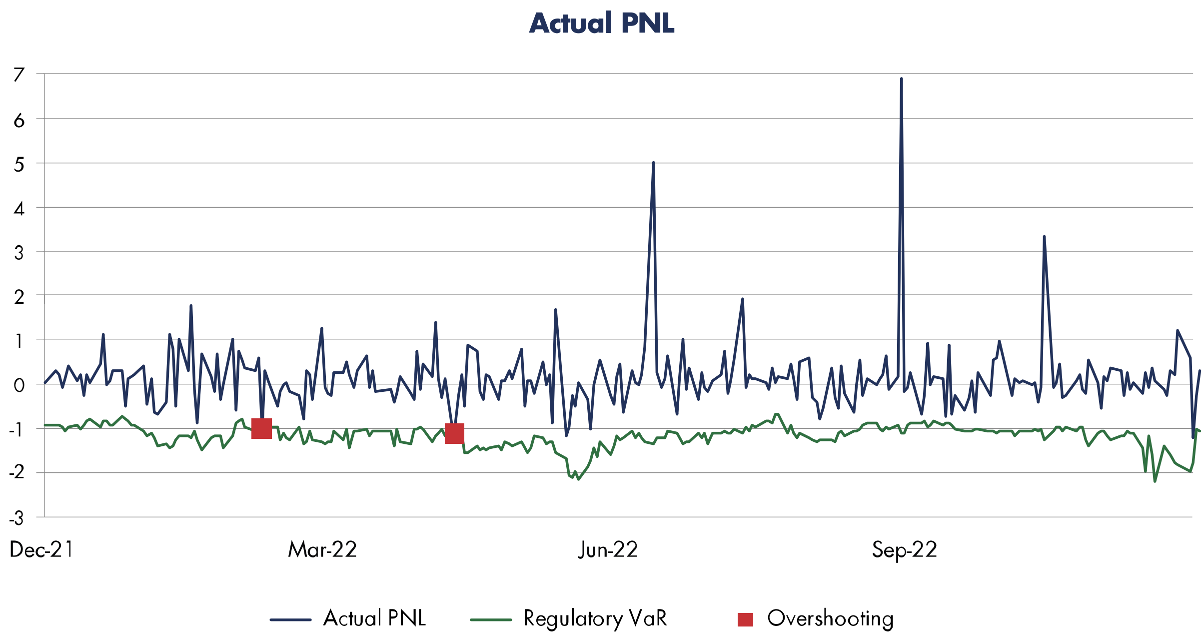
In line with the validation of the internal model for the calculation of the capital requirement relating to market risks, backtesting is conducted on a daily basis, with a view to verifying the solidity of the VaR model adopted. These tests are conducted on the regulatory trading book of Banco BPM and of Banca Akros.
The graphs below show the backtesting relating to the VaR method, calculated on the generic and specific risk components of debt securities and equity securities, interest rate risk and exchange rate risk.
For backtesting purposes, as envisaged by supervisory regulations in force, we used the equally-weighted VaR measurement instead of applying a decay factor used in operational approaches.

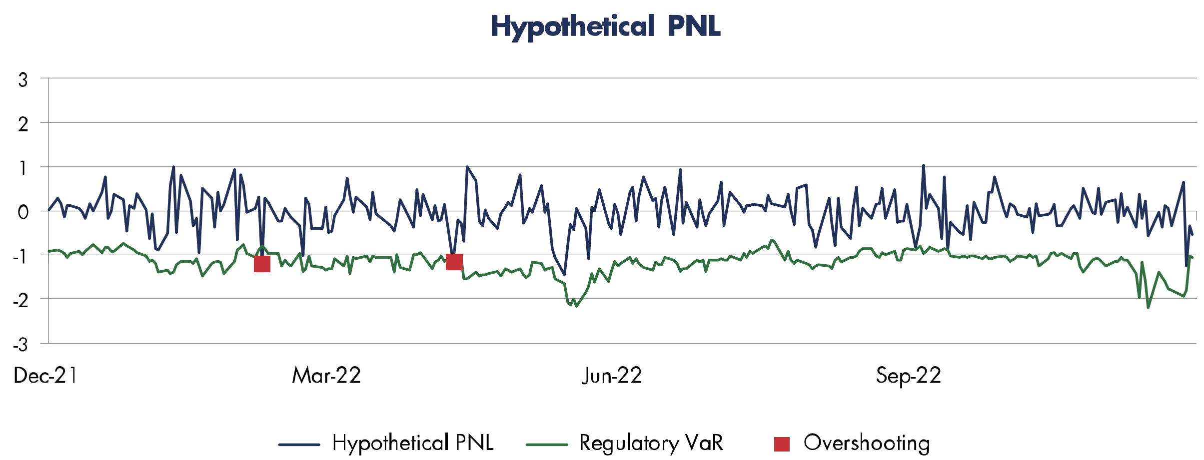
Banco BPM backtesting





Banca Akros backtesting





FRTB (Fundamental Review of the Trading Book)

In recent years, bank regulations regarding the assessment of market risk are undergoing a thorough review. In this regard, in 2012, the Basel Committee launched a consultation process to review the risk framework of the trading book (Fundamental Review of the Trading Book - FRTB). The consultation ended with the adoption by the Basel Committee on Banking Supervision (BCBS), of the "Minimum capital requirements for market risk" (January 2019). On 7 June 2019, the Banking Package was published in the Official Journal of the European Union, represented by the CRR2, CRD5, BRRD2 and SRMR2, which, inter alia, incorporate the initial rules for the implementation of the FRTB defined by the Basel Committee. The package entered into force on 27 June 2019. On 27 October 2021, the European Commission published the package of legislation for implementing Basel 3 Reforms, also known as Basel 4, which marks the last step in the process of implementation of the changes to capital standards through the Capital Requirements Regulation (CRR3) and the Capital Requirements Directive (CRD6). With this package, the European Union has set two main objectives: to implement the proposals of the Basel Committee on Banking Supervision (BCBS) with a view to strengthening the financial stability of the system and to supporting the European Union to ensure that banks are able to continue to finance the economy.
On 8 November 2022, the European Council published a proposal to amend the text of CRR2, making methodological changes to the calculation of the capital requirement for market risk. To date, the proposed amendment is at the second reading of the European Parliament, which, once examined, may approve it or propose

amendments to the Council for a second reading. Reporting on the Standardised Approach continues to be transmitted to the Regulator according to the current reference legislation (CRR2 2019/876) until the date of application of CRR3, expected for 1 January 2025, unless subsequent amendments are made. The publication of CRR3 will also provide information on the start date of the calculation of Pillar I absorption with FRTB requirements.
To guarantee an adequate level of capitalisation of banks against market risk and to take a structured approach to resolving several shortcomings of current legislation that emerged during the crisis, the FRTB Framework has set out the following objectives:

- clear definition of the distinction between the prudential portfolios (trading and banking book) with more stringent restrictions on movement between portfolios;
- radical change of the metrics to measure the capital requirement for market risk according to a more prudent and risk-sensitive approach, distinguishing, inter alia, between the Standardised Approach - SA and the Internal Model Approach - IMA, subject to the approval of the Regulator. Note that the banks authorised to adopt the IMA are required, in any event, to calculate the capital requirement using the SA model; therefore the IMA should be considered complementary to the SA and not an alternative;
- at regulatory level, boosting the monitoring and the management of market risk at trading desk level.

Lastly, from September 2021, the Regulator has envisaged the calculation of market risk according to the SA, before the calculation of the SA capital requirement according to that envisaged by the new FRTB regulation. Since 2020, Banco BPM Group therefore has launched a project on the Fundamental Review of the Trading Book (FRTB), with the assistance of an external consulting company. The organisation of the project, established at Group level, (the project manager is the head of the Risk Models function) with representatives from Banca Akros, envisages 4 main areas of focus (Standardised Model, Internal Model, Operating Model, Reporting) as well as some across-the-board activities (IT implementations and activities that fall within the scope of the Internal Validation and Audit functions). Activities continued in 2021 and 2022 and the main bodies involved in the exchange of information are represented by the Steering Committee (members include the CFO, Heads of Risks, Finance, Organisation, IT, CEO of Banca Akros, other first-line managers, and the external consulting company), which is tasked with identifying strategic decisions, as well as Project/Focus Area and internal alignment Committees, the purpose of which is to report on the state of progress of the project/work and to address priorities at various levels. The aim of this project organisation is to ensure robust governance, which guarantees continuous monitoring and alignment between the functions involved and an activity plan with clear allocation of ownership. The regulatory timeline for FRTB implementation covers a time horizon that is likely to end in 2025 (Pillar 1 absorption with FRTB requirements from January 2025, as per the CRR3 proposal of 27 October 2021), with the first important regulatory deadline for reporting obligations according to the standardised approach, defined in the third quarter of 2021. For said deadline and therefore also for the subsequent quarters, the reports on FRTB-SA requirements were sent.
As regards the Standard model, note that the Supervisory Authority has asked Banco BPM Group to submit a formal application to request authorisation to use its own method to calculate sensitivities, insofar as different to that envisaged by the law, even though it is more accurate (it considers changes in parameters, both downwards and upwards). Banco BPM Group therefore submitted the formal application for authorisation to use its own method to calculate operational sensitivities. The process of submitting the application, which started on 31 May 2021, was finalised when the report of the control functions was sent in November. The documentation sent met the requirements and was considered complete, in fact, in a letter received from the European Central Bank on 7 October 2021, the application was approved.

Outcomes of internal validation activities

Banco BPM Group adopts internal models to quantify capital requirements for Market Risk, on which the Internal Validation function conducts qualitative and quantitative analyses to assess their soundness and the accuracy of the estimates for all significant risk components. Furthermore, it expresses an opinion on the regular functioning, on the predictive capacity, on the performance of internal risk measurement methods and on the adequacy of operating processes to ensure, on a continuous basis, the compliance of internal methods with company needs and the evolution of the reference market.
With reference to backtesting, the data produced to support overruns is analysed, as well as specific statistical tests (Proportion of Failures test, Time Until First Failure test, Christoffersen Interval Forecast test, Mixed Kupiec test and Conditional Coverage test) that are conducted in regard to different portfolio hierarchical levels and time horizons for Banca Akros and the Parent Company. The results of the analyses showed that the model has a good ability to predict the number of backtesting overruns, also taking into account market trends and, in particular, the international tensions that emerged in 2022.

Additionally, the adequacy of the scaling method used to quantify the capital requirement, as required by regulations, was reviewed. The activities conducted did not reveal any underestimation of the risk with respect to the methods used.
To verify the severity of the stressed period used in the Stressed VaR risk measurement, appropriate analyses are carried out to assess any alternative periods that are more conservative than the one currently used to quantify the risk. The analyses showed the adequacy of the stressed period used in the quantification of risk.
On a periodic basis Internal Validation also verifies the robustness of the non-modelled risk framework (RNIME), as required by supervisory regulations. In this area, a general strengthening of the framework should be noted.
As regards MiFiD 2 regulations, the Internal Validation function coordinated the working group created specifically to produce the Annual Validation Report on the Trading Algorithm to be sent to CONSOB (after the assessment of the Audit and Compliance functions), relating to 2022, with an overall result of the self-assessment process considered adequate.
In 2022, tests were also conducted to validate the new standardised approach requested by the Fundamental Review of the Trading Book and the evolutions of the model proposed by the development function and aimed at strengthening the methodological framework for the quantification of risk.

1.2.2 Interest rate risk and price risk - banking book

QUALITATIVE INFORMATION

A. General aspects, management procedures and measurement methods for interest rate risk and price risk

The interest rate risk relating to the banking book is mainly associated with the core activity performed by the bank acting as an intermediary in the process of transformation of maturities. In particular, the issue of fixed-rate bonds, the granting of fixed-rate commercial and mortgage loans, and funding from demand current accounts represent a fair value interest rate risk, while floating-rate financial assets and liabilities represent a cash flow interest rate risk.
The Asset & Liability Management unit of the Parent Company's Finance Function is responsible for managing interest rate risk and operates in compliance with the limits for exposure to interest rate risk defined by the RAF and the indications of the Finance Committee.
The Parent Company's Risk Function is in charge of monitoring and controlling the interest rate risk of the banking book, also for the financial subsidiaries. This activity is performed on a monthly basis to verify that the limits in terms of changes in net interest income or the economic value of the banking book are complied with.
During 2022, the usual periodic maintenance and updating activities were carried out on the internal models, with the transition to the measurement of economic value without a spread in the RAF (previously monitored monthly for management purposes).
In particular, as part of the monitoring of interest rate risk, the risk measures used internally and subject to the RAF limit are:

- the change in expected net interest income (over a twelve-month time horizon in accordance with both a dynamic and a static financial statement perspective) following a parallel shock to the spot interest rate curves that during the year varied from a shock of +/- 40 bps to +/- 80 bps, as envisaged in the RAF 2022, as a result of exceeding the average monthly level of the Euribor with monthly tenors;
- the change in economic value following a parallel shock to spot interest rate curves of +/- 200 bps with relation to Own Funds (capital perspective); furthermore, the value at risk of the banking book based on the VaR (Value at Risk) method over 12 months and with a confidence interval of 99.9% is also monitored as an early warning RAF indicator.

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

In 2022, in these analyses, the TLTRO III take-ups, which are technically one-coupon, were initially modelled as structured transactions, partially at a floating rate, indexed to ECB deposit rates partially already established and including a cap, valid until June 2022, on the overall rate of -1%. Subsequently, as a result of the monetary policy decision of 27 October 2022, these transactions were fully structured at a floating rate. Following this monetary policy decision and the consequent change in the relative duration, during the second half of 2022, the exposure to interest rate risk from a capital perspective rose. At the same time, for the same reasons, there was a reduction in risk exposure from an income perspective.

QUANTITATIVE INFORMATION

1. Banking book: distribution of financial assets and liabilities by residual duration (by repricing date)

Currency of denomination: Euro

Type/Residual duration	On demand	Up to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	From over 5 years to 10 years	Over 10 years	Unlimited duration
1. On-balance sheet assets	**43,394,618**	**47,049,300**	**7,412,170**	**5,223,091**	**23,851,937**	**19,002,888**	**10,051,763**	**1,295**
1.1 Debt securities	115,016	3,190,567	2,423,691	2,448,740	10,594,895	13,056,483	629,946	-
- with early redemption option	13,581	1,192,927	70,560	19,966	612,579	216,909	125,579	-
- other	101,435	1,997,640	2,353,131	2,428,774	9,982,316	12,839,574	504,367	-
1.2 Loans to banks	13,361,041	2,913,344	26,216	15,038	10,740	-	-	-
1.3 Loans to customers	29,918,561	40,945,389	4,962,263	2,759,313	13,246,302	5,946,405	9,421,817	1,295
- current accounts	8,145,260	282,021	14,948	8,522	122,344	1,317	-	-
- other loans	21,773,301	40,663,368	4,947,315	2,750,791	13,123,958	5,945,088	9,421,817	1,295
- with early redemption option	14,974,252	36,624,720	4,624,469	2,502,179	12,193,669	5,869,127	9,356,880	-
- other	6,799,049	4,038,648	322,846	248,612	930,289	75,961	64,937	1,295
2. On-balance sheet liabilities	**105,560,309**	**3,387,803**	**12,007,950**	**3,038,360**	**25,475,719**	**1,058,273**	**288,262**	**-**
2.1 Due to customers	104,074,659	1,028,654	115,889	136,143	402,827	300,913	271,035	-
- current accounts	100,450,760	28,829	14	2	-	18	-	-
- other payables	3,623,899	999,825	115,875	136,141	402,827	300,895	271,035	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	3,623,899	999,825	115,875	136,141	402,827	300,895	271,035	-
2.2 Due to banks	1,353,319	1,406,581	8,830,548	1,982,919	15,563,481	2,871	1,547	-
- current accounts	80,294	-	-	-	-	-	-	-
- other payables	1,273,025	1,406,581	8,830,548	1,982,919	15,563,481	2,871	1,547	-
2.3 Debt securities	132,316	952,568	3,061,513	919,298	9,509,411	754,489	15,680	-
- with early redemption option	50,168	801,878	1,748,984	72	1,630,035	691,664	199	-
- other	82,148	150,690	1,312,529	919,226	7,879,376	62,825	15,481	-
2.4 Other liabilities	15	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	15	-	-	-	-	-	-	-
3. Financial derivatives	**7,018,101**	**26,345,853**	**2,277,411**	**5,177,645**	**20,080,731**	**11,858,417**	**3,900,491**	**-**
3.1 With underlying security	3,228,980	-	6,088	63,463	-	-	-	-
- Options	-	-	6,088	63,463	-	-	-	-
+ Long positions	-	-	3,088	32,497	-	-	-	-
+ Short positions	-	-	3,000	30,966	-	-	-	-
- Other derivatives	3,228,980	-	-	-	-	-	-	-
+ Long positions	1,628,980	-	-	-	-	-	-	-
+ Short positions	1,600,000	-	-	-	-	-	-	-
3.2 Without underlying security	3,789,121	26,345,853	2,271,323	5,114,182	20,080,731	11,858,417	3,900,491	-
- Options	175	45,903	20,198	604	39,540	19,109	7,657	-
+ Long positions	175	45,141	20,122	445	114	57	538	-
+ Short positions	-	762	76	159	39,426	19,052	7,119	-
- Other derivatives	3,788,946	26,299,950	2,251,125	5,113,578	20,041,191	11,839,308	3,892,834	-
+ Long positions	667,000	11,550,335	2,250,500	5,035,300	13,619,946	2,340,385	1,150,000	-
+ Short positions	3,121,946	14,749,615	625	78,278	6,421,245	9,498,923	2,742,834	-
4. Other off-balance sheet transactions	**27,906,593**	**27,906,593**	**-**	**-**	**-**	**-**	**-**	**-**
+ Long positions	27,690,591	216,002	-	-	-	-	-	-
+ Short positions	216,002	27,690,591	-	-	-	-	-	-

Currency of denomination: other currencies

Type/Residual duration	On demand	Up to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	From over 5 years to 10 years	Over 10 years	Unlimited duration
1. On-balance sheet assets	**246,186**	**658,605**	**279,000**	**67,885**	**1,842,215**	**2,149,443**	**-**	**-**
1.1 Debt securities	15,742	128,006	5,629	51,219	1,805,016	2,149,441	-	-
- with early redemption option	454	11,229	-	-	25,687	17,336	-	-
- other	15,288	116,777	5,629	51,219	1,779,329	2,132,105	-	-
1.2 Loans to banks	86,653	4,649	-	-	-	-	-	-
1.3 Loans to customers	143,791	525,950	273,371	16,666	37,199	2	-	-
- current accounts	25,931	-	-	-	-	2	-	-
- other loans	117,860	525,950	273,371	16,666	37,199	-	-	-
- with early redemption option	113,790	225,866	235,768	13,732	34,539	-	-	-
- other	4,070	300,084	37,603	2,934	2,660	-	-	-
2. On-balance sheet liabilities	**1,148,390**	**4,033,540**	**299**	**2,573**	**-**	**-**	**-**	**-**
2.1 Due to customers	1,012,422	676,161	299	698	-	-	-	-
- current accounts	807,725	2,850	299	698	-	-	-	-
- other payables	204,697	673,311	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	204,697	673,311	-	-	-	-	-	-
2.2 Due to banks	135,968	3,357,379	-	1,875	-	-	-	-
- current accounts	1,465	-	-	-	-	-	-	-
- other payables	134,503	3,357,379	-	1,875	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	**140,634**	**1,373,524**	**210,951**	**924,853**	**1,010,920**	**888,993**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	140,634	1,373,524	210,951	924,853	1,010,920	888,993	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	140,634	1,373,524	210,951	924,853	1,010,920	888,993	-	-
+ Long positions	140,634	1,232,890	70,317	831,097	-	-	-	-
+ Short positions	-	140,634	140,634	93,756	1,010,920	888,993	-	-
4. Other off-balance sheet transactions	**442,557**	**452,968**	**150**	**-**	**-**	**-**	**-**	**-**
+ Long positions	442,557	5,131	150	-	-	-	-	-
+ Short positions	-	447,837	-	-	-	-	-	-

2. Banking book: internal models and other sensitivity analysis methods

The Group makes use of an Asset & Liability Management procedure to measure on a monthly basis the impact ("sensitivity") from changes in the interest rate structure on the economic value of capital related to the banking book. With regard to the expected financial margin, the ALM system estimates its changes on a one-year horizon in the assumption of deterministic shocks of the interest rate curves (bps increases/decreases applied to all the interest rate curves as if it were a sudden, single and parallel change), and shocks to adjust to the forward rates implied in money market rates, and again shocks from projections that reflect alternative scenarios. Estimates are based on the assumption that the capital structure remains unchanged in terms of aggregate assets and liabilities, as well as in terms of financial characteristics (rates, spreads, duration).

With regard to the economic value of capital, the same assumptions on the interest rate curve changes are applied, measuring the change in present value of all transactions and comparing it with the value of Own Funds.
For the purposes of sensitivity analyses, risk measurement metrics are monitored by applying a floor to the development of rates which, however, is currently not relevant in the face of a market scenario characterised by a sudden increase in risk-free rates after years of negative interest rates.

The table below shows exposure to interest rate risk at the end of 2022, in accordance with operational risk measurements.

Risk ratios (%)	2022				2021	
	31 December	average	maximum	minimum	31 December	average
For shift + 100 bps						
Financial margin at risk/Financial margin	4.8%	16.6%	26.0%	4.8%	22.7%	23.3%
For shift - 100 bps (EBA floor)						
Financial margin at risk/Financial margin	-6.4%	-14.9%	-6.4%	-24.4%	-8.5%	-6.4%
For shift + 100 bps						
Economic value at risk/Economic value of capital	-5.4%	-3.5%	-1.4%	-6.2%	-0.2%	-0.2%
For shift - 100 bps (EBA floor)						
Economic value at risk/Economic value of capital	1.1%	0.2%	3.1%	-2.5%	0.4%	0.6%

With reference to the banking book, the Group also assesses the exposure to default and migration risk of the rating classes of the debt securities classified as HTCS and HTC using a method which involves calculating the VaR spread and the Incremental Default Risk (IDR), to take into consideration the Default component of the HTCS portfolio and the Incremental Risk Charge to capture the Rating Migration component of the HTC portfolio.

Outcomes of internal validation activities

Banco BPM Group adopts behavioural models in order to capture idiosyncratic elements of customer segments and produce rate risk estimates that are more appropriate to the characteristics of the banking book. In this context, Internal Validation carries out reperforming, benchmarking and backtesting analyses in order to verify the robustness of rate risk estimates. The analyses carried out in 2022 did not highlight any particular aspects of improvement.

1.2.3 Exchange rate risk

QUALITATIVE INFORMATION

General aspects, management procedures and measurement methods for exchange rate risk

As the Group's Corporate & Investment Bank, Banca Akros, given its specific business model and, in particular, as regards the exchange risk generated by the trading book, has centralised the management of the same with the Forex & Commodities Unit.
The total exposure for Banca Akros as at 31 December 2022, adding all the exchange rate positions against the Euro, was around +7.6 million euro (long foreign currency, short euro), concentrated mainly in the USD (US Dollar, exposure: +9.8 million euro), CHF (Swiss Franc, exposure: -660 thousand euro), GBP (British Pound, exposure: -590 thousand euro) and HKD (Hong King Dollar, exposure: -530 thousand euro).
Regarding the methods for measuring and controlling the exchange rate risk generated by the trading book, please refer to the method described in the "Interest rate risk and price risk - Regulatory trading book" section.
With regard to calculation of capital requirements, note that, with the Final Decision on 16 November 2020, the Supervisory Authority made the authorisation to extend the exchange rate risk of the banking book subject to a condition (therefore it will take effect only after fulfilling several relative obligations, following certification by the company control functions and the Supervisory Authority in question). However, as at 31 December 2022, the Banking Book of Banca Akros had no exposure to exchange rate risk.

B. Exchange rate risk hedging

Exchange rate risk exposures are monitored on a daily basis and are hedged by the various desks so as to meet the risk limits defined by the Group.
The Money Market & Forex Unit, where the management of the Parent Company's exchange rate risk is centralised, hedges currency exposures both relating to other desks and to its own market making activities, with a view to the unitary and dynamic management of exchange rate risk and exchange rate volatility "on the book", thus with the possibility to carry out hedging "upstream" and to assume risks within the preset limits defined by the internal policies.

QUANTITATIVE INFORMATION

The table below shows the distribution, by currency, of the assets, liabilities and derivatives of the Group, based on the rules for preparation envisaged by Bank of Italy Circular no. 262.

In this regard, note that the imbalance resulting from the above-mentioned distribution does not necessarily represent the Group's actual foreign exchange position, as can be inferred from operational risk results. This mainly results from the fact that the table includes certain instruments in foreign currency, operationally related to other instruments which, however, are not subject to exposure as they are denominated in euro, although a part of the cash flows depends on exchange rate risk.

1. Breakdown by currency of assets and liabilities and of derivatives

Items	Currencies					
	USD	JPY	GBP	CHF	CNY	OTHER
A. Financial assets	**5,756,144**	**166,610**	**40,713**	**97,840**	**18,998**	**177,883**
A.1 Debt securities	4,108,888	-	-	43,165	-	9,330
A.2 Equity instruments	627,475	161,907	34,032	39,226	3,710	139,144
A.3 Loans to banks	45,906	3,037	4,910	4,092	10,104	24,993
A.4 Loans to customers	973,875	1,666	1,771	11,357	5,184	4,416
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**45,879**	**5,170**	**17,726**	**14,084**	**9**	**15,290**
C. Financial liabilities	**4,941,582**	**31,461**	**92,867**	**32,307**	**6,072**	**81,609**
C.1 Due to banks	3,444,258	12,441	483	96	-	38,579
C.2 Due to customers	1,497,324	19,020	92,384	31,978	6,072	43,030
C.3 Debt securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	233	-	-
D. Other liabilities	**27,241**	**26**	**2,370**	**-1,061**	**897**	**3,633**
E. Financial derivatives						
- Options						
+ Long positions	147,417	-	304	5,368	-	1,156
+ Short positions	212,298	4,906	1,342	1,346	5,423	585
- Other derivatives						
+ Long positions	20,373,582	314,940	327,870	13,206	44,149	103,035
+ Short positions	20,975,477	285,412	275,190	86,450	46,559	82,687
Total assets	**26,323,022**	**486,720**	**386,613**	**130,498**	**63,156**	**297,364**
Total liabilities	**26,156,598**	**321,805**	**371,769**	**121,164**	**58,951**	**168,514**
Imbalance (+/-)	**166,424**	**164,915**	**14,844**	**9,334**	**4,205**	**128,850**

2. Internal models and other sensitivity analysis methods

The exchange rate risks generated by the trading book and the banking book are monitored through an internal VaR model illustrated in the "Interest rate risk and price risk - Regulatory trading book" section, where the values assumed by this indicator are shown.

1.3 Derivative instruments and hedging policies

Derivative instruments

With regard to derivative transactions, Banco BPM Group has introduced specific and robust validation and control processes of the pricing models and related market parameters.

Validation and control process of Market Parameters

Banco BPM Group adopted a Fair Value Policy defining the accounting rules to be used to value market parameters. To comply with this Policy, a strict process was put in place to count, validate and control the market parameters used to measure the market value and to estimate the risk of derivative positions. This process is implemented by the Parent Company’s Risk Function and envisages, in particular:

- the constant update of the Parameter Manual, containing the main parameters used and their most significant features, and the definition of the source;
- the constant update of parameter control methods;
- the daily validation and control of the listed parameters, automatically fed by external infoproviders;
- the daily validation and control of illiquid parameters, from an accounting and operational perspective.

In order to support control activities, the Group introduced an advanced application system (fed by the front office system and, for benchmarking purposes, by alternative and highly specialised infoproviders) to monitor the performance of the parameters over time, featuring the statistical analysis of variations and operating warnings.

Validation and control process of Pricing Models of OTC derivative products

Banco BPM Group works with OTC derivative instruments using, for the purposes of their valuation, quantitative pricing models in line with market best practices, which are already included in the Front Office application or, for special structures, models developed by the financial engineering department of the Investment Bank.
In order to ensure a precise and strict control over the adoption of new pricing models - be they market or in-house developed models - a validation process is in place, with the following features:

- the validation of the models carried out by the Market Risk Unit of the Risk Function;
- model validation based on strict consistency and robustness tests, conducted with the support of academic experts;
- the official validation of the new pricing models by the Parent Company's Risk Committee and, when this involves a new product, also by the Product Innovation Committee with the involvement of the main members of corporate management.

Note that, based on the current prudential policy pursued by the Group, innovative financial instruments can be entered only after a thorough analysis of the reliability and accuracy of their pricing models.

The table below gives the fair value amount of Banca Akros’ positions in derivative financial instruments (with the exclusion of forward exchange contracts), in relation to the type of pricing model used. Note that Banca Akros, in its role as the investment bank of Banco BPM Group, manages the market risk that derives from its overall transactions in derivative financial instruments.

Aggregate *(fair value in thousands of euro)*		**Number of contracts/lots (in units)**	**Fair Value**	**Positive Fair Value**	**Negative Fair Value**
Total		**228,660**	**787,030,441**	**1,689,533,937**	**(902,503,496)**
of which:	Listed/Quoted Derivatives	225,010	22,755,877	132,752,377	(109,996,500)
of which:	Certificates valued using internal models developed by the financial engineering department of Banca Akros	91	(143,018,179)	-	(143,018,179)
of which:	OTC derivatives valued using the proprietary models of the Front Office system	568	27,568,657	36,293,113	(8,724,456)
of which:	OTC derivatives valued using internal models developed by the financial engineering department of Banca Akros	2,989	879,296,732	1,520,061,093	(640,764,361)
of which:	OTC derivatives valued using external contributors	2	427,354	427,354	-

OTC financial and credit derivatives: counterparty risk/financial risk – Internal models

With regard to counterparty risk, defined as the risk that the counterparty in a transaction defaults before the final settlement of the cash flows of such transaction (Regulation (EU) no. 575/2013), for supervisory reporting purposes, the Group uses standard methods to calculate exposures on the entire reference scope (derivatives, repurchase agreements, securities lending and medium- and long-term loans).

From June 2021 the new standard SA-CCR methodology entered into force for calculating exposure to counterparty risk on transactions in derivatives (Ref. Regulation (EU) 2019/876).
The new standard method replaces the previous Market Value approach, and makes it possible to calculate capital requirements which better reflect the risks linked to transactions in derivatives.
Membership of Clearing Houses for operations in OTC Derivatives and Credit Derivatives has enabled the mitigation of risks.

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

- own funds for the CVA Risk through the adoption of the standardised method, as established by (EU) Regulation no. 575/2013 for banks that are not authorised to use the internal model method (IMM) for counterparty risk or the IMM for Incremental Risk Charge (IRC);
- exposures relating to operations with Qualifying Central Counterparties (QCCP) by adopting the methods envisaged by Arts. 306-308 of Regulation (EU) no. 575/2013.

As regards this type of risk, for management purposes and to provide support for capital adequacy assessment processes (ICAAP process), the Parent Company and Banca Akros also use an internal method to estimate exposures to the risk of possible default of counterparties in OTC derivative transactions subject to Collateral Agreements (CSA).
The above-mentioned simplified simulative method, called the "Shortcut Method" estimates exposures on the basis of possible changes of the Mark to Market of the individual contracts underlying the same reference CSA, on a time horizon given by the "risk margin period" that characterises each contract. The measurement is also implemented in the Parent Company and Banca Akros lending process chain, together with a daily monitoring and reporting system.
For the remainder of the exposures to derivatives, the exposure is estimated with the standard methodology which is also used for Supervisory reporting purposes.

Furthermore, the Group has met the obligation envisaged by European Legislation (Delegated Regulation (EU) no. 2016/2251), by exchanging, based on the relative contracts (CTA - Collateral Transfer Agreement), the initial margins of OTC derivatives not cleared by a central counterparty, which provide additional protection in the event that one of the two counterparties is not able to meet its commitments over the life of the contract.
Banco BPM Group uses the SIMM method, whose calculation is mostly risk-sensitive, and is based on aggregate sensitivities by risk and product category.

1.3.1 Trading derivative instruments

A. FINANCIAL DERIVATIVES

A.1 Trading financial derivatives: year-end notional values

Underlying assets/Derivative types	Total 31/12/2022				Total 31/12/2021			
	Over the Counter			Organised markets	Over the Counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting arrangements	Without netting arrangements			With netting arrangements	Without netting arrangements	
1. Debt securities and interest rates	42,389,484	39,099,959	14,606,813	16,251	37,085,821	37,208,379	15,243,424	1,425,919
a) Options	-	25,743,058	1,826,404	-	-	22,849,540	2,268,340	14,324
b) Swaps	42,389,484	13,356,901	10,694,509	-	37,085,821	14,358,839	11,097,296	-
c) Forwards	-	-	165,000	-	-	-	78,000	-
d) Futures	-	-	1,920,900	16,251	-	-	1,799,788	1,411,595
e) Other	-	-	-	-	-	-	-	-
2. Equity instruments and share indices	-	9,574,472	1,312,282	750,897	-	10,882,157	1,409,667	1,134,792
a) Options	-	9,574,472	939,533	693,371	-	10,882,157	968,990	1,102,154
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	372,749	57,526	-	-	440,677	32,638
e) Other	-	-	-	-	-	-	-	-
3. Currencies and gold	-	40,551,085	1,150,304	-	-	28,279,994	1,380,863	-
a) Options	-	254,749	318,959	-	-	57,793	316,632	-
b) Swaps	-	-	-	-	-	3,890	16,267	-
c) Forwards	-	40,296,336	826,419	-	-	28,218,311	1,032,915	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	4,926	-	-	-	15,049	-
4. Commodities	-	138,478	9,404	-	-	80,511	14,262	-
5. Other	-	-	-	-	-	-	-	-
Total	**42,389,484**	**89,363,994**	**17,078,803**	**767,148**	**37,085,821**	**76,451,041**	**18,048,216**	**2,560,711**

A.2 Trading financial derivatives: gross positive and negative fair value - breakdown by products

Derivative types	Total 31/12/2022				Total 31/12/2021			
	Over the Counter			Organised markets	Over the Counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting arrangements	Without netting arrangements			With netting arrangements	Without netting arrangements	
1. Positive fair value								
a) Options	-	711,589	16,165	32,482	-	861,792	25,514	59,666
b) Interest rate swaps	1,469,731	511,515	3,392	-	344,233	273,266	119,470	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	807,593	27,537	-	-	604,711	8,082	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	2,507	331	-	-	31,620	8,279	-
Total	**1,469,731**	**2,033,204**	**47,425**	**32,482**	**344,233**	**1,771,389**	**161,345**	**59,666**
2. Negative fair value								
a) Options	-	663,441	214,999	26,021	-	636,046	193,276	29,350
b) Interest rate swaps	870,745	338,121	733,265	-	417,310	361,161	34,845	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	772,678	11,634	-	-	577,384	9,963	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	3,284	105	-	-	35,553	3,848	-
Total	**870,745**	**1,777,524**	**960,003**	**26,021**	**417,310**	**1,610,144**	**241,932**	**29,350**

A.3 OTC trading financial derivatives: notional values, gross positive and negative fair value by counterparties

Underlying assets	Central counterparties	Banks	Other financial companies	Other entities
Contracts not included in netting arrangements				
1) Debt securities and interest rates				
- notional value	X	2,095,900	423,202	12,087,711
- positive fair value	X	-	309	8,944
- negative fair value	X	-	19,805	770,166
2) Equity instruments and share indices				
- notional value	X	372,749	30,992	908,541
- positive fair value	X	-	3,116	3,824
- negative fair value	X	-	148	155,703
3) Currencies and gold				
- notional value	X	319,765	4,926	825,613
- positive fair value	X	14,395	14	16,507
- negative fair value	X	3,345	92	10,732
4) Commodities				
- notional value	X	2,542	-	6,862
- positive fair value	X	-	-	316
- negative fair value	X	-	-	12
5) Other				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts included in netting arrangements				
1) Debt securities and interest rates				
- notional value	42,389,484	25,942,340	10,558,201	2,599,418
- positive fair value	1,469,731	417,816	371,290	40
- negative fair value	870,745	187,006	92,724	156,537
2) Equity instruments and share indices				
- notional value	-	5,898,096	3,676,376	-
- positive fair value	-	291,291	136,516	-
- negative fair value	-	240,560	318,962	-
3) Currencies and gold				
- notional value	-	36,537,429	3,718,529	295,127
- positive fair value	-	714,243	93,340	3,375
- negative fair value	-	697,122	74,698	3,648
4) Commodities				
- notional value	-	45,101	32,316	61,061
- positive fair value	-	2,075	1,105	2,113
- negative fair value	-	1,732	1,290	3,245
5) Other				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Residual life of OTC financial derivatives: notional values

Underlying/Residual life	Up to 1 year	From over 1 year to 5 years	Over 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	37,108,093	48,913,914	10,074,249	96,096,256
A.2 Financial derivatives on equity instruments and share indices	3,836,936	6,830,820	218,998	10,886,754
A.3 Financial derivatives on currencies and gold	41,563,390	137,999	-	41,701,389
A.4 Financial derivatives on commodities	147,743	139	-	147,882
A.5 Other financial derivatives	-	-	-	-
Total 31/12/2022	**82,656,162**	**55,882,872**	**10,293,247**	**148,832,281**
Total 31/12/2021	**62,951,591**	**56,827,761**	**11,805,726**	**131,585,078**

B. CREDIT DERIVATIVES

B.1 Trading credit derivatives: year-end notional values

Transaction categories	Trading derivatives	
	on a single party	on several parties (basket)
1. Protection bought		
a) Credit default products	-	70,000
b) Credit spread products	-	-
c) Total rate of return swaps	-	-
d) Other	-	-
Total 31/12/2022	**-**	**70,000**
Total 31/12/2021	**-**	**84,000**
2. Protection sold		
a) Credit default products	-	-
b) Credit spread products	-	-
c) Total rate of return swaps	-	-
d) Other	-	-
Total 31/12/2022	**-**	**-**
Total 31/12/2021	**-**	**-**

B.2 Trading credit derivatives: gross positive and negative fair value - breakdown by products

Derivative types	Total 31/12/2022	Total 31/12/2021
1. Positive fair value		
a) Credit default products	411	139
b) Credit spread products	-	-
c) Total rate of return swaps	-	-
d) Other	-	-
Total	**411**	**139**
2. Negative fair value		
a) Credit default products	142	2,151
b) Credit spread products	-	-
c) Total rate of return swaps	-	-
d) Other	-	-
Total	**142**	**2,151**

B.3 OTC trading credit derivatives: notional values, gross (positive and negative) fair value by counterparty

	Central counterparties	Banks	Other financial companies	Other entities
Contracts not included in netting arrangements				
1) Protection bought				
– notional value	X	-	-	-
– positive fair value	X	-	-	-
– negative fair value	X	-	-	-
2) Protection sold				
– notional value	X	-	-	-
– positive fair value	X	-	-	-
– negative fair value	X	-	-	-
Contracts included in netting arrangements				
1) Protection bought				
– notional value	40,000	30,000	-	-
– gross positive fair value	318	93	-	-
– gross negative fair value	117	25	-	-
2) Protection sold				
– notional value	-	-	-	-
– gross positive fair value	-	-	-	-
– gross negative fair value	-	-	-	-

B.4 Residual life of OTC trading credit derivatives: notional values

Underlying/Residual life	Up to 1 year	From over 1 year to 5 years	Over 5 years	Total
1 Protection sold	-	-	-	-
2 Protection bought	-	70,000	-	70,000
Total 31/12/2022	**-**	**70,000**	**-**	**70,000**
Total 31/12/2021	**-**	**84,000**	**-**	**84,000**

B.5 Credit derivatives connected with the fair value option: annual changes

This case is not present for the Group; thus the relevant table has been omitted.

1.3.2 Hedge accounting

QUALITATIVE INFORMATION

A. Fair value hedging

The management of interest rate risk in the Banking Book is carried out centrally by the Parent Company within a specific delegated department, and the primary objective of management decisions is to mitigate the rebalancing of the dynamics of economic value volatility with the volatility of net interest income as the market rate curve changes, in accordance with the provisions of specific regulations (BCBS, EBA and the Bank of Italy).
The Group utilises an integrated Asset Liability Management (ALM) system with the aim of calculating the risk measurements that also include the use of behavioural models and measures, and management tends to pursue a natural compensation for the risks generated by the gaps in liabilities and assets. The items for which hedges are present are above all on-demand items, bond issues, mortgage loans and the securities portfolio.
In regard to the accounting of these hedging relationships:

- demand items are hedged through fair value hedges;

- bonds placed with ordinary customers are hedged via the fair value option, while fair value hedging is used for bonds placed with institutional investors;
- the securities portfolio is usually hedged through fair value hedges (or, in some specific cases, cash flow hedges);
- loans are hedged through fair value hedges.

For further details, please refer to "Section A.2 – Key financial statement items" in Part A of these Notes to the consolidated financial statements.

The price risk of the alternative asset portfolio is monitored on a daily basis and is not hedged.

B. Cash flow hedging

Cash flow hedges are extremely limited and only concern certain securities on the balance sheet (these are mainly inflation-linked securities).

C. Foreign investment hedging

The only foreign investment hedges made by the Group concern the interest held by Banca Aletti in the subsidiary Banca Aletti & C. (Suisse) S.A., in which the book value is expressed in a currency other than euro (Swiss francs). In the separate financial statements, the hedge directly refers to the interest recorded in Banca Aletti's financial statements, while at the consolidated financial statement level, following on from a process of consolidation, the hedge regards the assets and liabilities of the aforementioned subsidiary.

D. Hedging instruments

The main sources of ineffectiveness that could change the hedging relationship during the period of validity are as follows:

- misalignment of the derivative and the hedged underlying recorded on initial designation or subsequently generated, as in the case of repurchases of bond loans;
- inclusion in the effectiveness test of the value of the variable leg of the hedging derivative, in the case of fair value hedges.

During the year, no conditions arose that determined hedge ineffectiveness.

During the year, the Group did not implement any dynamic hedging, as defined by IFRS 7, paragraph 23C.

E. Hedged items

Regarding the hedged risks and the relative hedging instruments used, please refer to previous points A and B.
As outlined in Part A of these Notes to the Consolidated Financial Statements, the derivatives can be designated as hedges, provided that the hedging relationship between the hedged instrument and the hedging instruments is formally documented and it is 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.
Subsequent to initial recognition with reference to the partial or total ineffectiveness of the hedging relationships:

- 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 the income statement;

- 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".

QUANTITATIVE INFORMATION

A. FINANCIAL HEDGING DERIVATIVES

A.1 Financial hedging derivatives: year-end notional values

Underlying assets/ Derivative types	Total 31/12/2022				Total 31/12/2021			
	Over the Counter			Organised markets	Over the Counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting arrangements	Without netting arrangements			With netting arrangements	Without netting arrangements	
1. Debt securities and interest rates	**13,250,704**	**24,201,791**	**500,000**	**-**	**15,909,028**	**13,421,874**	**2,100,000**	**-**
a) Options	-	205,000	-	-	-	205,000	-	-
b) Swaps	13,250,704	23,975,753	500,000	-	15,909,028	10,373,833	2,100,000	-
c) Forwards	-	21,038	-	-	-	2,843,041	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity instruments and share indices	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Currencies and gold	**-**	**-**	**28,980**	**-**	**-**	**-**	**28,659**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	28,980	-	-	-	28,659	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
5. Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**13,250,704**	**24,201,791**	**528,980**	**-**	**15,909,028**	**13,421,874**	**2,128,659**	**-**

A.2 Financial hedging derivatives: gross positive and negative fair value - breakdown by products

Derivative types	Positive and negative fair value							
	Total 31/12/2022				Total 31/12/2021			
	Over the Counter			Organised markets	Over the Counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting arrangements	Without netting arrangements			With netting arrangements	Without netting arrangements	
Positive Fair Value								
a) Options	-	-	-	-	-	-	-	-
b) Interest rate swaps	855,500	1,399,366	-	-	91,581	104,390	6,858	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	696	-	-	-	15,756	-	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	**855,500**	**1,400,062**	**-**	**-**	**91,581**	**120,146**	**6,858**	**-**
Negative Fair Value								
a) Options	-	-	-	-	-	33	-	-
b) Interest rate swaps	538,986	946,433	536	-	171,765	146,606	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	-	1,455	-	-	19	1,131	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	**538,986**	**946,433**	**1,991**	**-**	**171,765**	**146,658**	**1,131**	**-**

A.3 OTC financial hedging derivatives: notional values, gross positive and negative fair value by counterparty

Underlying assets	Central counterparties	Banks	Other financial companies	Other entities
Contracts not included in netting arrangements				
1) Debt securities and interest rates				
- notional value	X	500,000	-	-
- positive fair value	X	-	-	-
- negative fair value	X	536	-	-
2) Equity instruments and share indices				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Currencies and gold				
- notional value	X	28,980	-	-
- positive fair value	X	-	-	-
- negative fair value	X	1,455	-	-
4) Commodities				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts included in netting arrangements				
1) Debt securities and interest rates				
- notional value	13,250,704	22,080,071	2,121,720	-
- positive fair value	855,500	1,435,786	(35,724)	-
- negative fair value	538,986	892,671	53,762	-
2) Equity instruments and share indices				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Currencies and gold				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Commodities				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other	-	-	-	-
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Residual life of OTC financial hedging derivatives: notional values

Underlying/Residual life	Up to 1 year	From over 1 year to 5 years	Over 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	1,418,061	19,968,421	16,566,013	37,952,495
A.2 Financial derivatives on equity instruments and share indices	-	-	-	-
A.3 Financial derivatives on currencies and gold	28,980	-	-	28,980
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31/12/2022	**1,447,041**	**19,968,421**	**16,566,013**	**37,981,475**
Total 31/12/2021	**5,626,813**	**14,114,208**	**11,718,540**	**31,459,561**

B. CREDIT HEDGING DERIVATIVES

B.1 Credit hedging derivatives: year-end notional values

This case is not present for the Group; thus the relevant table has been omitted.

B.2 Credit hedging derivatives: gross positive and negative fair value - breakdown by products

This case is not present for the Group; thus the relevant table has been omitted.

B.3 OTC credit hedging derivatives: notional values, gross positive and negative fair value by counterparty

This case is not present for the Group; thus the relevant table has been omitted.

B.4 Residual life of OTC credit hedging derivatives: notional values

This case is not present for the Group; thus the relevant table has been omitted.

C. NON-DERIVATIVE HEDGING INSTRUMENTS

C.1 Hedging instruments other than derivatives: breakdown by accounting portfolio and hedge type

This case is not present for the Group; thus the relevant table has been omitted.

D. HEDGED INSTRUMENTS

D.1 Fair value hedges

	Micro hedges: book value	Micro hedges - net positions: book value of assets or liabilities (before netting)	Micro hedges			Macro hedges: Book value
			Accumulated changes in the fair value of the hedged instrument	Termination of the hedge: residual accumulated changes in fair value	Changes in value used to calculate hedge ineffectiveness	
A. Assets						
1. Financial assets measured at fair value through other comprehensive income – hedging of:	**5,351,269**	**-**	**(749,501)**	**-**	**-**	**-**
1.1 Debt securities and interest rates	5,351,269	-	(749,501)	-	-	X
1.2 Equity instruments and share indices	-	-	-	-	-	X
1.3 Currencies and gold	-	-	-	-	-	X
1.4 Loans	-	-	-	-	-	X
1.5 Other	-	-	-	-	-	X
2. Financial assets at amortised cost - hedging of:	**8,636,413**	**-**	**(1,010,672)**	**-**	**-**	**5,476,138**
1.1 Debt securities and interest rates	8,636,413	-	(1,010,672)	-	-	X
1.2 Equity instruments and share indices	-	-	-	-	-	X
1.3 Currencies and gold	-	-	-	-	-	X
1.4 Loans	-	-	-	-	-	X
1.5 Other	-	-	-	-	-	X
Total 31/12/2022	**13,987,682**	**-**	**(1,760,173)**	**-**	**-**	**5,476,138**
Total 31/12/2021	**16,327,178**	**-**	**(55,707)**	**-**	**-**	**2,875**
B. Liabilities						
1. Financial liabilities at amortised cost - hedging of:	**2,913,218**	**-**	**(258,001)**	**-**	**-**	**11,386,000**
1.1 Debt securities and interest rates	2,913,218	-	(258,001)	-	-	X
1.2 Currencies and gold	-	-	-	-	-	X
1.3 Other	-	-	-	-	-	X
Total 31/12/2022	**2,913,218**	**-**	**(258,001)**	**-**	**-**	**11,386,000**
Total 31/12/2021	**1,538,986**	**-**	**(6,694)**	**-**	**-**	**(47,812)**

D.2 Cash flow hedges and foreign investment hedges

	Changes in value used to calculate hedge ineffectiveness	Hedging reserves	Termination of the hedge: residual value of the hedging reserves
A. Cash flow hedges			
1. Assets	**-**	**27,655**	**-**
1.1 Debt securities and interest rates	-	27,655	-
1.2 Equity instruments and share indices	-	-	-
1.3 Currencies and gold	-	-	-
1.4 Loans	-	-	-
1.5 Other	-	-	-
2. Liabilities	**-**	**-**	**-**
1.1 Debt securities and interest rates	-	-	-
1.2 Currencies and gold	-	-	-
1.3 Other	-	-	-
Total (A) 31/12/2022	**-**	**(27,655)**	**-**
Total (A) 31/12/2021	**-**	**(16,416)**	**-**
B. Foreign investment hedges	**X**	**(1,475)**	**-**
Total (A+B) 31/12/2022	**-**	**(29,130)**	**-**
Total (A+B) 31/12/2021	**-**	**(17,019)**	**-**

E. EFFECTS OF HEDGING TRANSACTIONS ON SHAREHOLDERS' EQUITY

E.1 Reconciliation of shareholders' equity components

	Cash flow hedging reserve					Foreign investment hedging reserve				
	Debt securities and interest rates	Equity instruments and share indices	Currencies and gold	Loans	Other	Debt securities and interest rates	Equity instruments and share indices	Currencies and gold	Loans	Other
Opening balance	**(16,416)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Fair value changes (effective portion)	(16,789)	-	-	-	-	-	-	-	-	-
Reclassifications to income statement	-	-	-	-	-	-	-	-	-	-
of which: future transactions no longer expected	-	-	-	-	-	X	X	X	X	X
Other changes	5,550	-	-	-	-	-	-	-	-	-
of which: transfers at the initial book value of hedged instruments	-	-	-	-	-	X	X	X	X	X
Closing balance	**(27,655)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

The table relating to Hedging instruments (non-designated items) is omitted as the category is not present for the Group.

F. Disclosure envisaged by IFRS 7 relating to the reform of benchmark rates

Information on risks and related hedging policies - derivative instruments and hedging policies

Hedge accounting

Paragraph 24H of standard IFRS 7, introduced by Regulation no. 34 of 15 January 2020, requires a specific disclosure on the uncertainties resulting from the reform of benchmark rates relating to the calculation of interest rates on hedges and the notional value of the hedging instruments potentially impacted by the reform of benchmark rates to be provided. In this regard, note that during the year, all contracts indexed to EONIA interest rates (Euro

OverNight Index Average), including those designated in hedge accounting relationships stipulated with the central counterparty London Clearing House (LCH).
The notional value of the remaining hedging contracts potentially impacted amounted to 1,360 million USD (equal to 1,275.1 million euro) and refers to hedging derivatives index-linked to the "3-month USD LIBOR (London Interbank Offered Rate)".
Specifically, these are interest rate swaps designated as specific fair value hedges of government bonds classified in the portfolio "Financial assets at amortised cost" for a nominal value of 1,350 million USD (1,265.7 million euro) and in the "Financial assets measured at fair value through other comprehensive income" portfolio for a nominal value of 10 million USD (9.4 million euro).
For further details on the disclosure related to the evolution of the reform, please refer to the paragraph entitled "Interest Rate Benchmark Reform ("IBOR Reform")", reported in "Section 5 - Other Aspects" in Part "A - Accounting Policies" of these Notes.

1.3.3 Other information on derivatives (trading and hedging)

A. FINANCIAL AND CREDIT DERIVATIVES

A.1 OTC financial and credit derivatives: net fair value by counterparty

	Central counterparties	Banks	Other financial companies	Other entities
A. Financial derivatives				
1) Debt securities and interest rates				
- notional value	55,328,688	-	-	-
- net positive fair value	912,203	-	-	-
- net negative fair value	-	-	-	-
2) Equity instruments and share indices				
- notional value	-	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	-	-	-
3) Currencies and gold				
- notional value	-	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	-	-	-
4) Commodities				
- notional value	-	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	-	-	-
5) Other				
- notional value	-	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	-	-	-
B. Credit derivatives				
1) Protection bought				
- notional value	-	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	-	-	-
2) Protection sold				
- notional value	-	-	-	-
- net positive fair value	-	-	-	-
- net negative fair value	-	-	-	-

1.4 LIQUIDITY RISK

QUALITATIVE INFORMATION

Impacts resulting from the Russia - Ukraine war

The Group's liquidity and funding risk profile did not record any impacts directly attributable to the Russia-Ukraine conflict, and remains at levels well above both regulatory and internal thresholds (Risk Appetite Framework and operational limits), showing extensive availability of liquidity reserves and stable funding.

Impacts resulting from the Covid-19 pandemic

Right from the initial outbreak of the Covid-19 pandemic, with regard to liquidity and funding risks, Banco BPM Group increased the level of monitoring by implementing specific reports on the trends of the major risk factors (e.g. market spreads and customer funding and loan trends). Even faced with these circumstances, from a risk profile perspective, there are no negative impacts of note; both the liquidity and funding risk profiles benefited from the positive trend in customer funding.

Challenges and impacts related from the current macroeconomic context

Although the macroeconomic scenario has been characterised recently by increasing levels of inflation and interest rates, the Group's risk profile showed robust levels of liquidity and funding, well above the regulatory thresholds and internal limits. In addition, the scenario and the relative impacts on the Group's liquidity and funding position are constantly monitored and reported to the competent corporate bodies.

A. General aspects, management processes and measurement methods for liquidity risk

Liquidity risk means the risk that the Group is not able to meet its payment commitments, which are certain or envisaged with reasonable certainty. Liquidity risk is usually broken down into two types of risk: (i) liquidity and funding risk, namely the risk that the Group is unable, in the short-term (liquidity) and in the long-term (funding) to meet its payment commitments and its obligations in an efficient manner; (ii) market liquidity risk, namely the risk that the Group is not able to liquidate an asset without incurring losses on the capital account due to the poor depth of the reference market and/or due to the timing with which the transaction must be performed.
In Banco BPM Group, liquidity and funding risk is governed by the "Liquidity, funding risk and ILAAP regulation", which establishes: the roles and responsibilities of the corporate bodies and the corporate functions, the metrics used for risk measurement, the guidelines for conducting stress tests, the Liquidity Contingency Plan and the overall reporting framework related to the Group's liquidity and funding risk.
Liquidity risk is managed and monitored as part of the Internal Liquidity Adequacy Assessment Process (ILAAP), which is the process the Group uses to identify, measure, monitor, mitigate and report its Liquidity risk profile. As part of said process, the Group makes an annual self-assessment regarding the adequacy of the overall liquidity risk management and measurement framework, which also covers governance, methodologies, IT systems, measurement tools and reporting. The results of the risk profile adequacy assessment and the overall self-assessment are reported to the Corporate Bodies and submitted for the attention of the Supervisory Authority.
Liquidity governance is centralised within the Parent Company. Liquidity risk monitoring and control is conducted on a daily (short-term liquidity) and a monthly basis (structural liquidity); its objective is to monitor the evolution of the risk profile by verifying its adequacy with respect to the Risk Appetite Framework and the operating limits envisaged.
More specifically, the Group uses a monitoring system that includes short-term liquidity indicators (with a time horizon from intra-day to twelve months) and long-term ones (beyond twelve months). To this end, both regulatory metrics (LCR, NSFR, ALMM) and metrics processed internally, which include the use of estimation models of behavioural and/or optional parameters, are adopted. In addition, stress tests are conducted on a monthly basis, in order to test the Group's ability to withstand unfavourable scenarios, and, on a quarterly basis, the estimates of the liquidity that can be generated with the countermeasures (so-called action plan, an integral part of the Liquidity Contingency Plan) that can be activated when a stress scenario occurs, are updated.
In 2022, the liquidity and funding profile of Banco BPM Group was found to be adequate, complying with both internal and regulatory risk limits.

The monitoring of all ordinary activities related to the measurement, monitoring and reporting of the Group's exposure to liquidity and funding risks was maintained, including Supervisory Reporting and periodic dialogue with the JST. In addition, activities related to the implementation of the improvement actions envisaged by the ILAAP 2022 Action Plan were carried out, including the set-up of periodic simulations of the SSM Liquidity Exercise and of periodic reporting of ESG impacts on liquidity and funding risk, the extension of Data Quality controls and the closure of critical issues opened by the control functions.
Lastly, during the third quarter, the Group participated in the SSM Liquidity Exercise, with positive results in terms of punctuality, completeness and accuracy of the information provided.

Outcomes of internal validation activities

The Internal Validation Function conducts qualitative and quantitative analyses to assess the soundness and accuracy of liquidity risk estimates. Furthermore, as regards ILAAP, the Function expresses an opinion on the regular functioning, on the predictive capacity, on the performance and on the prudence of the internal methodologies for measuring liquidity and funding risks. The latest analyses carried out in 2022 did not highlight any particular aspects of improvement.

QUANTITATIVE INFORMATION

1. Distribution of financial assets and liabilities by residual duration of the contracts. Currency of denomination: Euro

Items/Time bands	On demand	From over 1 day to 7 days	From over 7 days to 15 days	From over 15 days to 1 month	Over 1 month to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	Over 5 years	Unlimited duration
On-balance sheet assets	**18,723,700**	**2,035,025**	**790,389**	**2,271,884**	**4,602,109**	**5,724,145**	**10,718,573**	**56,343,791**	**48,885,937**	**1,417,618**
A.1 Government securities	73,915	-	-	-	900,000	450,000	2,260,904	9,894,525	15,020,508	-
A.2 Other debt securities	45,046	-	10,525	40,316	94,735	108,694	143,639	2,834,936	3,877,771	2,768
A.3 UCIT units	1,118,148	-	-	-	-	-	-	-	-	-
A.4 Loans	17,486,591	2,035,025	779,864	2,231,568	3,607,374	5,165,451	8,314,030	43,614,330	29,987,658	1,414,850
- Banks	595,464	252,130	592,488	811,880	89,935	135,378	27,859	671,291	-	1,315,805
- Customers	16,891,127	1,782,895	187,376	1,419,688	3,517,439	5,030,073	8,286,171	42,943,039	29,987,658	99,045
On-balance sheet liabilities	**105,777,153**	**7,699,456**	**39,765**	**26,103**	**316,264**	**10,554,132**	**3,433,116**	**28,399,318**	**3,153,022**	**-**
B.1 Deposits and current accounts	102,813,397	21,364	11,697	21,814	99,288	68,344	64,366	37,006	3,541	-
- Banks	134,682	12,001	-	-	-	7,025	13,149	-	-	-
- Customers	102,678,715	9,363	11,697	21,814	99,288	61,319	51,217	37,006	3,541	-
B.2 Debt securities	132,388	69	64	87	154,463	1,503,403	1,211,561	12,329,654	2,500,338	-
B.3 Other liabilities	2,831,368	7,678,023	28,004	4,202	62,513	8,982,385	2,157,189	16,032,658	649,143	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	-	1,537,126	1,034,198	2,203,690	5,104,558	5,957,756	6,035,169	233,576	48,298	-
- Short positions	155,000	1,148,124	970,265	1,947,317	5,286,389	5,776,058	5,921,318	171,610	61,111	-
C.2 Financial derivatives without exchange of capital										
- Long positions	2,574,324	663	3,431	9,375	49,610	92,087	281,534	-	-	-
- Short positions	2,726,411	556	384	5,189	36,326	62,725	233,154	-	-	-
C.3 Deposits and loans to be received										
- Long positions	27,690,591	-	-	-	-	-	-	-	-	-
- Short positions	-	27,690,591	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- Long positions	-	216,002	-	-	-	-	-	-	-	-
- Short positions	216,002	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	123,713	89	158	1,039	6,288	13,077	51,828	209,368	86,992	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	411	-	-	-	-	-	-	-	-	-
- Short positions	142	-	-	-	-	-	-	-	-	-

2. Distribution of financial assets and liabilities by residual duration of the contracts. Currency of denomination: other currencies

Items/Time bands	On demand	From over 1 day to 7 days	From over 7 days to 15 days	From over 15 days to 1 month	Over 1 month to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	Over 5 years	Unlimited duration
On-balance sheet assets	**245,872**	**21,638**	**38,082**	**142,996**	**219,503**	**97,952**	**125,609**	**2,309,275**	**2,807,750**	**1,472**
A.1 Government securities	12,997	-	-	-	-	-	47,043	1,736,392	2,615,167	-
A.2 Other debt securities	2,791	-	9,376	153	93,889	10,807	4,589	169,350	42,429	-
A.3 UCIT units	102,074	-	-	-	-	-	-	-	-	-
A.4 Loans	128,010	21,638	28,706	142,843	125,614	87,145	73,977	403,533	150,154	1,472
- Banks	86,663	1,155	2,348	149	998	-	-	-	-	-
- Customers	41,347	20,483	26,358	142,694	124,616	87,145	73,977	403,533	150,154	1,472
On-balance sheet liabilities	**1,148,225**	**1,052,605**	**1,603,070**	**1,372,758**	**5,439**	**303**	**2,677**	**-**	**774**	**-**
B.1 Deposits and current accounts	923,714	189,744	43,799	9,919	5,439	303	2,677	-	-	-
- Banks	116,059	189,744	43,323	9,162	3,801	-	1,961	-	-	-
- Customers	807,655	-	476	757	1,638	303	716	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	224,511	862,861	1,559,271	1,362,839	-	-	-	-	774	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	-	1,229,763	1,018,489	2,045,527	5,546,609	5,704,836	5,702,939	83,484	31	-
- Short positions	-	1,626,481	1,045,312	2,289,221	5,309,221	5,863,552	5,791,366	54,802	31	-
C.2 Financial derivatives without exchange of capital										
- Long positions	34,663	-	545	126	136	28	59	-	-	-
- Short positions	36,565	-	-	1,265	11,561	7,595	46,366	-	-	-
C.3 Deposits and loans to be received										
- Long positions	442,557	-	-	-	-	-	-	-	-	-
- Short positions	-	442,557	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- Long positions	-	138	2,991	258	1,744	150	-	-	-	-
- Short positions	-	5,280	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	26	-	-	-	2,344	3,545	2,861	2,813	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

As outlined in "Part E – Section 2 – Risks of Prudential Consolidation – 1.1 Credit risk – C. Securitisation transactions", Banco BPM has subscribed to securities that can be used for refinancing transactions with the ECB or for repurchase agreements with market counterparties, against "self-securitisation" transactions generated by Group companies or banks. The "self-securitisation transactions" outstanding as at 31 December 2022 are shown below.

Self-securitisation transactions

SPE	Originator	Issue Date securities	Transaction	Type of securitisation
Self-securitisation transactions not derecognised from the financial statements				
BPL Mortgages S.r.l.	Banco BPM	December 2012	BPL Mortgages 5	Performing residential mortgage loans
ProFamily SPV S.r.l.	Banco BPM (former ProFamily)	February 2021	ProFamily	Consumer credit
BPL Mortgages S.r.l.	Banco BPM	April 2022	BPL Mortgages 8	Mortgage, landed, agricultural and other loans granted to performing SMEs

New transactions of the period

Securitisation of mortgage, landed, agricultural and other loans granted to small and medium-sized enterprises – BPL Mortgages 8 (April 2022)

On 29 March 2022, with the signature of the relative contracts, Banco BPM sold to the SPE BPL Mortgages S.r.l. a portfolio of mortgage, landed, agricultural and other loans, disbursed in favour of small and medium-sized enterprises for a sale value (including accruals) of 2,459.5 million, carrying out a new securitisation called "BPL Mortgages 8". On 27 April 2022, to fund the purchase of the loans, the SPE issued two classes of securities: (i) Class A (Senior Notes), rated, listed on the ExtraMOT PRO segment of Borsa Italiana and (ii) Class J (Junior Notes), unrated and unlisted. Both classes of securities were subscribed by Banco BPM and the Senior Securities are currently used by Banco BPM as collateral for Eurosystem monetary policy transactions.

As part of this transaction, the Originator, Banco BPM, took on the role of Servicer, managing the collection of receivables and also acts as Interim Account Bank and Transaction Bank.

Loans portfolio

Bank	Value 31/12/2022	Value 13/03/2022 (*)
Banco BPM	1,764,993	2,459,487

The amounts indicated represent performing, unlikely to pay, non-performing past due and bad loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.
(*) Economic effects of the sale from the valuation date of 14 March 2022 included (first day of the SPE), legal effects from the date of signature of the sale agreement (29 March 2022).

Issue characteristics

Class	Type	Issue value	Value 31/12/2022	Interest rate	Maturity	Rating Moody's/DBRS (*)
A	Senior	1,800,000	1,299,499	3-month Euribor + 0.7%(1)	October 2064	A2/A
J	Junior (2)	656,397	656,397	Additional Return	October 2064	unrated
	Total	**2,456,397**	**1,955,896**			

(1) In any event, this interest rate cannot be higher than 1.7%.
(2) Unlisted Junior Securities.
(*) Rating as at 31 December 2022.

Accessory financial transactions

The structure of the transaction envisaged the establishment of an initial Cash Reserve of 72 million, constituted at the date of issue of the securities mainly through the disbursement of a subordinated loan totalling 67 million by Banco BPM. Subsequent to the issue date, the Target Cash Reserve Amount was 4% of the outstanding amount of the Class A notes (with a minimum amount of 7.2 million). On the Interest Payment Date of 25 October 2022, in compliance with the order of priority of payments and within the limits of the available funds, the SPE, inter alia, repaid the principal of the subordinated loan of 6.9 million, partly paid the interest on the subordinated loan of 390 thousand euro. As at 31 December 2022, the subordinated loan amounted to 60.1 million and the residual interest accrued and unpaid by the SPE was 407 thousand euro.

Existing and significant self-securitisation transactions during 2022

Securitisation of residential mortgage and landed loans – BPL Mortgages 5 (December 2012)

The securitisation transaction was originated by Banco Popolare and Credito Bergamasco, now both Banco BPM, and was finalised in a number of phases. On 7 December 2012, with the signature of the relative contracts, the Originator Banks sold an initial portfolio of performing residential landed and mortgage loans to the SPE BPL Mortgages S.r.l. for a sale value (including accruals) of 2,505.2 million and on 21 December 2012, the SPE issued two classes of bonds.
Subsequently, portfolio restructuring was carried out, which resulted in the sale/repurchase of loans and the issue of additional notes.
The Senior Securities are listed on the Irish Stock Exchange. All Classes of Securities are subscribed by Banco BPM and the Senior Securities are used by Banco BPM as collateral for Eurosystem monetary policy transactions.
As part of this transaction, the Originator Banks, now Banco BPM, took on the role of Servicer, managing the collection of receivables; Banco BPM also has the role of Interim Account Bank and Transaction Bank.

Loans portfolio

Bank	Value 31/12/2022	Value 31/12/2021
Banco BPM	2,320,169	2,633,424

The amounts indicated represent performing, unlikely to pay, non-performing past due and bad loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.

Issue characteristics

Class	Type	Issue value	Value 31/12/2022	Interest rate	Maturity	Rating Moody's/DBRS (*)
A1	Senior	2,440,400	372,796	1-month Euribor + 0.3%	October 2058	Aa3/AA
B1	Junior (1)	1,148,455	392,765	Additional Return	October 2058	unrated
A2	Senior	995,100	323,671	1-month Euribor + 0.25%	October 2058	Aa3/AA
A3	Senior	1,504,300	723,447	1-month Euribor + 0.25%	October 2058	Aa3/AA
B3	Junior (1)	69,670	69,670	Additional Return	October 2058	unrated
	Total	**6,157,925**	**1,882,349**			

(1) Unlisted Junior Securities.
(*) Rating as at 31 December 2022.

Accessory financial transactions

The structure of the transaction envisaged the establishment of a Cash Reserve of 64 million, constituted mainly through the disbursement, which took place on 21 December 2012, of a subordinated loan totalling 60 million by the Originator Banks, now Banco BPM.

As part of the transaction restructuring that took place during 2019, on 14 March 2019, the cash reserve was further increased by 24.6 million via the disbursement by Banco BPM, of a limited loan of the same amount.

Other information

In February 2022, the rating agency DBRS upgraded the rating of the Class A1, Class A2 and Class A3 Senior Securities from "AH" to "AA".

Consumer credit securitisation – ProFamily SPV (February 2021)

On 16 December 2020, ProFamily S.p.A., now Banco BPM, with the signature of the relative contracts, sold a portfolio of performing consumer loans to the SPE Profamily SPV S.r.l. for 958.5 million. On 24 February 2021, the

SPE issued two classes of Securities: (i) Class A (Senior Notes), rated, listed on the ExtraMOT PRO segment of Borsa Italiana and (ii) Class J (Junior Notes), unrated and unlisted. Both classes of securities were subscribed in full by the Originator ProFamily S.p.A., now Banco BPM; the Senior securities are currently used by Banco BPM for monetary policy transactions with the Eurosystem. During the revolving period, the SPE purchased a further four portfolios of performing consumer loans from ProFamily.
As part of the transaction, the Originator ProFamily, now Banco BPM, acted as Servicer to manage the collection of the loans.

Loans portfolio

Bank	Value 31/12/2022	Value 31/12/2021
Banco BPM (former ProFamily S.p.A.)	469,013	783,955

The amounts indicated represent performing, unlikely to pay, non-performing past due and bad loans, net of the relative write-down provisions, amortised cost, including mortgage loan instalments.

Issue characteristics

Class	Type	Issue value	Value 31/12/2022	Interest rate	Maturity	Rating DBRS/Fitch (*)
A	Senior	860,000	374,549	1% per annum	December 2040	AA/AA
J	Junior (1)	100,932	100,932	5% per annum	December 2040	unrated
	Total	**960,932**	**475,481**			

(1) Unlisted Junior Securities.
(*) Rating as at 31 December 2022.

Other information

The rating of the Senior Class A Notes was increased (i) from "AH" to "AA" on 22 February 2022 by the rating agency DBRS and (ii) from "A+" to "AA" on 7 November 2022 by the rating agency Fitch.

1.5 BANKING GROUP - OPERATIONAL RISKS

Impacts resulting from the Russia-Ukraine war

From the operational risk perspective, the Russia-Ukraine war has led to a potential increase in the emergence of cyber security & IT risk which, however, the Bank adequately oversees and monitors thanks to its internal control systems. In this regard, access to the bank's online systems was further strengthened.
In this regard, information relating to the cyber attacks suffered by the Bank was also shared with the system (CERTFin).

Impacts resulting from the Covid-19 pandemic

Banco BPM Group proactively managed the Covid-19 health emergency, with a view, first and foremost, to safeguarding the health of all of the people involved in its business activities (employees, customers, suppliers etc.), as well as guaranteeing adequate business continuity, in accordance with the provisions of the laws in force at that time.
In terms of operational risk, the pandemic did not have any extraordinary effects, with the exception of those relating to updating operating processes (cost of specific sanitisation equipment, increase of digitalisation to enable customers and employees to work remotely etc.).

QUALITATIVE INFORMATION

A. General aspects, management processes and measurement methods for operational risk

Type of risk

Operational risk is defined as the risk of losses suffered as a result of inadequacy or malfunction of procedures, human resources and internal systems, or of external events. Losses resulting from fraud, human error, interruption of operations, non-availability of systems, contractual breaches and natural disasters are included in this type of risk. Operational risk also encompasses legal risk, while strategic and reputational risks are not included.

Risk sources

The main sources of operational risk are: the low reliability of operational processes - in terms of effectiveness/efficiency - internal and external frauds, operational mistakes, the qualitative level of physical and logical security, inadequate IT structure compared to the size of operations, the growing recourse to automation, the outsourcing of corporate functions, a limited number of suppliers, changes in strategies, incorrect personnel management and training policies and finally social and environmental impacts.

Risk management model and organisational structure

Banco BPM Group fully adopts the Traditional Standardised Approach to calculate capital requirements for all companies that make up the Supervised Group, while with regard to the other qualitative-quantitative elements envisaged by Supervisory Regulations, as requested by the ECB, it meets all of the requirements of the CRR (Regulation (EU) no. 575/2013) for the TSA, as well as those envisaged by the above-mentioned AMA in Articles 321 (points b-e) and 322 (points b-f).

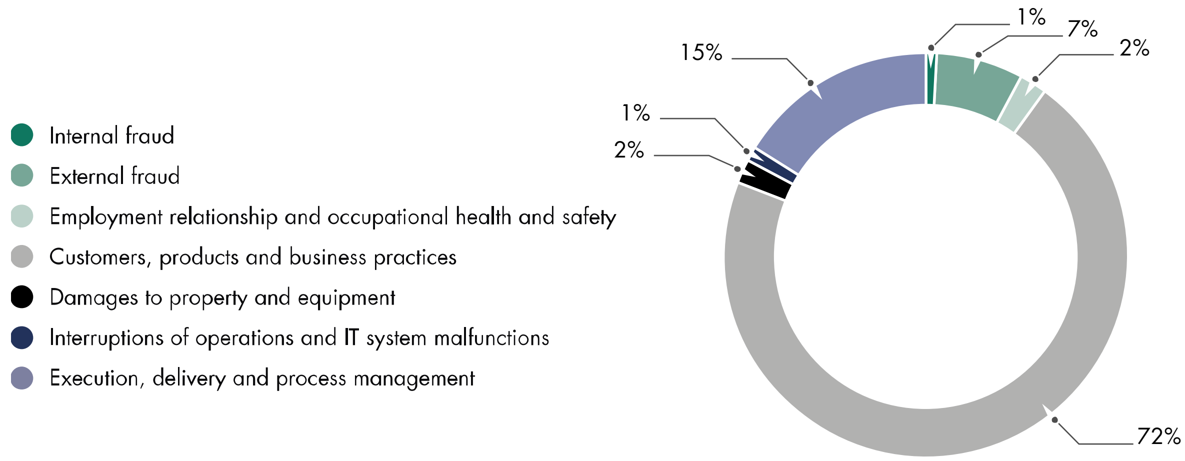
Also in compliance with the relevant regulations, the Group adopted an operational risk management model that illustrates the management methods and the people involved in risk identification, measurement, monitoring, mitigation and reporting. In particular, the model refers to centralised oversight functions (governance and control functions) and decentralised oversight functions (coordinators and ORM contacts, which are specifically involved in the key processes of collecting operating loss data, continuously assessing the operating scenario and forecasting exposure to risk). This model is governed by a specific Group Regulation approved by the Corporate Bodies.
Banco BPM Group adopts a reporting model, consisting of a management IT system for the Corporate Bodies and Top Management (significant losses and related recoveries, overall assessment of the risk profile, RAF indicator profile, capital absorption and risk management policies implemented and/or planned) and an operational reporting system, for the purposes of adequate risk management in the relevant areas.

In line with mission of Banco BPM Group, the main risk impacts regard the “Commercial practices” category, followed by “Processes”, which together represent the predominant portion of total risk and which, for the most part, arise in the Group’s sales networks. With reference to the category of “External Fraud”, given the trend of increasingly sophisticated techniques (e.g. identity theft, cyber risk phenomena, etc.), the Group is constantly reinforcing physical and logical security, therefore containing these phenomena both in terms of frequency and the average impact on loss events of this kind. The Group takes the appropriate mitigating measures (e.g. training, implementation of application processes/procedures etc.) as protection against the main risk factors that arise.

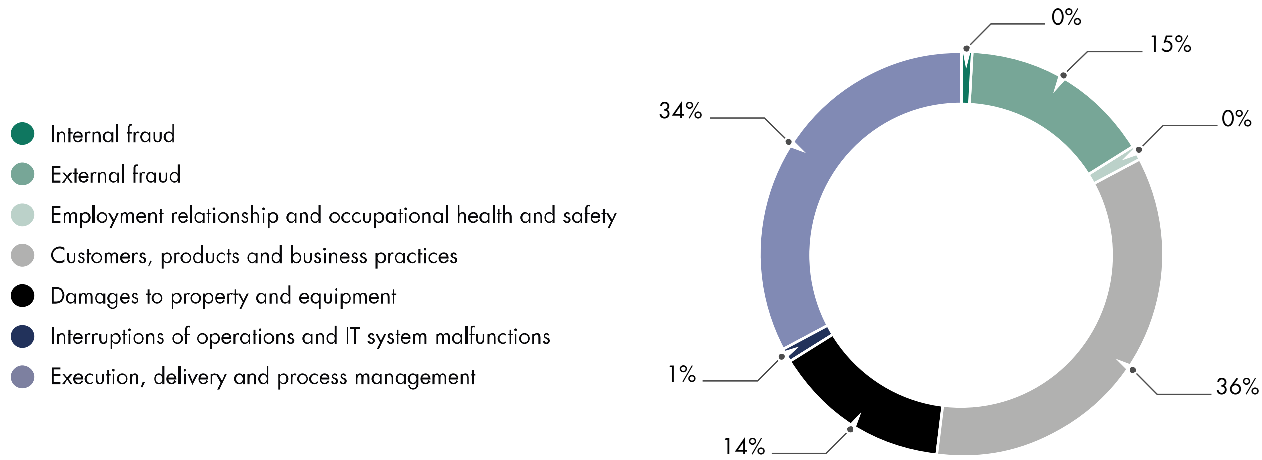
QUANTITATIVE INFORMATION

Regarding the sources of operational risk, an analysis was conducted with reference to operational risk events, with a gross loss greater than or equal to 200 euro (minimum materiality threshold) and with a reporting date of 1 January 2013 or later.
The loss data in question, recorded in the Group's Loss Collection management archive, have been broken down by type of event, with views by impact and by number of events, according to the event classification standards provided by the Regulator.

Breakdown by impact



Breakdown by number of events



The analysis of the graphs reveals that the main event categories in terms of impact relate to:

- commercial practices, with losses resulting from failures to meet professional obligations towards customers or from the nature or characteristics of the product or service provided. The category in question includes operational risk impacts connected to the diamond situation;
- processes, with losses related to errors/inefficiencies/delays in the execution, delivery and management of processes;
- external crimes, with losses due to fraud, undue appropriation or infringement of the law by parties outside the Bank, including phenomena relating to cyber risk.

Validation activities

In the area of Operational Risk, the Internal Validation Unit oversees the management framework and the calculation of Pillar II risks through annual audits of measurement metrics. In particular, the stability, robustness and uncertainty of the model, the consistency of the calculation dataset, through independent repeat tests and checks during the Loss Data Collection and Risk Self Assessment campaign, compliance with current regulatory requirements and best-practices are continuously verified. On the basis of the checks conducted, the Internal Validation unit addresses specific suggestions to the competent departments and monitors the solution in order to ensure the high standards of quality and reliability in risk management are maintained.
Moreover, during the ICAAP process, the stress scenarios and methods applied to the entire scope of the Group are verified.

Section 3 - Risks to insurance companies

Impacts deriving from the Covid-19 pandemic and the Russia-Ukraine conflict

Since the initial spread of the Covid-19 pandemic, with reference to the risks related to the insurance business, a series of extraordinary periodic monitoring activities of solvency and liquidity have been launched in compliance with the requirements of the Regulator.
The current geo-political context, and in particular the risk of a large-scale evolution of the conflict, has generated considerable uncertainty on the financial markets, causing a correction of all risk-on assets.
The delicate situation and the increasing sanctions by Western countries against Russia, combined with the monetary policy decisions implemented by Central Banks worldwide, and in particular by the European Central Bank, which led to a substantial increase in benchmark interest rates, in order to combat rising inflation, led Banco BPM Vita and Banco BPM Assicurazioni to implement appropriate monitoring actions and to adopt the measures needed to guarantee the continuity and positive management of the business. Even considering the typical risks associated with the sector in question, at present there are no critical elements relating to business management and it should be noted that there are no material exposures in the portfolios of Banco BPM Vita and Banco BPM Assicurazioni towards Russia, Belarus or the Ukraine.

LIFE BUSINESS - QUALITATIVE INFORMATION

The main risk factors of the life insurance portfolio (Banco BPM Vita) are linked to underwriting risks, which can be classified into:

- biometric risks, i.e. risks linked to the uncertainty of the assumptions considered in the measurement of insurance liabilities, such as mortality and longevity rates;
- operational risks, i.e. risks deriving from the uncertainty of the amount of expenses and the exercise of contractual options by policyholders.

More specifically, life underwriting risks are divided into the following types of sub-risk:

- Mortality risk: risk of losses or of an unfavourable change in the value of insurance liabilities, deriving from an increase in mortality rates;
- Longevity risk: risk of losses or unfavourable changes in the value of insurance liabilities, deriving from a decrease in mortality rates;
- Lapse risk: risk of loss or unfavourable change in the value of insurance liabilities, due to a change in the exercise rates of lapse options (surrender, reduction, suspension of the policy) by policyholders;
- Expense risk: risk of loss or unfavourable change in the value of insurance liabilities, due to a change in the expenses incurred for the management of insurance contracts;
- Catastrophe risk: risk of loss or unfavourable change in the value of insurance liabilities, deriving from changes in claims due to extreme and exceptional events.

With regard to the calculation of the solvency capital requirement, the risks of the Company are quantified on the basis of the standard formula, according to the methodology defined by the reference regulations. More specifically, the capital requirement for life underwriting risk is calculated by aggregating, using the correlation coefficients, the Solvency Capital Requirements (SCR) determined for each risk sub-module described above (mortality, longevity, surrender, expense and catastrophe).
Life underwriting risks are monitored through the calculation and subsequent control of specific risk indicators defined in the Risk Appetite Framework (RAF). In particular, the exposure to life underwriting risks is mainly linked to the trend of surrender risk, which is also monitored through the quarterly calculation of a specific indicator, namely the surrender frequency.

LIFE BUSINESS - QUANTITATIVE INFORMATION

The following tables provide details on the amount of the mathematical reserves as at 31 December 2022 of the life portfolio broken down by contractual maturity intervals and by minimum guaranteed return.

Mathematical reserve: maturities	31/12/2022	%
Up to 1 year	268,943	4%
1 - 5 years	1,998,781	33%
6 - 10 years	1,244,606	21%
11 - 20 years	1,746,702	29%
Over 20 years	754,331	13%
Total	**6,013,363**	**100%**

Mathematical reserve: annual return guarantee	31/12/2022	%
0% - 1%	3,656,847	80%
1% - 2%	833,216	18%
2% - 3%	36,889	1%
3% - 4%	46,809	1%
> 4%	-	-
Total	**4,573,760**	**100%**

As shown in the previous tables, the mathematical reserves of the life portfolio are mainly concentrated on medium and medium/long-term maturities (from 1 to 5 years and from 11 to 20 years) and on annual return guarantees of between 0% and 1%.
The breakdown by maturity of the financial liabilities, represented by the assets hedging the commitments deriving from other insurance products, is shown in the following table:

Mathematical reserves: maturities	Maturity < 12 months	Maturity > 12 months	Total
Other liabilities to policyholders	222,590	4,351,170	4,573,760
Total	**222,590**	**4,351,170**	**4,573,760**

In addition, in relation to the life business segment, the concentration of gross direct premiums is reported separately for Class I and Class III.

Gross premium	31/12/2022	%
CLASS I	613,443	75%
CLASS III	199,538	25%
Total	**812,982**	**100%**

Lastly, the underwriting risk sub-modules determined using the standard formula, calculated as at 31 December 2022, are shown. In this regard, it should be noted that lapse risk is the main driver of underwriting risk.

Life Underwriting risk	31/12/2022
Mortality risk	5,867
Longevity risk	651
Lapse risk	113,669
Expense risk	7,560
Catastrophe risk	4,103
Total	**119,203**

NON-LIFE BUSINESS - QUALITATIVE INFORMATION

The main risk factors typical of the non-life insurance portfolio (Banco BPM Assicurazioni) are underwriting risks, which may depend on an inadequate estimate of the frequency and/or severity of the claims considered in the tariff-setting and reserving phase, the risk of early surrender by policyholders and losses deriving from extreme or exceptional events.
More specifically, non-life underwriting risks are divided into the following types of sub-risk:

- Premium risk: risk of insufficiency of insurance premiums to cover the cost of claims and related contractual expenses, deriving from changes in the frequency and/or severity of claims;
- Reserve risk: risk of insufficiency of technical reserves with respect to a time horizon of one year, deriving from unfavourable fluctuations in the payment of claims;
- Surrender risk: risk of loss or unfavourable change in the value of insurance liabilities, due to a change in surrender rates by policyholders;
- Catastrophe risk: risk of loss or unfavourable change in the value of insurance liabilities, deriving from changes in claims due to extreme and exceptional events.

The main risk mitigation technique used for the non-life portfolio is reinsurance, which aims to optimise the use of capital by selling part of the underwriting risk to selected counterparties.

NON-LIFE BUSINESS - QUANTITATIVE INFORMATION

The following tables show the changes in claims by generation and the value of the claims reserve in the financial statements as at 31 December 2022 in relation to the classes in which the Company operates.

Claims Reserve	2018	2019	2020	2021	2022	Total
As at 31/12 of year X	3,267	3,113	2,075	3,364	3,677	-
As at 31/12 of year X + 1	1,449	1,273	1,770	1,339	-	-
As at 31/12 of year X + 2	692	640	816	-	-	-
As at 31/12 of year X + 3	392	241	-	-	-	-
As at 31/12 of year X + 4	162	-	-	-	-	-
Cumulative claims paid	4,973	4,943	3,881	3,321	1,986	19,104
Claims reserve as at 31/12/2022	162	241	816	1,339	3,677	6,235
Closing claims reserve of previous years						1,249
Total Claims Reserve as at 31/12/2022						**7,483**

Lastly, the non-life and health underwriting risk sub-modules determined using the standard formula, calculated as at 31 December 2022, are shown.

Non-life Underwriting risk	31/12/2022
Premium & Reserve risk	13,173
Lapse risk	8,669
Cat risk	4,252
Total	**17,169**

Health NSTL	31/12/2022
Premium & Reserve risk	6,379
Lapse risk	2,166
Cat risk	230
Total	**6,798**

3.2 FINANCIAL RISKS

LIFE BUSINESS - QUALITATIVE INFORMATION

When conducting its life business, the Company (Banco BPM Vita) is required to invest the premiums collected in a variety of financial assets, mostly long-term, with the main objective of guaranteeing the return expected by policyholders, honouring its future commitments. The main risks to which the Company is exposed therefore derive from market risks which may result in losses or unfavourable changes in the financial situation due to fluctuations in the market value of the assets in the financial statements.

More specifically, the market risks of the life business are divided into the following types of sub-risk:

- Interest rate risk: risk of loss or unfavourable changes in the market value of bonds, deriving from changes in the term structure of interest rates or in the level of volatility of the same;
- Equity risk: risk of loss or unfavourable changes in the market value of shares, due to changes in the level or volatility of share prices;
- Real estate risk: risk of loss or unfavourable changes in the market value of real estate, deriving from changes in the level or volatility of real estate market prices;
- Exchange rate risk: risk of loss or unfavourable changes in the market value of securities in foreign currency, deriving from changes in the level or volatility of exchange rates;
- Spread risk: risk of loss or unfavourable changes in the market value of assets, due to changes in credit spreads with respect to the term structure of the risk-free rate;
- Concentration risk: risk of losses due to an insufficient diversification of the counterparties to which the Company is exposed.

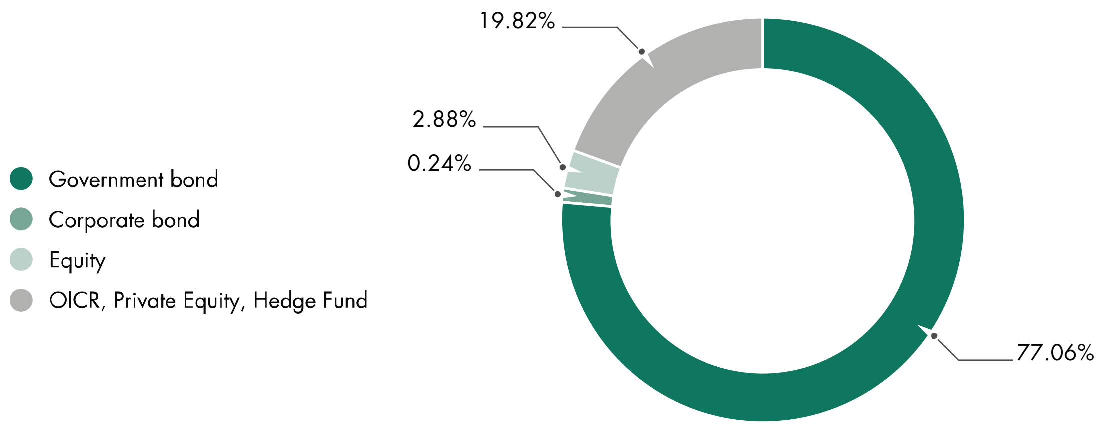
With regard to market risks, the Company does not use any specific mitigation techniques, but rather monitors these risk factors through the calculation and subsequent control of risk indicators defined in the Risk Appetite Framework (RAF). In particular, given the composition of the asset portfolio, the Company is particularly exposed to the concentration risk of government bonds. This risk is monitored by calculating a specific indicator.

LIFE BUSINESS - QUANTITATIVE INFORMATION

Exposure to concentration risk

The following table shows the breakdown by asset class of the investment portfolio relating to the life business as at 31 December 2022 with an indication of the duration (data prepared according to national accounting standards).

Financial assets	31/12/2022	%	Duration
Government bonds	3,528,492	77.06%	4.95
- of which Italy	2,939,032	64.19%	4.87
Corporate bonds	11,210	0.24%	0.05
Equity	131,916	2.88%	0.00
UCITS, Private Equity, Hedge Funds	907,352	19.82%	0.00
Total	**4,578,970**	**100.00%**	**4.93**



As shown in the previous table, investments in the life insurance segment are exposed to concentration risk. An analysis of the government bonds segment shows that the percentage weight of investments in Italian government bonds out of total investments in government bonds represents 64.2%.

Below are the Company's market risk modules determined using the standard formula as at 31 December 2022.

Market risk	**31/12/2022**
Interest rate risk	12,102
Equity risk	60,243
Real estate risk	2,929
Spread risk	13,912
Exchange rate risk	3,810
Concentration risk	-
Total	**81,595**

Exposure to interest rate risk

The sensitivity to the fair value of the portfolio of financial assets with respect to a parallel movement of the curve of +/- 100 basis points determines a negative/positive change in the securities portfolio of -155.4/+171.3 million respectively, as shown below:

Financial assets	**31/12/2022**	**%**	**+100 bps**	**-100 bps**
Fixed rate bonds	3,420,863	100%	3,265,471	3,592,188
Floating rate bonds	-	-	-	-
Total	**3,420,863**	**100%**	**3,265,471**	**3,592,188**

Exposure to equity risk

65% of the life investment portfolio is comprised by investments in equities, with the remaining 35% in equity investment funds. The sensitivity of the equity portfolio to a deterioration in share prices of 10% has an impact on the book value of 20.4 million.

Financial assets	**31/12/2022**	**%**	**-10%**
Equity securities in financial companies	26,492	12.98%	23,842
Equity securities in non-financial companies	106,482	52.18%	95,834
Funds	71,106	34.84%	63,995
Total	**204,079**	**100.00%**	**183,671**

NON-LIFE BUSINESS - QUALITATIVE INFORMATION

When conducting its non-life business, Banco BPM Assicurazioni makes investments in financial assets, generally short-term, in line with the maturities of the non-life portfolio and thus exposing itself to market risk.
However, unlike the investments made for the life portfolio, almost all of the non-life portfolio is invested in government bonds, so in terms of market risk, this portfolio is mainly exposed to interest rate risk.

NON-LIFE BUSINESS - QUANTITATIVE INFORMATION

Exposure to concentration risk

The following table shows the breakdown by asset class of the investment portfolio relating to the non-life business as at 31 December 2022 with an indication of the duration. Note that all securities in the portfolio are Italian government bonds (data prepared according to Italian accounting standards).

Financial assets	**31/12/2022**	**%**	**Duration**
Government bonds	51,894	100.00%	1.99
of which Italy	51,894	100.00%	1.99
Total	51,894	100.00%	1.99

Exposure to interest rate risk

The sensitivity to the fair value of the portfolio of financial assets with respect to a parallel movement of the curve of +/- 100 basis points determines a positive/negative change in the securities portfolio of -979/+1,016 thousand euro, as shown below.

Financial assets	**31/12/2022**	**%**	**+100 bps**	**-100 bps**
Fixed rate bonds	51,895	100.00%	50,916	52,911
Floating rate bonds	-	-	-	-
Total	**51,895**	**100.00%**	**50,916**	**52,911**

OTHER RISKS

Liquidity risk

Liquidity risk is the risk deriving from the inability to efficiently meet expected and unexpected cash commitments, or to be able to meet them only through access to the credit market at adverse conditions or by liquidating financial assets at a considerable discount.

The objective of Banco BPM Vita and Banco BPM Assicurazioni is to ensure an adequate and sufficient levels of capital and liquidity to guarantee all commitments that the insurance companies are responsible for. To achieve this, the exposure to liquidity risk is calculated using a specific indicator, called the Liquidity Ratio, which compares the available resources and the resources needed over a medium/short-term time horizon, monitoring their performance and compliance with specific thresholds defined as part of the Risk Appetite Framework (RAF).

Operational Risk

Operational risk is the risk of losses deriving from inefficiencies of people, processes and systems, including those used for online sales, or from external events, such as fraud or the activity of external suppliers. In general, operational risks may also have effects on reputational aspects, therefore the management of operational risks is also considered to potentially impact the mitigation of reputational risks.

Operational risk management by Banco BPM Vita and Banco BPM Assicurazioni is conducted through the identification and qualitative and, if possible, quantitative assessment, on an annual basis, of the various categories of operational risks (e.g. shortcomings linked to outsourcing of activities, violations of the security of IT systems by third parties, insufficiency of internal or external human resources, non-fulfilment of regulatory obligations, errors or omissions in accounting or financial transactions, violation of the obligation of data quality, theft, fraud and improper use of assets by third parties). Depending on the frequency and impact of the event, the various operational risk factors identified are quantified on the basis of a standardised scale of values, envisaging the implementation of appropriate risk mitigation activities where necessary.

Section 4 - Other company risks

No significant additional risks are reported for the remaining companies falling within the consolidation scope that are not part of the Banking Group or of insurance companies. As regards the Group's real estate companies, including those acquired following credit restructuring arrangements, note that the book value at which said real estate is recognised is consistent with the value stated in specific appraisals and valuations.
The risk of impairment of real estate assets is in any event covered by a specific capital requirement - in terms of credit risk - which the Group calculates in accordance with regulatory methods. Furthermore, the Risk Function uses internal operational methods to check the adequacy of the regulatory capital requirement vis-à-vis real estate risk on a quarterly basis.

PART F – INFORMATION ON CONSOLIDATED SHAREHOLDERS' EQUITY

Section 1 - Consolidated shareholders' equity

A. QUALITATIVE INFORMATION

The Group's shareholders' equity consists of the sum of the balances of the following balance sheet liability items:

- Shareholder's equity net of repurchased own shares
- Share premium reserve
- Reserves
- Valuation reserves
- Equity instruments
- Own shares
- Profit (loss) for the year.

B. QUANTITATIVE INFORMATION

Consolidated shareholders' equity as at 31 December 2022 amounted to 12,770.3 million (of which 12,769.6 million for the Group and 0.7 million for non-controlling interests), showing a net decrease of 325.7 million compared to the 13,096.0 million (of which 13,094.9 million for the Group and 1.1 million for non-controlling interests) recorded for consolidated shareholders' equity as at 31 December 2021.

B.1 Consolidated shareholders' equity: breakdown by business type

Shareholders' equity items	Prudential consolidation	Insurance companies	Other businesses	Consolidation cancellations and adjustments	Total
1. Share capital	7,100,008	179,125	4,713	(183,115)	7,100,731
2. Share premium reserve	-	-	4	(4)	-
3. Reserves	4,210,256	202,871	31,362	(224,269)	4,220,220
4. Equity instruments	1,389,794	-	-	-	1,389,794
5. (Own shares)	(18,266)	-	-	-	(18,266)
6. Valuation reserves:	(624,011)	(67,366)	10	67,356	(624,011)
- Equity instruments designated at fair value through other comprehensive income	(18,486)	-	-	-	(18,486)
- Hedges of equity instruments designated at fair value through other comprehensive income	-	-	-	-	-
- Financial assets (other than equity instruments) measured at fair value through other comprehensive income	(626,415)	(67,366)	-	-	(693,781)
- Property, plant and equipment	375,712	-	-	-	375,712
- Intangible assets	-	-	-	-	-
- Foreign investment hedges	(1,475)	-	-	-	(1,475)
- Cash flow hedges	(27,655)	-	-	-	(27,655)
- Hedging instruments (non-designated items)	-	-	-	-	-
- Exchange rate differences	16,369	-	-	-	16,369
- Non-current assets and disposal groups held for sale	-	-	-	-	-
- Financial liabilities designated at fair value through profit and loss (changes to its own credit risk)	(13,977)	-	-	-	(13,977)
- Actuarial gains/(losses) on defined benefit pension plans	(60,325)	-	10	-	(60,315)
- Share of valuation reserves related to interests in associates and joint ventures carried at equity	(267,759)	-	-	67,356	(200,403)
- Special revaluation laws	-	-	-	-	-
7. Profit (loss) for the year (+/-) attributable to the Group and non-controlling interests	688,655	6,877	7,379	(1,108)	701,803
Total	**12,746,436**	**321,507**	**43,468**	**(341,140)**	**12,770,271**

B.2 Valuation reserves for financial assets measured at fair value through other comprehensive income: breakdown

Asset/Amounts	Prudential consolidation		Insurance companies		Other businesses		Consolidation cancellations and adjustments		Total	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	9,702	(636,117)	-	(67,366)	-	-	-	-	9,702	(703,483)
2. Equity instruments	31,251	(49,737)	-	-	-	-	-	-	31,251	(49,737)
3. Loans	-	-	-	-	-	-	-	-	-	-
Total 31/12/2022	**40,953**	**(685,854)**	**-**	**(67,366)**	**-**	**-**	**-**	**-**	**40,953**	**(753,220)**
Total 31/12/2021	**126,360**	**(59,824)**	**-**	**-**	**-**	**-**	**-**	**-**	**126,360**	**(59,824)**

B.3 Valuation reserves for financial assets measured at fair value through other comprehensive income: annual changes

	Debt securities	Equity instruments	Loans
1. Opening balance	**45,519**	**21,017**	**-**
2. Positive changes	**8,982**	**683**	**-**
2.1 Fair value increases	4,241	683	-
2.2 Credit impairment losses	1,846	X	-
2.3 Reclassification to income statement of negative reserves from disposal	2,522	X	-
2.4 Transfers to other shareholders' equity components (equity instruments)	-	-	-
2.5 Other changes	373	-	-
3. Negative changes	**(748,282)**	**(40,186)**	**-**
3.1 Fair value decreases	(640,759)	(34,014)	-
3.2 Credit recoveries	(812)	-	-
3.3 Reclassification to income statement of positive reserves: from disposal	(38,506)	X	-
3.4 Transfers to other shareholders' equity components (equity instruments)	-	(6,172)	-
3.5 Other changes	(68,205)	-	-
4. Closing balance	**(693,781)**	**(18,486)**	**-**

B.4 Valuation reserves for defined benefit plans: annual changes

	31/12/2022
1. Opening balance	**(100,693)**
2. Positive changes	**99,877**
2.1 Gains from changes in financial assumptions	88,693
2.2 Other actuarial gains	1,504
2.3 Other changes	9,680
3. Negative changes	**(59,499)**
3.1 Losses from changes in financial assumptions	(3,617)
3.2 Other actuarial losses	(30,991)
3.3 Other changes	(24,891)
4. Closing balance	**(60,315)**

Section 2 - Own funds and capital ratios

Please see the information on own funds and capital adequacy found in the document "Disclosure to the public by entities (Pillar III)", available on the website www.gruppo.bancobpm.it.

PART G – BUSINESS COMBINATIONS REGARDING COMPANIES OR DIVISIONS

Section 1 - Transactions carried out during the year

1.1 Business combinations

Introduction

As illustrated in the section dedicated to the significant events during the year in the Report on Operations, on 22 July 2022, following the authorisation by IVASS, Banco BPM acquired 81% of the share capital of Bipiemme Vita S.p.A. held by Covéa Coopérations SA, for a consideration of 309.4 million. 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.
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 a better understanding of the data in the tables in this Section, note that, since Banco BPM Vita holds a 100% interest in Banco BPM Assicurazioni for a book value of 32.5 million and is not required to prepare sub-consolidated financial statements, the value of the equity interest in Banco BPM Assicurazioni was eliminated as a balancing entry to the shareholders 'equity of Banco BPM Vita. In this way, the separate contribution of the two insurance companies to the individual items of the Group's consolidated financial statements with reference to the pre-PPA and post-PPA situation is reported.

Illustration of the effects resulting from the application of IFRS 3

The transaction is classified as a business combination, according to what is set forth in the IAS/IFRS international accounting standards and in particular IFRS 3, which requires the application of the purchase method.

Pursuant to IFRS 3, the acquiring entity must identify the acquirer and the acquisition date, determine and allocate the cost of the business combination to the assets acquired and the liabilities assumed, including contingent ones, which are measured on the basis of the fair value (so-called "Purchase Price Allocation" - "PPA") with the exception of non-current assets (or disposal groups) classified as held for sale in accordance with IFRS 5. In fact, the latter are accounted for at fair value net of selling costs. In addition, any intangible assets must be recognised even if not previously recognised by the acquired party.
In addition, for business combinations carried out in several phases (i.e. those in which the acquirer already held a minority interest in the acquired company before carrying out the transaction, so-called "step acquisitions"), as in the case of Banco BPM Vita, at the acquisition date, the acquirer must recognise the minority shareholding that it already held at fair value, recognising the difference with respect to the previous book value in the income statement.
Any unallocated positive/negative difference represents, respectively, the goodwill to be recognised in the balance sheet or the bargain purchase to be credited to the income statement as a profit realised with the acquisition.
With regard to the Purchase Price Allocation, the acquisition cost is allocated through the recognition at fair value of the assets and liabilities of the acquired entity, including any intangible assets not previously recognised in the financial statements of the acquiree, as they can benefit from the option provided for by IFRS 3 § 45, which grants the acquirer 12 months, with respect to the acquisition date, to definitively complete the PPA process.

Determination of the acquirer and of the acquisition date

For the purposes of the application of IFRS 3 and of line-by-line consolidation, considering that the acquirer is the Parent Company Banco BPM, the acquisition date is an essential element for recognition of the transaction in the

accounts as it represents the reference for both the calculation of the fair value of the assets and liabilities acquired and for the acquisition of the economic results of the acquired entity in the consolidated income statement of the acquirer. The transaction was finalised on 22 July 2022, which is the date on which Banco BPM acquired control of 100% of the insurance companies pursuant to IFRS 10. As a balance sheet cannot be drawn up as at 22 July 2022, the acquisition date was conventionally assumed to be 1 July 2022, subject to verification that up to the date of acquisition no events occurred such as to significantly change the balance sheet or income statement of the insurance companies acquired. Therefore, the balance sheet for first-time consolidation is represented by the balances of the two companies as at 30 June 2022 and the transposition of the economic contribution of the companies on a line-by-line basis into the consolidated financial statements of Banco BPM was assumed from 1 July 2022.
In addition, IFRS 3 envisages that, at the acquisition date, the difference between the cost of the business combination must be determined - equal to the sum of the fair value of the cash consideration paid to acquire the majority shareholding and that of the interest already held - and the fair value of the identifiable net assets acquired, including contingent liabilities. More specifically, any positive difference not allocated to the net assets acquired must be recognised under assets as goodwill; otherwise, any negative difference must be recognised in the income statement as badwill, after making a new measurement to ascertain the proper process for identifying all assets acquired and liabilities assumed.

Determination of the acquisition cost

The acquisition cost of Banco BPM Vita is represented by the consideration paid for the acquisition of the 81% stake and the valuation of the minority shares of Banco BPM Vita already held by Banco BPM before assuming control (19%), given the transaction is classified for accounting purposes as a "step acquisition".
Based on IFRS 3, for the share previously held, the transition from the equity accounting method to line-by-line consolidation is considered to be an economic event, to be recognised as if the shareholding previously held were sold at fair value and immediately repurchased at the same value.
In line with the aforementioned provisions, the interest previously held was measured at fair value at the acquisition date (estimated as 72.6 million). The related economic effect, equal to the difference between the aforementioned fair value and the previous book value - also considering the effect resulting from the reversal of the negative valuation reserves - was a negative 10.7 million. This effect is shown in income statement item "250. Gains (losses) of associates and joint ventures".

In greater detail, as at 31 December 2022, the acquisition cost of 100% of Banco BPM Vita (382.0 million) was determined on the basis of the revaluation at fair value of the 19% share already held (72.6 million) and of the acquisition cost incurred for the purchase of the 81% stake (309.4 million).

Fair value of assets and liabilities acquired

The allocation of the acquisition cost, through the recognition at fair value of the assets and liabilities of the acquired entity, including any intangible assets not already recognised in the financial statements of the two companies, was completed by Banco BPM in time for recognition in the financial statements as at 31 December 2022, despite the fact that IFRS 3 envisages an option to complete the Purchase Price Allocation process within 12 months of the acquisition date.

As can be seen from the following tables, as part of the PPA process, at the acquisition date, no particularly significant differences emerged between the book values deriving from the financial statements of the two insurance companies and the relative fair value amounts, with the exception of one intangible asset typical of the insurance business pursuant to IFRS 4, previously not recognised in the financial statements of the two insurance companies, namely the Value of Business Acquired (VoBA), amounting to 61.1 million for Banco BPM Vita and 20.6 million for Banco BPM Assicurazioni.
The VoBA is a specific intangible asset linked to the "client relationship" resulting from the fair value measurement of technical reserves, and represents the value of current policies in the portfolio, in which the relationship with the acquired customers is substantiated, and essentially represents the capacity of insurance contracts, in place with customers at the time of acquisition, to generate profits over the residual useful life of the contracts acquired. Taking into account the provisions of IAS 12, deferred tax liabilities were recognised against the recognition of the intangible asset, applying the nominal rate envisaged for insurance companies.

Since this is a specific asset strictly linked to the contractual relationship with the acquired customers, the VoBA has a fixed duration and is subject to amortisation based on the residual life of the acquired contracts.

For more details on the VoBA, please refer to "Section 10 - Intangible assets" in Part B of these Notes to the financial statements.

Minor adjustments include the fair value measurement of provisions for employee severance pay (0.3 million) and the reversal of assets represented by deferred acquisition fees (7.4 million) as well as liabilities represented by the deferred acquisition costs related to financial products with no discretionary participation in profits classified according to IFRS 9 in the portfolio of financial liabilities designated at fair value (7.7 million).

Purchase Price Allocation process and calculation of goodwill

As acquirer, on the basis of that illustrated above with regard to the acquisition cost and the measurement of equity at fair value, as at the date of acquisition of control of Banco BPM Vita and Banco BPM Assicurazioni, Banco BPM Group recognised a difference of 10.0 million, which was allocated to goodwill and recorded under item "100. Intangible assets", as the residual amount of the unallocated acquisition cost. This goodwill represents the surplus of the cost of the business combination (382.0 million), compared to the acquirer's interest in the net fair value of the assets, liabilities and contingent liabilities identified (372.0 million) and was attributed to the "Banco BPM Vita" CGU.

A summary of PPA process and the allocation of the resulting goodwill is provided below.

(in thousands of euro)		
Total acquisition cost as at 1 July 2022	**381,996**	**A**
Book value of shareholders' equity of Banco BPM Vita and Banco BPM Assicurazioni as at 30 June 2022	315,089	B
Effects of PPA:	56,924	C= D+E+F+G
- Recognition of Banco BPM Vita VoBA	61,110	D
- Recognition of Banco BPM Assicurazioni VoBA	20,569	E
- Other minor adjustments	604	F
- Total tax effects	(25,359)	G
Shareholders' equity at fair value at the acquisition date	**372,013**	**H=B+C**
Goodwill	**9,983**	**I=A-H**

Lastly, the following table shows the balance sheet of Banco BPM Vita and Banco BPM Assicurazioni at the acquisition date with the relative impacts of the PPA to determine the net fair value of the assets and liabilities acquired:

figures in thousands of euro	**Book value at the acquisition date**		**PPA**		**Fair value of the net assets acquired**	
	Banco BPM Vita	**Banco BPM Assicurazioni**			**Banco BPM Vita**	**Banco BPM Assicurazioni**
Assets						
Cash and cash equivalents	124,944	3,814			124,944	3,814
Financial assets at fair value	6,113,444	53,025			6,113,444	53,025
Financial assets at amortised cost	5,811	970			5,811	970
Technical reserves of reinsurers	3,952	2,107			3,952	2,107
Property, plant and equipment	1,131	458			1,131	458
Intangible assets	1,301	1,304	81,679		62,411	21,873
of which VoBA			*81,679*	*(D+E)*	*61,110*	*20,569*
Tax assets:	63,931	2,556	2,292		66,223	2,556
- current	*42,306*	*1,938*			*42,306*	*1,938*
- deferred	*21,625*	*618*	*2,292*	*(G)*	*23,917*	*618*
Other assets	127,686	1,162	(7,438)	(F)	120,248	1,162
Total assets	**6,442,200**	**65,396**	**76,533**		**6,498,164**	**85,965**
Liabilities						
Financial liabilities at amortised cost	19,222	775			19,222	775
Financial liabilities designated at fair value	1,579,194				1,579,194	
Tax liabilities:	59,210	1,006	27,651		80,510	7,357
- current	*10*	*850*			*10*	*850*
- deferred	*59,200*	*156*	*27,651*	*(G)*	*80,500*	*6,507*
Other liabilities	58,365	11,673	(7,686)	(F)	50,679	11,673
Provisions for employee severance pay	1,793	186	(356)	(F)	1,476	147
Provisions for risks and charges	701	15			701	15
Technical reserves	4,439,449	20,918			4,439,449	20,918
Total liabilities	**6,157,934**	**34,573**	**19,609**		**6,171,231**	**40,885**
Shareholders' equity	**284,266**	**30,823**	**56,924**	**(C)**	**326,933**	**45,080**
Total Banco BPM Vita + Banco BPM Assicurazioni		**315,089 (B)**				**372,013 (H)**
Total cost (A)						381,996
Goodwill recognised (I = A - H)						9,983

In accordance with the provisions of Bank of Italy Circular no. 262, the table below includes data relating to the entity subject to the business combination (figures in millions of euro), the main items of which are determined on the assumption that the transaction took place at the beginning of the current year:

Company name	**Transaction date**	**(1)**	**(2)**	**(3)**	**(4)**
Banco BPM Vita S.p.A. (*)	22/07/2022	309.4	81%	50.6	14.6

(*) Please recall that Banco BPM Vita holds full control over Banco BPM Assicurazioni
Key:
(1) = Transaction cost
(2) = Percentage of interests acquired with voting right in the ordinary shareholders' meeting
(3) = Total Group revenues (total net operating income of the two insurance companies as at 31 December 2022)
(4) = Group net profit/loss (IFRS net profit of the two insurance companies as at 31 December 2022)

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

As highlighted in the section dedicated to significant events during the year of the Report on Operations, the following mergers by incorporation into the Parent Company of wholly owned subsidiaries were completed during the year:

- on 1 January 2022, the incorporation of Bipielle Real Estate took effect;
- on 21 February 2022, the merger by incorporation of Release took effect.

Both transactions took effect for accounting and tax purposes on 1 January 2022, in the simplified form envisaged for wholly owned companies.

These transactions do not fall under the scope of IFRS 3 and, in accordance with the Provisions of Circular 262/2005 of the Bank of Italy, they are generally reported in this section. In the absence of a relevant accounting standard, transactions "under common control" are recognised using the principle of continuity in accounting values. Specifically, the values used are those found in the Group's consolidated financial statements as of the date the assets were transferred.
These transactions did not have any impact on the balance sheet or the income statement of Banco BPM Group.

Section 2 - Transactions carried out after the end of the year

No business combination transactions with companies outside of the Group were completed after the end of the year.

Section 3 - Retrospective adjustments

It was not necessary to recognise any retrospective adjustments.

PART H – TRANSACTIONS WITH RELATED PARTIES

1. Information on compensation to directors and executives with strategic responsibilities

This information relates to those who, directly or indirectly, have the power and the responsibility to plan, manage and control the business activities of Group companies.

The table below summarises the compensation paid to directors, statutory auditors and executives with strategic responsibilities (general managers and other executives meeting the above characteristics).
In total, 148 assignments were entrusted to 115 people (including 26 executives).

(thousands of euro)	2022	2021 (*)
Total gross compensation	**15,648**	**16,759**
of which:		
Non-executive directors and Statutory auditors	4,520	4,576
Non-employee executive directors	234	541
Employee executive directors	4,831	4,865
Employees	6,063	6,777
Short-term benefits (e.g. car, lodging, accident insurance policy, medical assistance) (**)	**136**	**145**
Post-employment benefits (e.g. pension fund, supplementary pension scheme) (**)	**241**	**213**
Employee termination benefits (e.g. provisions for employee severance pay, other benefits)	**-**	**-**

(*) The figures for the previous year were restated to ensure a like-for-like comparison with the classification of the remuneration of executive directors adopted as at 31 December 2022.
(**) The figure represents the taxable amount of the benefits.

2. Information on transactions with related parties

In accordance with the requirements established by accounting standard IAS 24, the paragraphs below illustrate the criteria applied by Banco BPM Group to identify related parties, expressed in specific company regulations:

a) companies subject to significant influence and joint control: namely the entities in which the Parent Company Banco BPM or the Subsidiary entities exercise significant influence pursuant to IAS 28 or joint control pursuant to IFRS 11. In particular, these are the “Interests in companies subject to joint control and subject to significant influence” indicated under "Section 7 Interests in associates and joint ventures" in Part B of these Notes to the consolidated financial statements;
b) executives with strategic responsibilities: the members of the Board of Directors, the acting members of the Board of Statutory Auditors, the General Manager and the Co-General Managers of the Parent Company and the Group companies are classified as such, as well as the top operations and management executives of Banco BPM, identified by a dedicated board resolution, the Manager responsible for preparing the Company’s financial reports, the Head of the Compliance function, the Head of the Internal Audit function of Banco BPM, any additional structure heads identified by the Board of Directors of Banco BPM;
c) close family members of executives with strategic responsibilities: only family members that are able to influence (or be influenced by) the party concerned in the relationship between the latter and Banco BPM or Group companies. The following are presumed to be as such, unless otherwise declared in writing by the executive, under the latter’s own responsibility and containing adequate and analytical justification of the reasons that exclude any possible influence: spouses, common law spouses (including cohabitants whose status is not indicated in the family status certificate), offspring of the party, of the spouse or common law spouse, individuals dependent on the party, the spouse or common law spouse. Any other individual, which the party believes may influence them (or be influenced by them) in their dealings with Banco BPM or the other Group companies, is also a related party;
d) equity interests attributable to executives with strategic responsibilities and their close relatives: the following entities are considered to be related parties, those in which executives with strategic responsibilities or their close relatives have control pursuant to Art. 2359, paragraph 1 of the Italian Civil

Code, or joint control or exercise significant influence which is presumed when they hold, directly or indirectly, at least 20% of the voting rights which can be exercised during ordinary shareholders' meetings, or 10% if the company has shares listed on organised markets;

e) Group pension funds: the Pension Funds for employees of the Group and of any other related entity;

f) holders of a significant interest: shareholders and the relative corporate groups (legal entities which are parent companies, subsidiaries or subject to joint control) which control the Parent Company, even jointly, or which exercise significant influence over Banco BPM, are considered related parties. As a minimum, a situation of significant influence is deemed to exist when the shareholder holds an interest with voting rights exceeding 10% of the share capital of Banco BPM. Parties not belonging to the Group who hold an interest in other Group companies greater than 20% of the voting rights that may be exercised in the ordinary shareholders' meeting, or 10% if the company has shares listed in organised markets, are also considered to be related parties;

g) parties who themselves are in a position to appoint members of the Board of Directors by virtue of the articles of association or shareholders' agreements.

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

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

The tables below indicate the balance sheet and income statement transactions as at 31 December 2022 with the companies subject to significant influence, the joint ventures, management with strategic responsibilities (which include audit bodies) and other related parties.

(thousands of euro)	Entities exercising significant influence (1)	Associated companies	Joint ventures	Executives with strategic responsibilities	Other related parties	Total	% of consolidated total
Financial assets held for trading	-	4,936	-	-	101	5,037	0.11%
Financial assets measured at fair value through other comprehensive income	-	8,340	-	-	-	8,340	0.07%
Loans to customers	-	2,501,086	-	8,500	84,709	2,594,295	2.41%
Other assets	-	3,837	-	-	-	3,837	0.03%
Due to customers	-	326,150	-	12,982	- 47,865	386,997	0.36%
Financial liabilities held for trading	-	1,836	-	-	1,032	2,868	0.03%
Financial liabilities designated at fair value	-	-	-	68	1,496	1,564	0.04%
Other liabilities	-	6,842	-	45	746	7,633	0.10%
Guarantees given and commitments	-	612,842	-	2,106	114,024	728,972	1.28%

(1) Authorised parties who possess a shareholding greater than 10% of the share capital.

(thousands of euro)	Entities exercising significant influence (1)	Associated companies	Joint ventures	Executives with strategic responsibilities	Other related parties	Total	% of consolidated total
Net interest income	-	29,963		70	2,453	32,486	1.39%
Net fee and commission income	-	507,077	-	8	474	507,559	27.37%
Administrative expenses/recoveries of expenses	-	(9,650)	-	(13,307)	(615)	(23,572)	0.85%
Other costs/revenues	-	(3,365)	-	-	(1,002)	(4,367)	0.55%

(1) Authorised parties who possess a shareholding greater than 10% of the share capital.

Other related party transactions

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

	Purchases and sales of goods and services	Rental income	Rental expense
a) Directors	-	-	-
b) Executives with strategic responsibilities	-	-	-
c) Close family members of the parties in letters a) and b)	-	-	-
d) Subsidiary, associated company or subject to significant influence by the parties in letters a) and b)	1,152	198	-

Other information

In regard to paragraph 8 of Art. 5 "Disclosures to the public on related party transactions" of the CONSOB Regulation containing provisions for related-party transactions (adopted by CONSOB with resolution no. 17221 of 12 March 2010 as amended), the following paragraphs illustrate the most important transactions conducted in 2022, as well as those that are extraordinary and particularly significant.

Issuing of certificates by Banco BPM for 2022, to be placed through the Parent Company and Banca Aletti Network:

- *renewal of the framework resolution for 2022, regarding the fee and commission flow relating to the outsourcing to Banca Akros of the structuring of the certificates issued by Banco BPM and the management, by Banca Akros, of the full hedging of the financial risks resulting from the issue of the certificates by Banco BPM;*
- *renewal of the framework resolution for 2022 regarding the fee and commission flow for issues and placements of certificates by Banco BPM through the Parent Company and Banca Aletti Network.*

On 14 December 2021, the Board of Directors resolved to: (i) approve the issues of certificates by Banco BPM for a maximum total amount of up to 1.1 billion for the January-December 2022 period (of which 1 billion distributed through the Network of Banco BPM and 100 million distributed through the network of Banca Aletti); (ii) to approve for said activities in the same period a fee and commission flow in favour of Banca Akros, in the form of a framework resolution, for the structuring of the certificates and the management of the relative financial hedging, for a total amount of up to 11 million (of which, 10 million for the certificates issued and distributed by Banco BPM and 1 million for the certificates issued by Banco BPM and distributed by the Network of Banca Aletti) set as an average commission of 1%; (iii) to proceed with the placement, through the Parent Company and Banca Aletti Network, of the certificates issued by Banco BPM, recognising in favour of Banca Aletti, for the January-December 2022 period, for the placement activities, in the form of a framework resolution, a total amount of up to 1.7 million, set as a 1.75% commission.
On 27 September 2022, the Board of Directors resolved to increase the ceiling for the issue of certificates by Banco BPM to 1.6 million, to be distributed through the Commercial Network of the Parent Company, for the January-December 2022 period, with a consequential increase of 20.5 million, for the same time interval, in the fees and commissions paid by Banco BPM to Banca Akros, benchmarked to an average commission of 1.84% for the structuring of the certificates and the management of the relative financial hedging.
Please note that for the January-December 2022 period, certificates were issued by Banco BPM for a total of 1.3 billion, which generated fees and commissions of 1.1 million for Banca Aletti for placement activities; moreover, note that for the same period, fees and commissions were paid to Banca Akros for the structuring of certificates and the management of the relative financial hedging by Banco BPM of 31 million and by Banca Aletti of 1.5 million.
Subsequently, the Board of Directors, in the meeting of 20 December 2022, resolved (i) the increase in the ceiling relating to the fees and commissions paid by Banco BPM to Banca Akros for the structuring of certificates for the month of January 2023 for 3.9 million; (ii) the extension of the framework resolution concerning the fees and commissions paid by Banco BPM to Banca Aletti for the placement of certificates issued by Banco BPM for a total of 450 thousand euro, representing the residual unused value estimated at the end of December 2022 out of the 2022 ceiling of 1.7 million.

Framework resolution for the fee and commission flows in 2022 relating to the placement and management of Banca Aletti's asset portfolios by Banco BPM

The Board of Directors, in its meeting of 14 December 2021, approved, with reference to the placement of Banca Aletti's asset portfolios by Banco BPM with Banco BPM's retail customers, the payment for 2022, and specifically for the January-December 2022 period, of a maximum fee and commission flow to the Parent Company of 0.4 million.
For the January-December 2022 period, Banca Aletti paid fees and commissions of 0.374 million to Banco BPM.
Subsequently, the Board of Directors in the meeting of 20 December 2022 resolved the extension until 31 January 2023 of the framework resolution for a maximum fee and commission amount of 78 thousand euro, representing the residual unused value estimated at the end of December 2022 out of the 2022 ceiling of 0.4 million

Renewal of the framework resolution for 2022 fee and commission flows relating to the performance of trading on own behalf, order execution on behalf of customers, receipt and transmission of orders between Banco BPM, Banca Aletti and Banca Akros

On 14 December 2021, the Board of Directors approved: (i) the renewal of the framework resolution for which Banco BPM estimated paying for 2022, and specifically for the January-December 2022 period, a maximum fee and commission flow of 14 million to Banca Akros for the assignment to provide trading services on its own behalf, execute orders on behalf of customers, receive and transmit the orders referred to in Art. 1, paragraph 5, lett. a), b) and e) of the Consolidated Finance Law (CFL), with regard to the orders transmitted by Banco BPM and relating to investment accounts that have been and/or will be finalised by Banco BPM itself with its customers; (ii) the renewal of the framework resolution for which Banca Aletti estimates paying for 2022, and specifically for the January-December 2022 period, a maximum fee and commission flow of 3.3 million in favour of Banca Akros for the assignment to provide trading services on its own behalf, execute orders on behalf of customers, receive and transmit the orders referred to in Art. 1, paragraph 5, lett. a), b) and e) of the CFL, with regard to the orders transmitted by Banca Aletti and relating to the investment accounts that have been/or will be finalised by Banca Aletti itself with its customers.
Please note that for the January-December 2022 period, the fee and commission flow paid by Banco BPM was 10.2 million, while that paid by Banca Aletti amounted to 2 million.
Subsequently, on 20 December 2022, the Board of Directors approved: (i) an amendment of the 2019 framework agreement (hereinafter 2019 Framework Agreement Amended), with which Banco BPM gave Banca Akros the assignment to provide trading services on its own behalf, execute orders on behalf of customers, receive and transmit the orders referred to in Art. 1, paragraph 5, lett. a), b) and e) of the Consolidated Finance Law (CFL), with regard to the orders transmitted by Banco BPM and relating to investment accounts that have been and/or will be finalised by Banco BPM itself with its customers, excluding from the subject of the same transactions in financial derivatives traded in regulated markets; (ii) the stipulation of a new agreement between Banco BPM and Banca Akros (hereinafter Derivatives Framework Agreement) to regulate activities relating to order execution and netting services on behalf of customers and order receipt and transmission services on financial derivatives traded in regulated markets; (iii) the renewal of the framework resolution relating to the performance of trading activities by Banca Akros, applicable at the same time and jointly both to the 2019 Framework Agreement Amended and to the Derivatives Framework Agreement, for which Banco BPM estimates paying the subsidiary for 2023, and specifically from 1 January to 31 December 2023, a maximum fee and commission flow of 14 million; (iv) the renewal of the framework resolution regarding the performance of trading activities by Banca Akros, for which Banca Aletti, on the basis of the Framework Agreement Banca Aletti - Banca Akros, estimates paying for 2023, and specifically from January to December 2023, a maximum fee and commission flow of 3.3 million.

Issue of Banca Akros Investment certificates to be placed on third-party networks and 2022 Ceiling for the relative bond issues of Banco BPM, subscribed by Banca Akros and intended for the use of the ensuing liquidity

At its meeting held on 27 January 2022, the Board of Directors approved a ceiling for the issue by Banco BPM, during 2022, of bonds for a maximum of 200 million, which will be offered for subscription entirely to Banca Akros in order to be able to manage the liquidity ensuing from the placement of certificates.
Subsequently, on 8 November 2022, the Board of Directors resolved to increase the ceiling relating to the issue of bonds by Banco BPM, which will be offered for subscription entirely to the subsidiary Banca Akros in 2022, from the current 200 million up to a maximum amount of 250 million.
Please note that for the January - December 2022 period, bonds totalling 205 million were issued, offered for subscription entirely to Banca Akros.

Initiatives as part of the Group's Covered Bond ("CB") issue programmes: proposal for (i) the sale of new portfolios of eligible assets as part of the BPM CB1 and BPM CB2 issue programmes; (ii) determination of annual ceilings with maturity on 31 December 2022 for the periodic repurchase of assets sold

At its meeting held on 1 March 2022, the Board of Directors approved: (i) the sale by Banco BPM to the SPE BPM Covered Bond S.r.l. of the New BPM CB1 Portfolio of eligible assets consisting of residential and commercial mortgage loans, for the amount of approximately 810 million; (ii) the sale by Banco BPM to the SPE BPM Covered Bond 2 S.r.l. of the New BPM CB2 Portfolio of eligible assets consisting exclusively of residential mortgage loans for the amount of approximately 1.8 billion; (iii) the determination of annual ceilings up to a maximum of 100 million each with maturity on 31 December 2022 for each covered bond issue programme, in order to carry out, on the basis of the criteria established in the relative programmes, periodic repurchases of the loans sold to the SPEs BP Covered Bond S.r.l., BPM Covered Bond S.r.l. and BPM Covered Bond 2 S.r.l..
In execution of said resolutions, in March 2022, by signing the relative contracts, Banco BPM sold respectively (i) a new portfolio of residential mortgage loans, including disbursements to Group employees, and commercial mortgage loans, for a total residual debt of around 419 million to the SPE BPM Covered Bond S.r.l. (Fourth Banco BPM Portfolio) and (ii) a new portfolio of residential mortgage loans, excluding disbursements to Group employees, for a total residual debt of 1,754 million to the SPE BPM Covered Bond 2 S.r.l. (Seventh Banco BPM Portfolio).
Please note that for the period January - December 2022, the annual ceilings for the periodic repurchases of assets sold were used for 14.0 million, 24.6 million and 10.8 million, respectively.
At its meeting held on 18 October 2022, as part of the covered bond issue programmes, the Board of Directors resolved to repurchase mortgage loans from the respective SPEs that have: 1) potential gaps in the documentation and limited accuracy of the data entered in the bank's IT systems; 2) expired mortgage collateral, in total for the maximum amounts defined (5 million in mortgage loans with expired mortgage collateral for the vehicle BP CB, 100 million in mortgage loans for the SPE BPM CB1 and 2 million in mortgage loans with mortgage collateral expired for the SPE BPM CB2) and the signature of the Repurchase Documents; in execution of this resolution, in November 2022, Banco BPM repurchased, as part of the BP CB1, BPM CB1 and BPM CB2 issue programmes, a portion of the mortgage loans previously sold to the respective SPEs and no longer classifiable as eligible for an amount of 1.7 million for CB1, 84.8 million for BPM CB1 and 0.4 million for BPM CB2, respectively.
Subsequently, at its meeting held on 29 November 2022, the Board of Directors resolved the renewal, for the period January - 31 December 2023, of the annual ceilings for the periodic repurchase, for up to a maximum of 100 million for each of the outstanding Covered Bonds programmes and on the basis of the criteria established therein, of assets sold to the SPEs BP Covered Bond S.r.l., BPM Covered Bond S.r.l. and BPM Covered Bond 2 S.r.l. as well as the signature of the Repurchase Documents relating to each programme.

Proposal to review the credit facilities granted to BPL Mortgages S.r.l.

At its meeting held on 29 March 2022, the Board of Directors approved the revision as at 31 March 2023 of the credit facilities granted to BPL Mortgages S.r.l. and in particular the granting (i) of new banking book lines for a total of 2.5 billion, with maximum maturity at 31 December 2064, for the purchase of new bonds issued as part of the structuring of a new securitisation called BPL 8 approved at the Board of Directors meeting of 14 December 2021, (ii) of a new subordinated loan of 75 million, with maximum maturity at 31 December 2064, in order to increase the cash reserve required by rating agencies to cover any liquidity shortfalls throughout the duration of the above-mentioned securitisation transaction.

Please note that the new securitisation transaction called BPL Mortgages 8 was carried out in March 2022 through the sale by Banco BPM to the SPE BPL Mortgages S.r.l. of a portfolio of eligible loans (for a sale value, including accruals, of 2.45 billion) and completed in April with the issue by the SPE of two classes of securities, both subscribed by Banco BPM, for a total amount of 2.45 billion. The initial Cash Reserve of the transaction, amounting to 72 million, was established mainly through the disbursement by Banco BPM of a subordinated loan for an amount of 67 million. As at 31 December, the subordinated loan amounted to 60.1 million.

Alba Leasing risk group - confirmation of the lending ceiling for direct risks, reduction of total credit lines and new review date

At its meeting held on 5 July 2022, the Board of Directors resolved to approve in favour of Alba Leasing S.p.A.: (i) the confirmation of the lending ceiling for direct risks at 1 billion; (ii) the reduction of total credit lines from 973.2

million to 971.2 million, in addition to indirect risks for 0.04 million and evidence risks for 15 million; (iii) the new review date as 30 June 2023.

Approval of the project for the partial demerger of Tecmarket Servizi S.p.A. in favour of Banco BPM S.p.A.

At the meeting held on 3 August 2022, the Board of Directors approved the partial demerger, with a simplified procedure pursuant to Articles 2505 and 2506-ter of the Italian Civil Code, through which Tecmarket Servizi S.p.A., a service company wholly owned by Banco BPM, assigned Banco BPM a portfolio of assets relating to all its activities and services, with the exclusion of activities related to POS terminal management services and technical assistance to Banco BPM customers for the POS service, as the most valuable business on which the subsidiary will focus its operations following the demerger.
Following the issue on 18 October 2022 of the ECB's authorisation pursuant to Art. 57 of Italian Legislative Decree no. 385/1993, the next stages of the corporate demerger process were carried out, the last of which was the signature of the demerger deed on 16 December 2022.
The demerger is effective, also for accounting and tax purposes, from 1 January 2023; therefore, from the same date, transactions relating to the demerged business unit were charged to the financial statements of the beneficiary Banco BPM.

PART I – SHARE-BASED PAYMENT AGREEMENTS

A. QUALITATIVE INFORMATION

1. Description of share-based payment agreements

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

As the Parent Company, Banco BPM S.p.A. prepares the annual Policy-on-remuneration report and payouts awarded pursuant to the provisions in force on remuneration and incentive policies and practices of the Bank of Italy (Circular no. 285/2013, 37th update of 24 November 2021, Part I, Title IV, Chapter 2 "Remuneration and incentive policies and practices"), of Art. 123-*ter* of Italian Legislative Decree 58/1998 ("Consolidated Finance Law" or "CFL") as amended and of Art. 84-*quater* of CONSOB resolution no. 11971/1999 as amended ("Issuers' Regulation").
The remuneration policy ("Policy") provides important managerial leverage, with a view to attracting, motivating and retaining management and staff, and to guide their behaviour towards an approach to limit the risk exposure of the intermediary (including legal and reputational risks), as well as to protect and retain customers, in a spirit of correct conduct and management of conflicts of interest. It also contributes to pursuing sustainable development, which entails creating long-term value for shareholders, while taking the interests of all stakeholders that are important to the Group.

The 2022 Policy defines the guidelines for Group staff remuneration and incentive systems, for the pursuit of long-term strategies, objectives and results, in accordance with the general framework of governance and risk management policies, while complying with levels of liquidity and capitalisation. With regards to ESG aspects (Environmental, Social, Governance), the 2022 Policy continues in the direction taken in previous years, further strengthens the correlation between the variable remuneration of management and staff and strategic actions relating to environmental issues, aspects regarding health and safety and human resource management, with regard to which an inclusive and gender neutral corporate culture is becoming increasingly important. Banco BPM's remuneration policy for staff is gender neutral.
In accordance with the 2022 Policy, the remuneration of Group employees includes a variable component (incentive) linked to the annual incentive system (Short-Term Incentive Plan). The receipt of an incentive is subject to the contextual verification that the predefined access conditions (gateways) have been met, comprised of indicators of capital adequacy and adequacy of liquidity and profitability. Following verification of the gateways, but prior to any disbursements, the amount of economic resources actually available is determined based on the income statement results achieved (financial adjustment factor) as well as qualitative indicators of a non-financial nature (non-financial adjustment factor). In both cases, conditions are included and monitored, in line with the Group Risk Appetite Framework.
The incentive for identified staff[1] established in the year 2022, is paid over a period of six or five years, and is divided into an up-front portion and five or four annual deferred portions, subject to the successful fulfilment of future conditions.

The up-front portion, regardless of beneficiary, amounts to:

- 60% of the incentive awarded, in cases where the annual individual variable remuneration is less than 435 thousand euro;
- 40% of the incentive awarded, in cases where the annual individual variable remuneration is equal to or greater than 435 thousand euro.

[1] Parties whose professional activity has or may have a significant impact on the Group's risk profile.

The figure of 435 thousand euro represents for the Group the level of variable remuneration of a particularly high amount, determined in keeping with the criterion established by the Bank of Italy Supervisory Regulations[1].
50% of the up-front portion of the incentive is awarded in Banco BPM ordinary shares.
The deferred portions consist of:

- five annual instalments of the same amount deferred in the five-year period following the year of vesting of the up-front portion, for 55% in Banco BPM ordinary shares, for the senior identified staff, regardless of the amount of the annual individual variable remuneration awarded, and for the heads of the main business lines of Banca Akros or Banca Aletti who report directly to the Chief Executive Officer or senior management of Banca Akros or Banca Aletti, in the event that the amount of the annual individual variable remuneration paid is equal to or greater than 435 thousand euro;
- four annual instalments of the same amount, deferred in the four-year period following the year of vesting of the up-front portion, for 50% in Banco BPM ordinary shares, for identified staff not included in the previous point.

As required by the Supervisory Provisions of the Bank of Italy, in cases where the annual individual variable remuneration is lower than or equal to the significance threshold of 50 thousand euro, and, at the same time, lower than or equal to one third of the total annual individual remuneration, the relative amount awarded is paid out in cash and in a lump sum.

To support the 2021-2024 Strategic Plan and align the interests of the management and shareholders, remunerating the Group's strategic resources based on medium-long term value creation, the Group has introduced the Long-Term Incentive (LTI) plan relating to performance to be achieved in the 2022-2024 three-year period, which joins the 2021-2023 LTI plan launched in 2021, for which, without any additional expense, the objectives at 2023 have been made more challenging.
The scope of the beneficiaries of the LTI Plan includes around 60 positions relating to the Group's identified staff (excluding those belonging to functions with control tasks), selected on the basis of the level of the position and the impact on the business, including the Chief Executive Officer and executives with strategic responsibilities of the Parent Company.
The incentive correlated with the LTI Plan (LTI incentive) is fully assigned in Banco BPM ordinary shares, is awarded at the end of the three-year performance period and is proportional to the level of achievement of the conditions and performance objectives.
For the 2021-2023 LTI incentive, the provisions in force at the time of its adoption are applied and the method of allocation envisaged in the 2021 Policy over six or four years remains confirmed, divided into an up-front share equal to 40% and five or three annual deferred portions, depending on the staff, subject to the successful fulfilment of future conditions. The 2022-2024 LTI incentive is paid in an up-front portion of 40% and in annual deferred portions of the same amount, in accordance with the provisions of the 2022 Short-Term Incentive Plan, subject to the successful fulfilment of future conditions.

For both the Short-Term Incentive and Long-Term Incentive Plans, for vested shares (up-front and deferred), a one-year retention period (selling restriction) is established, which starts from the time of their vesting; the transfer of ownership to the beneficiary takes place at the end of this period.
Both the up-front portions and the deferred portions are subject to malus and claw-back mechanisms, as set forth in the Policy.

Aside from the Banco BPM S.p.A. Share-based compensation plans relating to the 2022 Short-Term Incentive Plan and the 2022-2024 Long-Term Incentive Plan and the raising of the achievement levels of the performance objectives of the 2021-2023 Long-Term Incentive Plan to the more challenging 2023 objectives of the Strategic Plan, the Ordinary Shareholders' Meeting of Banco BPM held on 7 April 2022 approved:

- the 2022 remuneration policy - Section I of the Policy-on-remuneration report and payouts awarded of Banco BPM Banking Group's staff – 2022;
- the report on payouts awarded - Section II of the Policy-on-remuneration report and payouts awarded of Banco BPM Banking Group's staff – 2022 (advisory vote);
- the criteria for calculating any amounts to be granted in the event of early termination of employment or early departure from office of all personnel, including therein the limits set on said amounts;

[1] See Part One, Title IV, Chapter 2, Section III, Paragraph 2: "Particularly high variable remuneration amount means the lower of: i) 25 per cent of the total average remuneration of the Italian high earners, resulting from the most recent report published by the EBA; ii) 10 times the total average remuneration of the bank's employees".

- the request for authorisation to purchase and dispose of own shares in service of the Banco BPM S.p.A. share-based payment plans.

For further information refer to the content of the following documents: 2022 Policy-on-remuneration report and payouts awarded of Banco BPM Banking Group's staff (Section I and Section II), the Information Document on the Banco BPM Share-based compensation plan - 2022 Short-Term Incentive Plan, Information Document on the Banco BPM Share-based compensation plan - 2021-2022-2023 Long-Term Incentive Plan and Information Document on the Banco BPM Share-based compensation plan - 2022-2023-2024 Long-Term Incentive Plan, available on the website www.gruppo.bancobpm.it (Corporate Governance - Remuneration Policies section).

1.2 Share-based compensation plans of previous years

On 1 March 2022, the Banco BPM Board of Directors acknowledged the vesting in the year 2022 of the equity component of the deferred short and long-term incentives referring to the share-based compensation plans currently valid and approved on the basis of previous shareholders' resolutions.

In relation to the equity components attributable to years preceding the founding of the Banco BPM group, the number of ordinary shares of the former Banca Popolare di Milano awarded was converted into Banco BPM shares – by virtue of the merger with the former Banco Popolare - based on the value established for the share swap of 1 Banco BPM share for every 6.386 shares of the former Banca Popolare di Milano.

For more details on the procedures and the terms for the allocation of the shares under the above-illustrated Plans, please refer to the respective information documents drawn up in accordance with Art. 84-*bis* of the Issuers' Regulation, deposited at the registered office, at Borsa Italiana S.p.A. and also available to the general public on Banco BPM S.p.A.'s website at www.gruppo.bancobpm.it (from 2017: Corporate Governance — Remuneration Policy section; for previous years: Corporate Governance — Shareholders' Meetings — Pre-Merger Shareholders' Meeting section).

1.3 Amounts for early termination of employment

In compliance with regulations in force over time, the Parent Company has the unilateral right to agree — subject to the conditions and in accordance with the methods defined in the Policy — possible amounts for the early termination of employment (for identified staff, golden parachutes), which may be awarded up to the maximum extent of twenty-four months of fixed remuneration (excluding indemnity for lack of notice, determined by legislative provision) and up to the maximum limit of 2.4 million (employee gross amount).

The recognition of the amounts for early termination of the employment relationship is subject to the positive verification of the conditions, related to the previous financial year, of capital adequacy and liquidity; it is also determined considering any element deemed relevant and in any case:

- the positive results achieved over time;
- the circumstances that led to the termination, taking into account the interests of the company also in order to avoid an error of judgement;
- the tasks performed and/or positions held in the course of the employment relationship, also in the sense of risks assumed by the subject;
- the duration of the employment relationship and of the job;
- savings as a result of early termination of employment.

Payment thereof occurs according to the same methods provided for by the Short-Term Incentive Plan, defined in the remuneration policy in force on the date of termination, with reference to the last position for which payment of the amount was assessed, without prejudice to specific conditions envisaged by the Bank of Italy Supervisory Regulations.
The amounts for early termination of the employment relationship, both for identified staff and the remaining personnel, shall only be disbursed in the absence of fraudulent conduct or gross negligence committed by the person who has terminated his/her employment. In the case of directly appointed personnel, the Parent Company's Board of Directors ascertains whether significant misconduct is present; for remaining employees, this assessment is made by the Chief Executive Officer of the Parent Company. If misconduct is determined, the portions that have not yet been paid are cancelled (malus) and any previously paid ones must be returned (clawback). The assessment takes into account a five-year period starting from the time of their vesting.

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

B. QUANTITATIVE INFORMATION

1. Annual changes

The balance of the "stock of shares" as at 1 January 2022, entirely held by the Parent Company Banco BPM, consisted of 3,569,511 ordinary shares of Banco BPM.
In 2022, in implementation of the remuneration policy, a total of 1,992,671 ordinary shares of Banco BPM S.p.A. were delivered to 95 beneficiaries.

1.1 Own share purchase programme to service the share allocation plans for Banco BPM Group's identified staff

Please recall that the Ordinary Shareholders' Meeting of Banco BPM S.p.A. of 15 April 2021 approved, inter alia, the request for the authorisation to purchase and dispose of own shares to service the share-based compensation plans and that - based on the authorisation issued by the European Central Bank in accordance with the applicable provisions of Regulation (EU) no. 575/2013 and Delegated Regulation (EU) no. 241/2014 - Banco BPM implemented the own share purchase programme to support all short- and long-term incentive plans in place, which make provision for deferred portions.

In particular, please note that, in accordance with the press releases distributed most recently on 24 February 2022, as part of the above share purchase programme, Banco BPM purchased a total of 4,582,640 own shares (equal to 0.30% of the ordinary shares outstanding) on the Euronext Milan Market during the period from 15 to 24 February 2022, inclusive, at an average unit price of 3.491437 euro, for a total value of 16 million.

Following the above-mentioned transactions and taking into account the previous stock of own shares in addition to the share deliveries made in 2022 which took place as part of the implementation of the remuneration and incentive policies, as at 31 December 2022 Banco BPM directly owns 6,159,480 own shares.

2. Other information

With reference to the resolution passed by the Banco BPM Board of Directors on 1 March 2022 with regard to the share-based compensation plan approved by the Ordinary Shareholders' Meeting in 2021, a total of 1,345,934 shares were granted to 73 beneficiaries, of which (i) 736,732 relating to the vested up-front portion and (ii) 609,202 relating to the deferred portions, as appropriate, in the three or five years after 2022, the vesting of which remains subject to positive verification of future consolidated conditions as well as the absence of misconduct; as regards this plan, note that the Parent Company granted 1,167,690 shares to its beneficiaries, of which 631,097 shares relating to the vested up-front portion and 536,593 shares related to the differed portions as specified above.
The same resolution also determined the vesting of deferred portions relating to previous years (2016, 2017, 2018, 2019, 2020 and 2017-2019 LTI) for a total of 882,919 Banco BPM shares to 81 beneficiaries, of which 747,532 shares vested in favour of Banco BPM beneficiaries.

2.1 Economic impact in 2022

With regard to the Share-based Incentive systems for identified staff in 2022, the Group allocated 8.9 million, the most significant amounts are attributable, for 3.4 million to the 2022 short-term incentive plan and to the 2021-2023 and 2022-2024 long-term plans for 3.6 million and 1.3 million, respectively, and the difference is due to the negative adjustment of the short-term plans of previous years.
It should be noted that the amount attributable to the Parent Company, for these Incentive Systems, is 7.9 million.

PART L – SEGMENT REPORTING

According to IFRS 8, companies must provide information enabling users of financial statements to assess the nature and the effects on the financial statements of their business activities and the economic contexts in which they operate.
Therefore, it is necessary to highlight the contribution of the various "operating segments" to the formation of the Group's income.
The identification of the "operating segments" of this Section is consistent with the procedures adopted by Company Management to make operating decisions and is based on internal reporting, used for allocating resources to the various segments and analysing their performance. In that view, also to improve the representation of the Group's profitability, operating segments that are below the quantitative thresholds put forward in paragraph 13 of IFRS 8 are also highlighted.
Accordingly, also with a view to improving how the Group's profitability is represented, the Segment Reporting structure was revised, effective from 31 December 2022, to emphasise the process of internalising the bancassurance business, undertaken by the Group during the current year. In addition, the Leases segment, now a residual activity in terms of the Group's operations, was transferred to the Corporate Centre.

Therefore, for 2022, the operating segments taken as a reference to provide the disclosure in question are as follows:

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

For a description of the configuration of said operating segments, refer to the disclosure set out in the Section "Results by business segment" of the Report on operations of the Group.

The tables below provide the detailed income statement and balance sheet figures by segment as at 31 December 2022, compared with the corresponding figures for the previous year. As envisaged by par. 29 of IFRS 8, the figures referring to 2021 have been restated with respect to those published in the Annual Financial Report for 2021, to reflect the changes introduced in the composition of the operating segments indicated above, so as to allow a like-for-like comparison.

Segment results - income statement figures

2022	Total	Retail	Corporate	Institutional	Private	Investment Banking	Insurance	Strategic Partnerships	Corporate Centre
Net interest income	2,314,409	1,183,947	474,250	94,552	4,091	56,509	(39)	(1,961)	503,060
Gains (losses) on interests in associates and joint ventures carried at equity	157,483	-	-	-	-	-	5,399	150,221	1,863
Financial margin	**2,471,892**	**1,183,947**	**474,250**	**94,552**	**4,091**	**56,509**	**5,360**	**148,260**	**504,923**
Net fee and commission income	1,887,322	1,442,055	278,601	50,118	97,177	50,237	-	-	(30,866)
Other net operating income	71,602	5,965	58	3,470	5	962	1,219	-	59,923
Net financial result	242,983	(7,529)	(18,338)	(466)	(429)	13,278	-	-	256,467
Profit (loss) on insurance business	31,718	-	-	-	-	-	31,718	-	-
Other operating income	**2,233,625**	**1,440,491**	**260,321**	**53,122**	**96,753**	**64,477**	**32,937**	**-**	**285,524**
Operating income	**4,705,517**	**2,624,438**	**734,571**	**147,674**	**100,844**	**120,986**	**38,297**	**148,260**	**790,447**
Personnel expenses	(1,608,901)	(1,046,107)	(76,838)	(13,884)	(57,159)	(29,590)	(8,133)	(1,741)	(375,449)
Other administrative expenses	(650,380)	(718,958)	(134,810)	(31,113)	(15,259)	(60,478)	(6,478)	(619)	317,335
Net value adjustments to property, plant and equipment and intangible assets	(280,088)	(107,446)	(4,102)	(607)	(3,501)	(370)	(948)	(40)	(163,074)
Operating expenses	**(2,539,369)**	**(1,872,511)**	**(215,750)**	**(45,604)**	**(75,919)**	**(90,438)**	**(15,559)**	**(2,400)**	**(221,188)**
Profit (loss) from operations	**2,166,148**	**751,927**	**518,821**	**102,070**	**24,925**	**30,548**	**22,738**	**145,860**	**569,259**
Net adjustments to loans to customers	(682,281)	(410,028)	(191,673)	(1,396)	541	111	-	-	(79,836)
Fair value gains (losses) on property, plant and equipment	(108,347)	-	-	-	-	-	-	-	(108,347)
Net adjustments to securities and other financial assets	(9,106)	-	-	-	-	(68)	-	-	(9,038)
Net provisions for risks and charges	(57,214)	(33,761)	(11,915)	(386)	(4,665)	(83)	(3)	-	(6,401)
Gains (losses) on interests in associates and joint ventures and other investments	2,258	-	-	-	-	-	-	-	2,258
Profit (loss) before tax from continuing operations	**1,311,458**	**308,138**	**315,233**	**100,288**	**20,801**	**30,508**	**22,735**	**145,860**	**367,895**
Taxation charge related to profit or loss from continuing operations	(408,931)	(108,011)	(105,648)	(33,160)	(7,240)	(9,227)	(5,900)	1,429	(141,174)
Profit (loss) after tax from continuing operations	**902,527**	**200,127**	**209,585**	**67,128**	**13,561**	**21,281**	**16,835**	**147,289**	**226,721**
Charges related to the banking system, net of taxes	(151,887)	(110,412)	(14,348)	(13,976)	(963)	(2,556)	-	-	(9,632)
Goodwill impairment	(8,132)	-	-	-	-	-	-	-	(8,132)
Change in own credit risk on Certificates issued by the Group, net of taxes	4,818	-	-	-	-	-	-	-	4,818
Purchase Price Allocation net of taxes	(45,523)	(23,926)	110	(25)	(2,490)	-	-	-	(19,192)
Profit (loss) for the year attributable to non-controlling interests	786	-	-	-	-	-	-	-	786
Parent Company's profit (loss) for the year	**702,589**	**65,789**	**195,347**	**53,127**	**10,108**	**18,725**	**16,835**	**147,289**	**195,369**

2021 (*)	Total	Retail	Corporate	Institutional	Private	Investment Banking	Insurance	Strategic Partnerships	Corporate Centre
Net interest income	2,041,628	1,041,503	472,599	51,219	(2,557)	53,830		(4,919)	429,953
Gains (losses) on interests in associates and joint ventures carried at equity	231,940	-	-	-	-	-		229,608	2,332
Financial margin	**2,273,568**	**1,041,503**	**472,599**	**51,219**	**(2,557)**	**53,830**	**-**	**224,689**	**432,285**
Net fee and commission income	1,911,203	1,475,885	243,007	42,585	100,394	43,424		-	5,908
Other net operating income	75,280	5,167	61	3,504	5	1,126		-	65,417
Net financial result	250,695	4,010	22,373	(420)	(283)	13,414		-	211,601
Other operating income	**2,237,178**	**1,485,062**	**265,441**	**45,669**	**100,116**	**57,964**	**-**	**-**	**282,926**
Operating income	**4,510,746**	**2,526,565**	**738,040**	**96,888**	**97,559**	**111,794**	**-**	**224,689**	**715,211**
Personnel expenses	(1,667,799)	(1,069,629)	(76,023)	(12,972)	(55,953)	(33,528)		(1,935)	(417,759)
Other administrative expenses	(601,151)	(722,089)	(118,711)	(28,186)	(15,909)	(58,038)		(521)	342,303
Net value adjustments to property, plant and equipment and intangible assets	(246,825)	(110,248)	(4,629)	(749)	(3,423)	(356)		(190)	(127,230)
Operating expenses	**(2,515,775)**	**(1,901,966)**	**(199,363)**	**(41,907)**	**(75,285)**	**(91,922)**	**-**	**(2,646)**	**(202,686)**
Profit (loss) from operations	**1,994,971**	**624,599**	**538,677**	**54,981**	**22,274**	**19,872**	**-**	**222,043**	**512,525**
Net adjustments to loans to customers	(887,199)	(438,667)	(390,234)	(8,054)	(265)	(55)		-	(49,924)
Fair value gains (losses) on property, plant and equipment	(141,633)	-	-	-	-	-		-	(141,633)
Net adjustments to securities and other financial assets	(328)	-	-	-	-	17		-	(345)
Net provisions for risks and charges	(26,039)	(14,978)	(5,242)	(149)	(204)	490		-	(5,956)
Gains (losses) on interests in associates and joint ventures and other investments	(18,768)	-	-	-	-	-		(18,673)	(95)
Profit (loss) before tax from continuing operations	**921,004**	**170,954**	**143,201**	**46,778**	**21,805**	**20,324**	**-**	**203,370**	**314,572**
Taxation charge related to profit or loss from continuing operations	(253,828)	(61,690)	(48,316)	(15,439)	(7,327)	(5,834)		2,487	(117,709)
Profit (loss) after tax from continuing operations	**667,176**	**109,264**	**94,885**	**31,339**	**14,478**	**14,490**	**-**	**205,857**	**196,863**
Charges related to the banking system, net of taxes	(144,995)	(92,946)	(11,159)	(10,726)	(772)	(3,836)		-	(25,556)
Impact of the realignment of tax values to book values	81,709	29,967	1,850	842	242	-		-	48,808
Change in own credit risk on Certificates issued by the Group, net of taxes	4,354	-	-	-	-	-		-	4,354
Purchase Price Allocation net of taxes (*)	(39,460)	(28,107)	167	(38)	(2,680)	-		-	(8,802)
Profit (loss) for the year attributable to non-controlling interests	284	-	-	-	-	-		-	284
Parent Company's profit (loss) for the year	**569,068**	**18,178**	**85,743**	**21,417**	**11,268**	**10,654**	**-**	**205,857**	**215,951**

(*) The figures for the previous year have been restated to reflect the changes introduced in the composition of the operating segments as at 31 December 2022.

The following tables show the details of fee and commission income of 2022 and the previous year disaggregated by type of service provided and defined with an operating outlook, and by IFRS 8 operating segment, in line with the disclosure requirements introduced by IFRS 15.

2022 Service type/Amounts	**Group**	**Retail**	**Corporate**	**Institutional**	**Private**	**Investment Banking**	**Insurance**	**Strategic Partnerships**	**Corporate Centre**
Savings products	**666,251**	**589,316**	**1,230**	**5,537**	**98,710**	**-**	**-**	**-**	**(28,542)**
of which:									
Indirect upfront - Network	*209,130*	*200,977*	*89*	*1,181*	*6,883*	-	-	-	-
Administered	26,247	24,831	18	132	1,266	-	-	-	-
Portfolio management and funds	143,125	137,724	70	888	4,443	-	-	-	-
Life	39,758	38,422	1	161	1,174	-	-	-	-
Indirect running - Network	*485,663*	*388,339*	*1,141*	*4,356*	*91,827*	-	-	-	-
Administered	62,713	52,969	314	1,460	7,970	-	-	-	-
Portfolio management and funds	377,936	297,712	779	2,670	76,775	-	-	-	-
Life	45,014	37,658	48	226	7,082	-	-	-	-
Indirect non-Commercial Network	*(28,542)*	-	-	-	-	-	-	-	*(28,542)*
Investment Banking	**82,132**	**-**	**-**	**-**	**-**	82,132	**-**	**-**	**-**
Insurance protection	**50,252**	49,970	18	39	90	-	**-**	**-**	**135**
Other fees and commissions	**1,207,839**	**880,754**	**289,746**	**47,387**	**1,912**	**-**	**-**	**-**	**(11,960)**
Fee and commission income	**2,006,474**	**1,520,040**	**290,994**	**52,963**	**100,712**	**82,132**	**-**	**-**	**(40,367)**
Fee and commission expense	**(119,152)**	**(77,985)**	**(12,393)**	**(2,845)**	**(3,535)**	**(31,895)**	**-**	**-**	**9,501**
Net fee and commission income	**1,887,322**	**1,442,055**	**278,601**	**50,118**	**97,177**	**50,237**	**-**	**-**	**(30,866)**

2021 (*) Service type/Amounts	Group	Retail	Corporate	Institutional	Private	Investment Banking	Insurance	Strategic Partnerships	Corporate Centre
Savings products	**779,857**	**660,149**	**1,095**	**5,516**	**102,564**	**-**		**-**	**10,533**
of which:									
Indirect upfront - Network	*281,186*	*270,981*	*87*	*1,447*	*8,671*	-		-	-
Administered	8,588	8,398	30	40	120	-		-	-
Portfolio management and funds	232,919	224,510	56	1,260	7,093	-		-	-
Life	39,679	38,073	1	147	1,458	-		-	-
Indirect running - Network	*474,967*	*389,168*	*1,008*	*4,069*	*93,893*	-		-	*(13,171)*
Administered	48,549	52,751	256	1,483	7,230	-		-	(13,171)
Portfolio management and funds	381,540	298,551	702	2,390	79,897	-		-	-
Life	44,878	37,866	50	196	6,766	-		-	-
Indirect non-Commercial Network	*23,704*	-	-	-	-	-		-	*23,704*
Investment Banking	**70,295**	**-**	**-**	**-**	**-**	70,295		**-**	-
Insurance protection	**49,512**	49,242	20	36	75	-		-	139
Other fees and commissions	**1,129,445**	**832,686**	**255,811**	**38,708**	**1,645**	**-**		**-**	**595**
Fee and commission income	**2,029,109**	**1,542,077**	**256,926**	**44,260**	**104,284**	**70,295**	**-**	**-**	**11,267**
Fee and commission expense	**(117,906)**	**(66,192)**	**(13,919)**	**(1,675)**	**(3,890)**	**(26,871)**		**-**	**(5,359)**
Net fee and commission income	**1,911,203**	**1,475,885**	**243,007**	**42,585**	**100,394**	**43,424**	**-**	**-**	**5,908**

(*) The figures for the previous year have been restated to reflect the changes introduced in the composition of the operating segments as at 31 December 2022.

The following tables provide the details of the item "Other fees and commissions" for 2022 and for the previous year, broken down by the type of service provided:

Other fees and commissions 2022	**Group**	**Retail**	**Corporate**	**Institutional**	**Private**	**Investment Banking**	**Insurance**	**Strategic Partnerships**	**Corporate Centre**
Keeping and management of current accounts, Credit Availability Fee (CDC)	**506,619**	**431,723**	**59,406**	**14,343**	**1,095**	**-**	**-**	**-**	**52**
of which:									
Credit Availability Fee (CDC)	*241,433*	196,102	41,145	3,918	268	-	-	-	-
Keeping and management of current accounts	*265,186*	235,621	18,261	10,425	827	-	-	-	*52*
Commission on loans (including consumer credit) and unsecured loans Italy	**255,614**	**79,523**	**158,013**	**14,552**	**115**	**-**	**-**	**-**	**3,411**
of which:									
Commission on loans	*157,219*	13,299	130,856	12,863	(6)	-	-	-	*207*
Commission on unsecured loans	*45,439*	17,245	27,157	1,688	105	-	-	-	*(756)*
Consumer Credit	*52,956*	48,979	-	1	16	-	-	-	*3,960*
Abroad (including unsecured loans)	**81,617**	**35,761**	**45,612**	**589**	**175**	**-**	**-**	**-**	**(520)**
Collection and payment services, e-money	**365,990**	**336,931**	**27,133**	**18,347**	**1,459**	**-**	**-**	**-**	**(17,880)**
of which:									
Collection and payment services	*182,332*	*146,066*	*19,957*	*12,294*	*742*	-	-	-	*3,273*
E-money	*183,658*	*190,865*	*7,176*	*6,053*	*717*	-	-	-	*(21,153)*
Other services	**(2,001)**	**(3,184)**	**(418)**	**(444)**	**(932)**	**-**	**-**	**-**	**2,977**
of which:									
Commercial refunds	*(6,149)*	*(3,907)*	*(722)*	*(451)*	*(932)*	-	-	-	*(137)*
Retrocessions to financial advisors	-	-	-	-	-	-	-	-	-
Other	*4,148*	*723*	*304*	*7*	-	-	-	-	*3,114*
Total other fees and commissions	**1,207,839**	**880,754**	**289,746**	**47,387**	**1,912**	**-**	**-**	**-**	**(11,960)**

Other fees and commissions 2021 (*)	Group	Retail	Corporate	Institutional	Private	Investment Banking	Insurance	Strategic Partnerships	Corporate Centre
Keeping and management of current accounts, Credit Availability Fee (CDC)	**508,842**	**438,145**	**56,806**	**12,631**	**1,140**	**-**	**-**	**-**	**120**
of which:									
Credit Availability Fee (CDC)	*248,409*	201,803	42,321	3,965	269	-	-	-	*51*
Keeping and management of current accounts	*260,433*	236,342	14,485	8,666	871	-	-	-	*69*
Commission on loans (including consumer credit) and unsecured loans Italy	**218,406**	**70,531**	**133,407**	**8,599**	**76**	**-**	**-**	**-**	**5,793**
of which:									
Commission on loans	*132,607*	17,855	107,243	7,143	7	-	-	-	*359*
Commission on unsecured loans	*43,647*	17,970	26,164	1,453	58	-	-	-	*(1,998)*
Consumer Credit	*42,152*	34,706	-	3	11	-	-	-	*7,432*
Abroad (including unsecured loans)	**77,805**	31,552	40,905	507	193	**-**	**-**	**-**	**4,648**
Collection and payment services, e-money	**322,506**	**294,734**	**24,923**	**17,202**	**1,321**	**-**	**-**	**-**	**(15,674)**
of which:									
Collection and payment services	*167,853*	134,717	18,640	12,163	684	-	-	-	*1,649*
E-money	*154,653*	160,017	6,283	5,039	637	-	-	-	*(17,323)*
Other services	**1,886**	**(2,276)**	**(230)**	**(231)**	**(1,085)**	**-**	**-**	**-**	**5,708**
of which:									
Commercial refunds	*(5,108)*	(3,056)	(493)	(236)	(1,085)	-	-	-	*(238)*
Other	*6,994*	780	263	5	-	-	-	-	*5,946*
Total other fees and commissions	**1,129,445**	**832,686**	**255,811**	**38,708**	**1,645**	**-**	**-**	**-**	**595**

(*) The figures for the previous year have been restated to reflect the changes introduced in the composition of the operating segments as at 31 December 2022.

Segment results - balance sheet figures

31/12/2022	Total	Retail	Corporate	Institutional	Private	Investment Banking	Insurance	Strategic Partnerships	Corporate Centre
Loans to customers:	133,647,528	63,164,637	31,307,219	6,829,089	542,448	1,773,022	765	-	30,030,348
• loans to customers	107,521,998	63,164,637	31,092,530	6,704,832	542,448	1,773,022	765	-	4,243,764
• debt securities	26,125,530	-	214,689	124,257	-	-	-	-	25,786,584

31/12/2021 (*)	Total	Retail	Corporate	Institutional	Private	Investment Banking	Insurance	Strategic Partnerships	Corporate Centre
Loans to customers:	127,674,398	61,625,508	30,171,846	6,488,818	428,751	1,963,699	-	-	26,995,776
• loans to customers	107,085,822	61,625,508	29,936,846	6,488,818	428,751	1,963,699	-	-	6,642,200
• debt securities	20,588,576	-	235,000	-	-	-	-	-	20,353,576

(*) The figures for the previous year have been restated to reflect the changes introduced in the composition of the operating segments as at 31 December 2022.

31/12/2022	Total	Retail	Corporate	Institutional	Private	Investment Banking	Insurance	Strategic Partnerships	Corporate Centre
Direct funding	120,639,083	82,910,556	7,506,563	11,032,058	2,674,626	1,838,956	-	-	14,676,324

31/12/2021 (*)	Total	Retail	Corporate	Institutional	Private	Investment Banking	Insurance	Strategic Partnerships	Corporate Centre
Direct funding	120,213,016	81,426,305	10,125,501	10,915,228	2,771,365	956,547	-	-	14,018,070

(*) The figures for the previous year have been restated to reflect the changes introduced in the composition of the operating segments as at 31 December 2022.

31/12/2022	Total	Retail	Corporate	Institutional	Private	Investment Banking	Insurance	Strategic Partnerships	Corporate Centre
Interests in associates and joint ventures	1,453,955	-	-	-	-	-	154,758	1,279,312	19,885

31/12/2021	Total	Retail	Corporate	Institutional	Private	Investment Banking	Insurance	Strategic Partnerships	Corporate Centre
Interests in associates and joint ventures	1,794,116	-	-	-	-	-		1,775,259	18,857

Note that most of the activities and operating income are achieved in Italy, confirming the deep roots throughout the country, considered to be the main area of action of the Group. The weight of activities and operating income achieved abroad is significantly lower than the threshold of 5%.

PART M – DISCLOSURE ON LEASES

Section 1 – Lessee

QUALITATIVE INFORMATION

The IFRS 16 scope of Banco BPM Group includes the lease contracts on the property units mainly intended for commercial activities (branches), which account for around 95% of the rights of use relating to leases. There was a marginal amount of other contracts, relating to the hiring of the company car fleet and the rights of use of technological equipment.

Short-term or low value lease contracts are recorded according to that set out in par. 6 of IFRS 16. The related costs are indicated in table 12.5 “Other administrative expenses: breakdown”.

QUANTITATIVE INFORMATION

According to that set out in Bank of Italy Circular 262, the information required by accounting standard IFRS 16, relating to contracts in which the Group is the lessee, contained in these Notes to the consolidated financial statements, in the sections indicated below:

- the information on rights of use acquired through leases is contained in Part B, Assets – Section 9, Table 9.1 “Property, plant and equipment used in operations: breakdown of assets at cost” and in Table 9.6 bis “Property, plant and equipment used in operations - Rights of use acquired through leases: annual changes”;
- the information on lease payables is contained in Part B, Liabilities – Section 1, Table 1.6 “Lease payables”;
- the information on interest expense on lease payables is contained in Part C – Section 1 – Table 1.3 “Interest and similar expense: breakdown”;
- the information on the depreciation of the rights of use and the related asset classes is contained in Part B, Assets – Section 9, Table 9.6 bis “Property, plant and equipment used in operations - Rights of use acquired through leases: annual changes”, under item C.2 “Depreciation”.

At the reporting date, there are no material amounts relating to lease commitments.

Section 2 – Lessor

QUALITATIVE INFORMATION

The Group has both finance lease contracts and operating lease contracts in force.

Finance lease operations, which include the contracts of the former Banca Italease and Release (transferred to the Parent Company Banco BPM), are in run-off as a result of the Group’s decision to no longer directly disburse that type of financing.

Operating leases refer to commercial leases connected to properties not used for business activities, in particular to properties acquired by way of *datio in solutum*(transfer in lieu of payment) against previous credit exposures or to properties for which there has been a change of destination (e.g. closure of a branch).

QUANTITATIVE INFORMATION

1. Information on the balance sheet and income statement

1. Information on the balance sheet and income statement

According to that set out in Bank of Italy Circular 262, the information required by accounting standard IFRS 16, relating to contracts in which the Group is the lessor, contained in these Notes to the consolidated financial statements, in the sections indicated below:

- the information on loans for leases is contained in Part B, Assets – Section 4, Table 4.1 "Financial assets at amortised cost: breakdown by product for loans to banks" and Table 4.2 "Financial assets at amortised cost: breakdown by product for loans to customers";
- the information on assets granted through operating leases is contained in Part B, Assets – Section 9, at the bottom of Table 9.4 "Property, plant and equipment held for investment purposes: breakdown of assets at fair value through profit and loss", with the related specifics provided at the bottom of that table;
- the information on interest income on loans for leases is contained in Part C – Section 1 – Table 1.1 "Interest and similar income: breakdown";
- the information on income from operating leases is contained in Part C – Section 16, Table 16.2 "Other operating income: breakdown".

2. Finance leases

2.1 Classification of payments to be received by time band and reconciliation with loans for leases posted under assets

Time bands	Total 31/12/2022 Lease payments to be received	Total 31/12/2021 Lease payments to be received
Up to 1 year	301,125	448,402
From over 1 year to 2 years	152,012	150,384
From over 2 years to 3 years	77,998	150,998
From over 3 years to 4 years	85,404	99,806
From over 4 years to 5 years	63,106	94,950
Over 5 years	193,786	364,456
Total lease payments to be received	**873,431**	**1,308,996**
Reconciliation with loans		
Financial profits not accrued (-)	(92,871)	(85,600)
Residual non-guaranteed value (-)	-	-
Loans for leases	**780,560**	**1,223,396**

Loans for leases recorded a gradual decrease, in relation to the Group's decision to no longer directly disburse that type of financing.

2.2 Other information

There is no other information to report.

3. Operating leases

3.1 Classification by time band of payments to be received

Time bands	Total 31/12/2022 Lease payments to be received	Total 31/12/2021 Lease payments to be received
Up to 1 year	32,143	33,331
From over 1 year to 2 years	23,371	22,517
From over 2 years to 3 years	18,687	19,147
From over 3 years to 4 years	16,990	14,224
From over 4 years to 5 years	8,902	13,395
Over 5 years	8,206	54,939
Total	**108,299**	**157,553**

3.2 Other information

There is no other information to report.

OTHER INFORMATION

Disclosure regarding public disbursements pursuant to Art. 1, paragraph 125 of Law 124 of 4 August 2017 ("Annual market and competition law")

In compliance with that stated in Art. 1, paragraph 125 of Law 124 of 4 August 2017, the amounts received by the Parent Company and its subsidiaries during 2022, in the form of "subsidies, contributions, paid positions and in any case economic advantages of any type" are provided below.

Group company	**Type of contributions**	**Granting authority**	**Amounts received in 2022** ***(figures in euro)***
Banco BPM	Aid for personnel training (*)	FBA (Bank and Insurance Fund)	3,430,266
Banco BPM	Aid for personnel training (**)	FONDIR (Joint Interprofessional Fund recognised by the Ministry of Labour)	31,090
Terme Ioniche Società Agricola S.r.l.	Agricultural aid (***)	Disbursed by the European Union through ARCEA (Agency of the Region of Calabria for Agricultural Aid), as the paying body	21,348
Sagim S.r.l. Società Agricola	Agricultural aid (***)	Disbursed by the European Union through ARTEA (Tuscan Regional Agency for Agricultural Aid), as the paying body	283,370

(*) Aid for personnel training requested in 2018, 2019 and 2020 and paid in 2022. The amount indicated in the table is gross of the repayment to FBA, on 1 July 2022, of the sum of 69,248.59 euro (69,000 + interest) on the contributions for 2021.
(**) Aid for training requested in 2020 and paid in February 2022.
(***) In particular, these are public resources from EU sources, in which the Italian public administration takes on the role of payer.

To that end, note that in the table, in line with the provisions of the law in question, economic advantages of less than the threshold of 10,000 euro are not stated. This threshold should be understood to refer to all the advantages that the Parent Company or each company in the Group received from the same authority in 2022, whether the benefit was disbursed in one tranche or in several tranches.

Declaration of the Chief Executive Officer and the Manager Responsible for Preparing the Company’s Financial Reports

CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ART. 81-TER OF CONSOB REGULATION NO. 11971 OF 14 MAY 1999 AND SUBSEQUENT AMENDMENTS AND ADDITIONS

1. The undersigned, Giuseppe Castagna, as Chief Executive Officer of Banco BPM S.p.A. and Gianpietro Val, as Manager responsible for preparing the Company's financial reports of Banco BPM S.p.A., hereby certify, also in consideration of the provisions of Art. 154-bis, paragraphs 3 and 4, of Italian Legislative Decree no. 58 dated 24 February 1998:
    - the adequacy in relation to the characteristics of the company and
    - the effective application

of the administrative and accounting procedures for the formation of the consolidated financial statements of Banco BPM S.p.A. in 2022.

2. The assessment of the adequacy and the verification of the effective application of the administrative and accounting procedures for the formation of the consolidated financial statements of Banco BPM S.p.A. as at 31 December 2022 were based on an internal model set in place by Banco BPM S.p.A., developed on the basis of the "Internal Control – Integrated Framework (COSO)" and, for the IT component, the "Control Objectives for IT and related Technology (COBIT)", which represent the standards for the internal audit system generally accepted at international level.

3. We also hereby certify that:

    - the consolidated financial statements of Banco BPM S.p.A. as at 31 December 2022:
        a) were drawn up in compliance with the applicable international accounting standards recognised in the European Community as per EC Regulation no. 1606/2002 of the European Parliament and Council, dated 19 July 2002;
        b) comply with the results of the accounting records and journal entries;
        c) are suitable for providing a true and fair view of the balance sheet, income statement and financial situation of the issuer and of all the companies included within the scope of consolidation.

    - the report on operations includes a reliable analysis of operating performance and results, as well as the situation of the issuer, Banco BPM S.p.A., and of all of the companies included within the scope of consolidation, together with a description of the main risks and uncertainties to which the same are exposed.

Verona, 7 March 2023

Signed by	Signed by
Giuseppe Castagna	Gianpietro Val
Chief Executive Officer	Manager responsible for preparing the Company's financial reports

Independent Auditors' Report on the consolidated financial statements

Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the shareholders of Banco BPM SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Banco BPM Group (hereinafter the "Group"), which comprise the balance sheet as of 31 December 2022, the income statement, statement of comprehensive income, statement of changes in shareholders' equity, the cash flow statement for the year then ended, and notes thereto, which include a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the Group's financial position as of 31 December 2022 and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and article 43 of Legislative Decree No. 136/15.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of this report. We are independent of Banco BPM SpA (hereinafter the "Bank") pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon and we do not provide a separate opinion on these matters.

Key audit matters	*Auditing procedures performed in response to key audit matters*
Valuation of performing loans to customers measured at amortised cost	
Notes to the consolidated financial statements: *Part A - Accounting policies* *Part B – Information on the consolidated balance sheet – Assets, Sections 4 and 12* *Part C – Information on the consolidated income statement, Section 8* *Part E – Information on risks and related hedging policies* Performing loans to customers (Stage 1 and Stage 2) as of 31 December 2022 amount to Euro 105,033 million and represent the most relevant part of the financial statements line item 40 b) *"Financial assets at amortised cost – Loans to customers"* which totals Euro 133,648 million corresponding to 70 per cent of total assets. Net impairment losses booked in the year for these loans, are positive for a total of Euro 10.3 million and represent directors' best estimate in order to determine expected credit losses at the reporting date on the basis of the applicable reporting standards. Valuation processes and methods adopted are characterized by a high degree of professional judgement and require the estimation of several variables. The use of significant assumptions is particularly relevant to measure the significant increase in credit risk ("*SICR*"), to allocate loan portfolios to the different risk stages ("*Staging*") and to determine assumptions and inputs to models used for the expected credit loss ("*ECL*") calculation. In the current year, in addition to the recurring process of updating the input data and of refining of risk parameters, the Group made some changes, revised some estimation processes compared to previous year and applied, also, "*post model adjustments/management overlays*". These actions were deemed necessary to improve the predictiveness of the models in use, to consider the uncertainties in the reference context as well as some additional risk factors not adequately captured by models in use, including climate change related credit risk.	In performing our audit procedures, we considered internal control relevant to the financial reporting process. Our audit procedures were defined taking into account the methodological changes introduced during the year, as well as adjustments to existing methodologies and models in use for the valuation of the loan portfolio. To address this key audit matter, we performed the following relevant procedures, with the support of the experts of the PwC network as needed: • assessment of the adequacy of the IT environment and testing of the operating effectiveness of the applicable key controls over the systems and software applications used by the Bank for the valuation of loans to customers; • understanding and evaluation of the design of key controls related to the monitoring, classification and impairment valuation of loans to customers and testing of their operating effectiveness; • critical assessment of control activities carried out during the year by internal control functions, of the related outcomes and of the remedial actions undertaken; • testing, on a sample basis, of the reasonable classification of these loans as performing (Stage 1 and Stage 2) on the basis of the available information about debtor's status and of other supporting evidences, including external information; • understanding and assessment of the appropriateness of policies, procedures and models used for determining *SICR*, *Staging* and *ECL*. Special attention was paid to the changes introduced during the year to

Key audit matters	*Auditing procedures performed in response to key audit matters*
Considering the significance of the amount, the high complexity of estimation processes and the high degree of professional judgement, as well as the process of fine-tuning and refinement of criteria and models adopted, we considered valuation of performing loans as a key audit matter.	criteria and models in use, as well as to criteria for determining *"post model adjustments/management overlays"* applied and their reasonableness; • understanding and review of the methods used to define the key estimation parameters for models used to determine the ECL and assessment of the updates and refinements introduced during the year. In particular, we assessed the reasonableness of expected macroeconomic scenarios assumed, also by checking their consistency with external sources, as well as their probabilities weighting, also in the light of the uncertainties arising from the current reference context. Furthermore, for off-balance sheet exposures, we performed specific procedures aimed at verifying the appropriate application of credit conversion factors; • assessment of the correct application of the defined criteria, of the completeness and accuracy of the data used for the *ECL* calculation, as well as of any processing performed outside the IT systems; • assessment of the reasonableness of loans valuation through independent estimates; • comparative and trend analysis on the volumes of loans to customers and on related coverage ratios, also by comparing data of previous years and information related to the main market peers; • review of sensitivity analyses of ECL to the macroeconomic scenarios that condition risk parameters of the models used; • testing of the completeness and adequacy of financial statements disclosures in accordance with International Financial Reporting Standards, the applicable regulatory framework and the communications and recommendations issued by the Supervisory Authorities.

Key audit matters	*Auditing procedures performed in response to key audit matters*
Valuation of non-performing loans to customers (unlikely-to-pay and bad loans) measured at amortised cost *Notes to the consolidated financial statements:* *Part A - Accounting policies* *Part B – Information on the consolidated balance sheet – Assets, Sections 4 and 12* *Part C – Information on the consolidated income statement, Section 8* *Part E – Information on risks and related hedging policies* Non-Performing loans to customers (Stage 3) as of 31 December 2022 amount to Euro 2,261 million. Net impairment losses booked in the year for these loans, amount to Euro 397.2 million and represent directors' best estimate in order to determine expected credit losses for these loans at the reporting date on the basis of the applicable reporting standards. Valuation processes and methods applied, both on an individual and on a statistical basis, are characterized by a high degree of professional judgement and require the estimation of several variables. The use of significant assumptions is particularly relevant for the assessment of future cash flows, recovery time and for determining the recoverable amount of any collaterals. In particular, where Group's strategy is also based on the recovery through a disposal of portfolios, the valuation is performed with a multiple scenarios approach reflecting the cash flows arising from internal work-out activities as well as cash flows expected from the disposal on the market. Considering the significance of the non-performing loans amount, the complexity of the valuation process and the high subjectivity of the assumptions and hypotheses required to determine the relevant variables, we considered the valuation of non-performing loans as a key audit matter.	In performing our audit procedures, we considered internal control relevant to the financial reporting process. To address this key audit matter we performed the following relevant procedures: ● assessment of the adequacy of the IT environment and testing of the operating effectiveness of the applicable key controls over the systems and software applications used for the valuation of loans to customers; ● understanding and evaluation of the design of key controls related to the monitoring, classification and impairment valuation of loans to customers and testing of their operating effectiveness; ● understanding and assessment of the appropriateness of policies, procedures and models used for determining the *ECL*; ● assessment of the correct application of the defined criteria as well as of the completeness and accuracy of the data used in the *ECL* calculation; ● testing, on a sample basis, of the reasonable classification of these loans among the different regulatory categories also on the basis of the available information about debtor's status and of other supporting evidences, including external information; ● assessment of the reasonableness of the methodology adopted to define possible alternative recovery scenarios (disposal or work-out scenarios), of their consistency with disposal targets defined by the directors and of the probabilities defined, as well as evaluation of the correct calculation of the *ECL* on the basis of the weighted average of future probable cash flows

Key audit matters	*Auditing procedures performed in response to key audit matters*
	expected from internal work-out and disposal scenarios. • with specific reference to the work-out scenario, for each category required by the applicable financial and regulatory reporting framework, testing, for a sample of loans assessed on an individual basis, of the reasonableness of assumptions used to determine future cash flows from work-out activity, collaterals valuation and recovery time. For non-performing loans assessed on a statistical basis, check of the correct determination of the key parameters used in the model as well as completeness and accuracy of related key data inputs; • comparative and trend analysis on the volumes of loans to customers and on related coverage ratios, performed also by comparing data of previous years and information related to main comparable operators; • analysis of subsequent events occurring after the reference date of financial statements; • testing of the completeness and adequacy of financial statements disclosures in accordance with International Financial Reporting Standards, the applicable regulatory framework and the communications and recommendations issued by the Supervisory Authorities.
Valuation of financial instruments held for trading not listed in active markets and measured at fair value on a recurring basis *Notes to the consolidated financial statements:* *Part A – Accounting policies* *Part B – Information on the consolidated balance sheet – Assets, Section 2, Liabilities, Section 2* *Part C – Information on the consolidated income statement, section 4*	In performing our audit procedures, we considered internal control relevant to the financial reporting process. Specifically, to address this key matter, we performed the following relevant procedures with the support of experts of the PwC network as needed:

Key audit matters	*Auditing procedures performed in response to key audit matters*
Financial instruments held for trading and not listed in active markets whose fair values were determined using models with data and parameters both directly observable and not directly observable in the market (instruments with fair value levels 2 and 3 of the fair value hierarchy, respectively) represent assets for a total of Euro 2,787 million and liabilities of Euro 10,001 million, corresponding respectively to about 1.5 per cent of total assets and 5.3 per cent of total liabilities. The financial instruments carrying amounts, which represent directors' best estimate of the fair value of the instruments at the reporting date determined in accordance with the applicable reporting standards, are mainly attributable to the portfolio of the subsidiary Banca Akros SpA. Throughout the course of our audit we paid special attention to the valuation of these financial instruments held by Banca Akros SpA, focusing primarily on those characterised by a high degree of complexity (structured securities and derivatives). This was considered a key audit matter due to the significance of the amounts, the number and complexity of the valuation models used and the significant estimates and assumptions required. The valuation models used are numerous and different based on the type of instrument requiring specific qualitative and quantitative assumptions that could determine significantly different outcomes. Furthermore, the valuation models used, even if well-known and acknowledged in the practice, could be extremely sensitive to inputs and assumptions and, given their nature, incorporate a risk of incorrect valuation.	• assessment of the adequacy of the IT environment and testing of the operational effectiveness of key controls over the systems and software applications used for the valuation of financial instruments; • understanding and evaluation of the design of controls relevant to the identification, measurement and monitoring of the risk related to valuation, recognition and measurement of financial instruments, as well as the operational effectiveness of those controls; • understanding and critical assessment of the policies adopted to determine the fair value of financial instruments; • review of the valuation techniques and models used as well as of the criteria applied to determine significant assumptions and data inputs, and verification of their consistency with the market practice and financial sector literature; • specific substantive procedures on the related accounting balances, including independent fair values calculation for a sample of level 2 and level 3 financial instruments, performed to verify the reasonableness of directors' valuations. Special attention was paid to qualitative and quantitative assumptions and inputs used (interest rate curves, credit and liquidity spreads, adjustments for credit rating, volatility parameters, other market information); • testing of the completeness and adequacy of disclosures closely related to this key matter also considering requirements of the applicable financial reporting standards.

Key audit matters	*Auditing procedures performed in response to key audit matters*
Business combination with insurance companies Banco BPM Vita and Banco BPM Assicurazioni *Notes to the consolidated financial statements:* *Part A – Accounting policies* *Part B – Information on the consolidated balance sheet – Assets, Sections 8 and 12, Liabilities, Sections 7 and 11* *Part C – Information on the consolidated income statement, sections 10 and 11* *Part E – Information on risks and related hedging policies* *Part G – Business Combinations regarding companies or divisions* *Part L – Segment Reporting* During 2022, the Group gained the control of the insurance company Banco BPM Vita SpA (formerly BPM Vita SpA) operating in life insurance business and of its subsidiary Banco BPM Assicurazioni SpA (formerly BPM Assicurazioni SpA) operating in non-life insurance business, which were previously considered associates, given the equity stake held (the "Transaction"). The Transaction is to be considered a business combination in accordance with IFRS 3 "Business Combinations" which requires the application of the purchase method. This acquisition resulted in the need to carry out specific valuation activities in particular with reference to the *fair value* of the equity stakes previously held and the allocation of the acquisition cost (Purchase Price Allocation-PPA) in accordance with IFRS 3. In addition, following the Transaction, the insurance companies were consolidated on a line-by-line basis, determining, therefore, a change in the scope of consolidation with the inclusion, for the first time, of entities having non-similar business activity and heterogeneous assets and liabilities with respect to those attributable to the banking business. This circumstance entailed the need to conduct specific valuations and activities with reference to the classification and measurement of assets and liabilities acquired, their presentation, considering, moreover, that in	To address this key matter, we performed the following relevant procedures: • understanding of the Transaction also through obtaining and analysing supporting documentation, as well as discussions with management; • assessment of the reasonableness of assumptions made and conclusions reached by the directors for the determination of the fair value of equity stakes previously held, as well as compliance with IFRS 3 of the accounting for of business combinations carried out in several stages (so-called step acquisitions); • understanding and critical analysis, also with the support of experts belonging to the PwC network and through discussions with management and the external consultants used by the Group, of the valuation models adopted for the purchase price allocation and the calculation of the fair values of the identifiable assets acquired and liabilities assumed; • assessment of the reasonableness of the main qualitative and quantitative assumptions used by the directors, also considering the characteristics of the assets and liabilities to be evaluated; • assessment of the correctness of classification and of measurement criteria for the assets acquired and liabilities assumed in the light of applicable accounting standards and considering the business activity of the companies; • testing of the correct presentation of the financial position and economic result of the insurance companies in the consolidated financial statements, also in the light of the prospective sale transaction, in accordance with Circular 262 of Bank of Italy and the relevant accounting standards;

Key audit matters	*Auditing procedures performed in response to key audit matters*
December the Group reached an agreement with Crédit Agricole Group to proceed, upon the occurrence of certain conditions, to the sale of non-life and protection insurance businesses, together with the start of a commercial partnership. Furthermore, additional disclosure to the financial statement was provided, where necessary. Considering the complexity of the Transaction and the resulting accounting impacts, the additional required audit activities, as well as the related valuation elements described so far, the Transaction was considered as a key audit matter.	• testing of the completeness and adequacy of disclosures provided in the notes to the financial statements considering the requirements of the applicable financial reporting standards.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and article 43 of Legislative Decree No. 136/15 and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Group's ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern.
In preparing the consolidated financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate the parent company Banco BPM SpA or to cease operations or have no realistic alternative but to do so.

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of our audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- we identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- we evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- we concluded on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- we evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- we obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate the related risks, or safeguards applied.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report

Additional Disclosures required by Article 10 of Regulation (EU) No. 537/2014

On 15 October 2016 the shareholders of Banco Popolare Società Cooperativa and Banca Popolare di Milano Scarl in general meeting engaged us to perform the statutory audit of the Bank's and the consolidated financial statements for the years ending 31 December 2017 to 31 December 2025.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Bank in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the board of statutory auditors, in its capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion on compliance with the provisions of Commission Delegated Regulation (EU) 2019/815

The directors of Banco BPM SpA are responsible for the application of the provisions of Commission Delegated Regulation (EU) 2019/815 concerning regulatory technical standards on the specification of a single electronic reporting format (ESEF - European Single Electronic Format) (hereinafter, the "Commission Delegated Regulation") to the consolidated financial statements as of 31 December 2022, to be included in the annual report.

We have performed the procedures specified in auditing standard (SA Italia) No. 700B in order to express an opinion on the compliance of the consolidated financial statements with the provisions of the Commission Delegated Regulation.

In our opinion, the consolidated financial statements as of 31 December 2022 have been prepared in XHTML format and have been marked up, in all significant respects, in compliance with the provisions of the Commission Delegated Regulation.

Due to certain technical limitations, some information included in the notes to the consolidated financial statements when extracted from the XHTML format to an XBRL instance may not be reproduced in an identical manner with respect to the corresponding information presented in the consolidated financial statements in XHTML format.

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98

The directors of Banco BPM SpA are responsible for preparing a report on operations and a report on the corporate governance and ownership structure of Banco BPM Group as of 31 December 2022, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the consolidated financial statements of Banco BPM Group as of 31 December 2022 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of Banco BPM Group as of 31 December 2022 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Statement in accordance with article 4 of Consob's Regulation implementing Legislative Decree No. 254 of 30 December 2016

The directors of Banco BPM SpA are responsible for the preparation of the non-financial statement pursuant to Legislative Decree No. 254 of 30 December 2016.

We have verified that the directors approved the non-financial statement.

Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016, the non-financial statement is the subject of a separate statement of compliance issued by ourselves.

Milan, 21 March 2023

PricewaterhouseCoopers SpA

Signed by

Pierfrancesco Anglani
(Partner)

As disclosed by the Directors, the accompanying consolidated financial statements of Banco BPM SpA constitute a non-official version which is not compliant with the provisions of the Commission Delegated Regulation (EU) 2019/815. This independent auditor's report has been translated into the English language solely for the convenience of international readers. Accordingly, only the original text in Italian language is authoritative.

Attachments

List of IAS/IFRS endorsed by the European Commission as at 31 December 2022

Accounting standards		Endorsement Regulation	
			amendments
IAS 1	Presentation of Financial Statements	1126/2008	1274/2008; 53/2009; 70/2009; 494/2009; 243/2010; 149/2011; 475/2012; 1254/2012; 1255/2012; 301/2013; 2113/2015; 2406/2015; 1905/2016; 2067/2016; 1986/2017; 2075/2019; 2104/2019; 2036/2021 (**); 357/2022 (**)
IAS 2	Inventories	1126/2008	70/2009; 1255/2012; 1905/2016; 2067/2016; 1986/2017
IAS 7	Statement of Cash Flows	1126/2008	1260/2008; 1274/2008; 70/2009; 494/2009; 243/2010; 1254/2012; 1174/2013; 1986/2017; 1990/2017; 2036/2021 (**)
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	1126/2008	1274/2008; 70/2009; 1255/2012; 2067/2016; 2075/2019; 2104/2019; 357/2022 (**)
IAS 10	Events After the Reporting Period	1126/2008	1274/2008; 70/2009; 1142/2009; 1255/2012; 2067/2016; 2104/2019
IAS 12	Income Taxes	1126/2008	1274/2008; 495/2009; 475/2012; 1254/2012; 1255/2012; 1174/2013; 1905/2016; 2067/2016; 1986/2017; 1989/2017; 412/2019; 1392/2022 (**)
IAS 16	Property, Plant and Equipment	1126/2008	1260/2008; 1274/2008; 70/2009; 495/2009; 1255/2012; 301/2013, 28/2015; 2113/2015; 2231/2015; 1905/2016; 1986/2017; 1080/2021; 2036/2021 (**)
IAS 19	Employee Benefits	1126/2008	1274/2008; 70/2009; 475/2012; 1255/2012; 29/2015; 2343/2015; 402/2019; 2036/2021 (**)
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance	1126/2008	1274/2008; 70/2009; 475/2012; 1255/2012; 2067/2016
IAS 21	The Effects of Changes in Foreign Exchange Rates	1126/2008	1274/2008; 69/2009; 494/2009; 149/2011; 475/2012; 1254/2012; 1255/2012; 2067/2016; 1986/2017
IAS 23	Borrowing Costs	1126/2008	1260/2008; 70/2009; 2113/2015; 2067/2016; 1986/2017; 412/2019
IAS 24	Related Party Disclosures	1126/2008	1274/2008, 632/2010; 475/2012; 1254/2012; 1174/2013; 28/2015
IAS 26	Accounting and Reporting by Retirement Benefit Plans	1126/2008	357/2022 (**)
IAS 27	Separate Financial Statements	1126/2008	1274/2008; 69/2009; 70/2009; 494/2009; 1254/2012; 1174/2013; 2441/2015
IAS 28	Investments in Associates and Joint Ventures	1126/2008	1274/2008; 70/2009, 494/2009, 495/2009; 1254/2012; 1255/2012; 2441/2015; 1703/2016; 2067/2016; 182/2018; 237/2019; 2036/2021 (**)
IAS 29	Financial Reporting in Hyperinflationary Economies	1126/2008	1274/2008; 70/2009
IAS 32	Financial Instruments: Presentation	1126/2008	1274/2008; 53/2009; 70/2009, 494/2009; 495/2009; 1293/2009; 149/2011; 475/2012; 1254/2012; 1255/2012; 1256/2012; 301/2013; 1174/2013; 1905/2016; 2067/2016; 1986/2017; 2036/2021 (**)
IAS 33	Earnings per Share	1126/2008	1274/2008; 494/2009; 495/2009; 475/2012; 1254/2012; 1255/2012; 2067/2016
IAS 34	Interim Financial Reporting	1126/2008	1274/2008; 70/2009; 495/2009; 149/2011; 475/2012; 1255/2012; 301/2013; 1174/2013; 2343/2015; 2406/2015; 1905/2016; 2075/2019; 2104/2019; 357/2022 (**)
IAS 36	Impairment of Assets	1126/2008	1274/2008; 69/2009; 70/2009; 495/2009; 243/2010; 1254/2012; 1255/2012; 1374/2013; 2113/2015; 1905/2016; 2067/2016; 2036/2021 (**)
IAS 37	Provisions, Contingent Liabilities and Contingent Assets	1126/2008	1274/2008; 495/2009; 28/2015; 1905/2016; 2067/2016; 1986/2017; 2075/2019; 2104/2019; 1080/2021; 2036/2021 (**)
IAS 38	Intangible Assets	1126/2008	1260/2008; 1274/2008; 70/2009; 495/2009; 243/2010; 1254/2012; 1255/2012; 28/2015; 2231/2015; 1905/2016; 1986/2017; 2075/2019; 2036/2021 (**)
IAS 39	Financial Instruments: Recognition and Measurement (with the exception of several provisions relating to accounting for hedging transactions) (*)	1126/2008	1274/2008; 53/2009; 70/2009; 494/2009; 495/2009; 824/2009; 839/2009; 1171/2009; 243/2010; 149/2011; 1254/2012; 1255/2012; 1174/2013; 1375/2013; 28/2015; 1905/2016; 2067/2016; 1986/2017; 34/2020; 25/2021
IAS 40	Investment Property	1126/2008	1274/2008; 70/2009; 1255/2012; 1361/2014; 2113/2015; 1905/2016; 1986/2017; 400/2018; 2036/2021 (**)
IAS 41	Agriculture	1126/2008	1274/2008; 70/2009; 1255/2012; 2113/2015; 1986/2017; 1080/2021

Accounting standards		Endorsement Regulation	
			amendments
IFRS 1	First-time Adoption of International Financial Reporting Standards	1126/2008	1260/2008; 1274/2008; 69/2009; 70/2009; 254/2009; 494/2009; 495/2009; 1136/2009; 1164/2009; 550/2010; 574/2010; 662/2010; 149/2011; 1205/2011; 475/2012; 1254/2012; 1255/2012; 183/2013; 301/2013; 313/2013; 1174/2013; 2173/2015; 2343/2015; 2441/2015; 1905/2016; 2067/2016; 1986/2017; 182/2018; 519/2018; 1595/2018; 1080/2021; 2036/2021 (**); 1392/2022 (**)
IFRS 2	Share-based Payments	1126/2008	1261/2008; 495/2009; 243/2010; 244/2010; 1254/2012; 1255/2012; 28/2015; 2067/2016; 289/2018; 2075/2019
IFRS 3	Business Combinations	1126/2008	495/2009; 149/2011; 1254/2012; 1255/2012; 1174/2013; 1361/2014; 28/2015; 1905/2016; 2067/2016; 1986/2017; 412/2019; 2075/2019; 551/2020; 1080/2021; 2036/2021 (**)
IFRS 4	Insurance Contracts	1126/2008	1274/2008; 494/2009; 1165/2009; 1255/2012; 1905/2016; 2067/2016; 1986/2017; 1988/2017; 2097/2020; 25/2021
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations	1126/2008	1274/2008; 70/2009; 494/2009; 1142/2009; 243/2010; 475/2012; 1254/2012; 1255/2012; 2343/2015; 2067/2016; 2036/2021 (**)
IFRS 6	Exploration for and Evaluation of Mineral Resources	1126/2008	2075/2019
IFRS 7	Financial Instruments: Disclosures	1126/2008	1274/2008; 53/2009; 70/2009; 495/2009; 824/2009; 1165/2009; 574/2010; 149/2011; 1205/2011; 475/2012; 1254/2012; 1255/2012; 1256/2012; 1174/2013; 2343/2015; 2406/2015; 2067/2016; 1986/2017; 34/2020; 25/2021; 2036/2021 (**); 357/2022 (**)
IFRS 8	Operating Segments	1126/2008	1274/2008; 243/2010; 632/2010; 475/2012; 28/2015
IFRS 9	Financial Instruments	2067/2016	1986/2017; 498/2018; 34/2020; 25/2021; 1080/2021; 2036/2021 (**)
IFRS 10	Consolidated Financial Statements	1254/2012	313/2013; 1174/2013; 1703/2016
IFRS 11	Joint Arrangements	1254/2012	313/2013; 2173/2015; 412/2019
IFRS 12	Disclosure of Interests in Other Entities	1254/2012	313/2013; 1174/2013; 1703/2016; 182/2018
IFRS 13	Fair Value Measurement	1255/2012	1361/2014; 2067/2016; 1986/2017
IFRS 15	Revenue from Contracts with Customers	1905/2016	1986/2017; 1987/2017; 2036/2021 (**)
IFRS 16	Leases	1986/2017	1434/2020; 25/2021; 1421/2021
IFRS 17	Insurance Contracts	2036/2021 (**)	1491/2022 (**)

(*) With the entry into force of IFRS 9 "Financial Instruments", only the portion of IAS 39 regarding accounting for fair value hedging transactions remains in force.

(**) Regulations endorsed at the date of approval of the financial statements, but applicable following 1 January 2023.

Interpretations		Endorsement Regulation	
			Amendments
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	1126/2008	1260/2008; 1274/2008; 1986/2017
IFRIC 2	Members' Shares in Co-operative Entities and Similar Instruments	1126/2008	53/2009; 1255/2012; 301/2013; 2067/2016
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	1126/2008	1254/2012; 2067/2016
IFRIC 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment	1126/2008	
IFRIC 7	Applying the Restatement Approach under IAS 29 - Financial Reporting in Hyperinflationary Economies	1126/2008	1274/2008
IFRIC 10	Interim Financial Reporting and Impairment	1126/2008	1274/2008; 2067/2016
IFRIC 12	Service Concession Arrangements	254/2009	1905/2016; 2067/2016; 1986/2017; 2075/2019
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1263/2008	1274/2008; 633/2010; 475/2012
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	460/2009	243/2010; 1254/2012; 2067/2016
IFRIC 17	Distributions of Non-Cash Assets to Owners	1142/2009	1254/2012; 1255/2012
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	662/2010	1255/2012; 2067/2016; 2075/2019
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	1255/2012	2075/2019
IFRIC 21	Levies	634/2014	
IFRIC 22	Foreign Currency Transactions and Advance Consideration	519/2018	2075/2019
IFRIC 23	Uncertainty over Income Tax Treatments	1595/2018	
SIC 7	Introduction of the Euro	1126/2008	1274/2008; 494/2009
SIC 10	Government Assistance – No Specific Relation to Operating Activities	1126/2008	1274/2008
SIC 15	*Operating Leases – Incentives*	1126/2008	1274/2008
SIC 25	Income Taxes – Changes in the Tax Status of an Entity or its Shareholders	1126/2008	1274/2008
SIC 29	Service Concession Arrangements: Disclosures	1126/2008	1274/2008; 254/2009; 1986/2017
SIC 32	Intangible Assets – Web Site Costs	1126/2008	1274/2008; 1905/2016; 1986/2017; 2075/2019

Reconciliation between the items in the consolidated balance sheet and the reclassified consolidated balance sheet as at 31 December 2022

Asset items (thousands of euro)		31/12/2022
10.	Cash and cash equivalents	13,130,815
	Cash and cash equivalents	**13,130,815**
40. a)	Financial assets at amortised cost: loans to banks	5,492,238
	minus: debt securities due to banks at amortised cost	(1,314,337)
	less: financial assets at amortised cost pertaining to insurance companies - loans to banks	(8)
	Loans at AC: loans to banks	**4,177,893**
40. b)	Financial assets at amortised cost: loans to customers	133,647,528
	plus: senior securities from sales of non-performing loans	1,933,727
	minus: debt securities due to customers at amortised cost	(26,125,530)
	less: financial assets at amortised cost pertaining to insurance companies - loans to customers	(765)
	Loans at AC: loans to customers	**109,454,960**
20.	Financial assets at fair value through profit and loss	8,935,495
50.	Hedging derivatives	1,717,211
	less: financial assets at fair value through profit and loss pertaining to insurance companies	(2,445,825)
	Financial assets and hedging derivatives at FV through Profit and Loss	**8,206,881**
30.	Financial assets measured at fair value through other comprehensive income	12,826,691
	less: financial assets measured at fair value through other comprehensive income pertaining to insurance companies	(3,446,171)
	Financial assets at FV through OCI	**9,380,520**
	plus: debt securities due to banks and customers at amortised cost	27,439,867
	minus: senior securities from sales of non-performing loans	(1,933,727)
	Financial assets at AC	**25,506,140**
	plus: financial assets at amortised cost pertaining to insurance companies - loans to banks	8
	plus: financial assets at amortised pertaining to insurance companies - loans to customers	765
	plus: financial assets at fair value through profit and loss pertaining to insurance companies	2,445,825
	plus: financial assets measured at fair value through other comprehensive income pertaining to insurance companies	3,446,171
	Financial assets pertaining to insurance companies	**5,892,769**
70.	Interests in associates and joint ventures	1,453,955
	Interests in associates and joint ventures	**1,453,955**
90.	Property, plant and equipment	3,034,689
	Property, plant and equipment	**3,034,689**
100.	Intangible assets	1,286,734
	Intangible assets	**1,286,734**
110.	Tax assets	4,622,827
	Tax assets	**4,622,827**
120.	Non-current assets and disposal groups held for sale	214,737
	Non-current assets and disposal groups held for sale	**214,737**
60.	Fair value change of financial assets in macro fair value hedge portfolios (+/-)	(488,403)
130.	Other assets	3,808,291
	Other assets	**3,322,975**
	Total assets	**189,685,895**

Liability items (thousands of euro)		31/12/2022
10. b)	Financial liabilities at amortised cost: due to customers	108,307,067
	minus: lease payables due to customers	(627,238)
	less: due to customers pertaining to insurance companies	(421)
	Due to customers	**107,679,408**
10. c)	Financial liabilities at amortised cost: debt securities in issue	12,930,521
30.	Financial liabilities designated at fair value	3,938,518
	minus: protected capital certificates	(2,467,534)
	less: financial liabilities designated at fair value pertaining to insurance companies	(1,441,830)
	Securities and financial liabilities designated at fair value	**12,959,675**
	Direct bank funding	**120,639,083**
	plus: other financial liabilities designated at fair value pertaining to insurance companies	1,441,830
110.	Technical reserves	4,414,424
	Direct funding from insurance business and technical reserves	**5,856,254**
10. a)	Financial liabilities at amortised cost: due to banks	32,636,506
	minus: lease payables due to banks	(683)
	less: due to banks pertaining to insurance companies	(18)
	Due to banks	**32,635,805**
	plus: lease payables due to banks	683
	plus: lease payables due to customers	627,238
	Lease payables	**627,921**
20.	Financial liabilities held for trading	10,181,692
	plus: protected capital certificates	2,467,534
40.	Hedging derivatives	948,424
	Other financial liabilities designated at fair value	**13,597,650**
	plus: due to customers pertaining to insurance companies	421
	plus: due to banks pertaining to insurance companies	18
	Other financial liabilities pertaining to insurance companies	**439**
90.	Provisions for employee severance pay	258,457
100.	Provisions for risks and charges	730,395
	Liability provisions	**988,852**
60.	Tax liabilities	279,983
	Tax liabilities	**279,983**
70.	Liabilities associated with assets classified as held for sale	31,731
	Liabilities associated with assets classified as held for sale	**31,731**
50.	Fair value change of financial liabilities in macro fair value hedge portfolios (+/-)	(1,173,078)
80.	Other liabilities	3,430,984
	Other liabilities	**2,257,906**
	Total liabilities	**176,915,624**
190.	Non-controlling interests (+/-)	720
	Non-controlling interests	**720**
120.	Valuation reserves	(624,011)
140.	Equity instruments	1,389,794
150.	Reserves	4,219,445
170.	Share capital	7,100,000
180.	Own shares (-)	(18,266)
200.	Profit (loss) for the year (+/-)	702,589
	Group shareholders' equity	**12,769,551**
	Total liabilities and shareholders' equity	**189,685,895**

Reconciliation between the items in the consolidated balance sheet and the reclassified consolidated balance sheet as at 31 December 2021

Asset items *(thousands of euro)*		**31/12/2021**
10.	Cash and cash equivalents	29,153,316
	Cash and cash equivalents	**29,153,316**
40. a)	Financial assets at amortised cost: loans to banks	12,773,990
	minus: debt securities due to banks at amortised cost	(896,112)
	Loans at AC: loans to banks	**11,877,878**
40. b)	Financial assets at amortised cost: loans to customers	127,674,398
	plus: senior securities from sales of non-performing loans (GACS)	2,297,560
	minus: debt securities due to customers at amortised cost	(20,588,576)
	Loans at AC: loans to customers	**109,383,382**
20.	Financial assets at fair value through profit and loss	6,337,110
50.	Hedging derivatives	127,076
	Financial assets and hedging derivatives at FV through Profit and Loss	**6,464,186**
30.	Financial assets measured at fair value through other comprehensive income	10,675,079
	Financial assets at FV through OCI	**10,675,079**
	plus: debt securities due to banks and customers at amortised cost	21,484,688
	minus: senior securities from sales of non-performing loans (GACS)	(2,297,560)
	Financial assets at AC	**19,187,128**
70.	Interests in associates and joint ventures	1,794,116
	Interests in associates and joint ventures	**1,794,116**
90.	Property, plant and equipment	3,278,245
	Property, plant and equipment	**3,278,245**
100.	Intangible assets	1,213,722
	Intangible assets	**1,213,722**
110.	Tax assets	4,540,229
	Tax assets	**4,540,229**
120.	Non-current assets and disposal groups held for sale	229,971
	Non-current assets and disposal groups held for sale	**229,971**
60.	Fair value change of financial assets in macro fair value hedge portfolios (+/-)	2,875
130.	Other assets	2,689,089
	Other assets	**2,691,964**
	Total assets	**200,489,216**

Liability items *(thousands of euro)*		31/12/2021
10. b)	Financial liabilities at amortised cost: due to customers	107,788,219
	minus: lease payables due to customers	(667,326)
10. c)	Financial liabilities at amortised cost: debt securities in issue	13,081,349
30.	Financial liabilities designated at fair value	1,405,190
	minus: protected capital certificates	(1,394,416)
	Direct funding	**120,213,016**
10. a)	Financial liabilities at amortised cost: due to banks	45,691,578
	minus: lease payables due to banks	(6,546)
	Due to banks	**45,685,032**
	plus: lease payables due to banks	6,546
	plus: lease payables due to customers	667,326
	Lease payables	**673,872**
20.	Financial liabilities held for trading	14,132,931
	plus: protected capital certificates	1,394,416
40.	Hedging derivatives	227,972
	Other financial liabilities designated at fair value	**15,755,319**
90.	Provisions for employee severance pay	320,303
100.	Provisions for risks and charges	876,643
	Liability provisions	**1,196,946**
60.	Tax liabilities	302,816
	Tax liabilities	**302,816**
50.	Fair value change of financial liabilities in macro fair value hedge portfolios (+/-)	(47,812)
80.	Other liabilities	3,613,968
	Other liabilities	**3,566,156**
	Total liabilities	**187,393,157**
190.	Non-controlling interests (+/-)	1,108
	Non-controlling interests	**1,108**
120.	Valuation reserves	341,360
140.	Equity instruments	1,092,832
150.	Reserves	3,999,850
170.	Share capital	7,100,000
180.	Own shares (-)	(8,159)
200.	Profit (loss) for the year (+/-)	569,068
	Group shareholders' equity	**13,094,951**
	Total liabilities and shareholders' equity	**200,489,216**

Reconciliation between the items in the consolidated income statement and the reclassified consolidated income statement schedule for 2022

2022	**Income statement**	**Reclassifications**		**Reclassified income statement**
Net interest income				**2,314,409**
10. Interest and similar income	2,937,053	13,679	(a)	
		(40,945)	(i)	
20. Interest and similar expense	(595,587)	209	(i)	
Gains (losses) on interests in associates and joint ventures carried at equity				**157,483**
250. Gains (losses) of associates and joint ventures		157,483	(b)	
Financial margin				**2,471,892**
Net fee and commission income				**1,887,322**
40. Fee and commission income	1,998,389	22,587	(c)	
		(14,502)	(i)	
50. Fee and commission expense	(143,896)	3,273	(d)	
		21,471	(i)	
Other net operating income				**71,602**
230. Other operating expenses/income	345,930	(270,564)	(e)	
		(3,765)	(f)	
		1	(a)	
Net financial result				**242,983**
70. Dividends and similar income	60,840			
80. Net trading income	174,105	(22,587)	(c)	
		(3,273)	(d)	
		(7,197)	(g)	
90. Fair value gains/losses on hedging derivatives	1,402			
100. Gains (Losses) on disposal or repurchase	(165,927)	210,302	(h)	
110. Net gains (losses) from other financial assets and liabilities measured at fair value through profit and loss	(9,146)	4,464	(i)	
Profit (loss) on insurance business				**31,718**
160. -	359,803			
170. -	(357,484)			
		29,399	(i)	
Other operating income				**2,233,625**
Operating income				**4,705,517**
Personnel expenses				**(1,608,901)**
190 a) Personnel expenses	(1,609,881)	(2,785)	(l)	
		3,765	(f)	
Other administrative expenses				**(650,380)**
190 b) Other administrative expenses	(1,148,761)	2,785	(l)	
		270,564	(e)	
		225,032	(m)	
Net value adjustments to property, plant and equipment and intangible assets				**(280,088)**
210. Depreciation and impairment losses on property, plant and equipment	(183,093)			
220. Amortisation and impairment losses on intangible assets	(135,102)	38,107	(a)	
Operating expenses				**(2,539,369)**
Profit (loss) from operations				**2,166,148**

2022	Income statement	Reclassifications		Reclassified income statement
Net adjustments to loans to customers				**(682,281)**
130 a) Net credit impairment losses/recoveries relating to financial assets at amortised cost	(480,574)	632	(n)	
		861	(o)	
		5,389	(p)	
		(210,302)	(h)	
140. Gains (losses) from contractual modification without derecognition	1,713			
Fair value gains (losses) on property, plant and equipment				**(108,347)**
260. Fair value gains (losses) on property, plant and equipment and intangible assets	(108,347)			
Net adjustments to securities and other financial assets				**(9,106)**
130 b) Net credit impairment losses/recoveries relating to financial assets measured at fair value through other comprehensive income	(2,128)	(632)	(n)	
		(861)	(o)	
		(5,389)	(p)	
		(96)	(i)	
Net provisions for risks and charges				**(57,214)**
200. Net provisions for risks and charges	(57,214)			
Gains (losses) on interests in associates and joint ventures and other investments				**2,258**
250. Gains (losses) of associates and joint ventures	146,781	(157,483)	(b)	
		10,702	(a)	
280. Gains (losses) on disposal of investments	2,258			
Profit (loss) before tax from continuing operations				**1,311,458**
Taxation charge related to profit or loss from continuing operations				**(408,931)**
300. Taxation charge related to profit or loss from continuing operations	(321,199)	(73,145)	(m)	
		(16,966)	(a)	
		2,379	(g)	
Profit (loss) after tax from continuing operations		**192,592**		**902,527**
Charges related to the banking system, net of taxes		(151,887)	(m)	**(151,887)**
Goodwill impairment				**(8,132)**
270. Value adjustments to goodwill	(8,132)			
Change in own credit risk on Certificates issued by the Group, net of taxes		4,818	(g)	**4,818**
Purchase Price Allocation net of taxes		(45,523)	(a)	**(45,523)**
Profit (loss) for the year attributable to non-controlling interests				**786**
340. Profit (loss) for the year attributable to non-controlling interests	786			
Parent Company's profit (loss) for the year	**702,589**	**-**		**702,589**

The letters shown in the column "Reclassifications" are provided for easier understanding of the reclassifications made.

With regard to the above statement of reconciliation, the main classifications are illustrated below:

- **"Net interest income"** is represented by the algebraic balance of interest and similar income (item 10) and interest and similar expense (item 20), net of the PPA relating to loans to customers, amounting to 13.7 million (a), classified within the new reclassified income statement item "Purchase Price Allocation net of taxes", and of interest income (40.9 million) and expense (0.2 million) pertaining to insurance companies, shown in item "Profit (loss) on insurance business" (i);
- **"Gains (losses) on interests in associates and joint ventures carried at equity"** shows the portion of profits (losses) pertaining to investee companies carried at equity (included in item 250) totalling 157.5 million (b), and together with the net interest income, the aggregate is defined as the **"Financial margin"**;

- **"Net fee and commission income"** is represented by the algebraic balance of fee and commission income (item 40) and fee and commission expense (item 50); it also includes the reclassification of the upfront fees relating to the placement of Certificates through the Group network (22.6 million (c)) and through third-party networks (3.3 million (d)) from item 80 of the official schedule "Net trading income". The item in question is shown net of fee and commission income (14.5 million) and expense (21.5 million) pertaining to insurance companies, shown in "Profit (loss) on insurance business" (i);
- **"Other net operating income"** is represented by the financial statement item "230 Other operating expenses/income", with the recoveries on indirect taxes, legal fees and other expenses, totalling 270.6 million (e), separated out, which, for reclassification purposes are shown in the item "Other administrative expenses" and with the recovery of training costs of 3.8 million (f), classified in "Personnel expenses", also separated out;
- the income statement item **"Net financial result"** includes "Dividends and similar income " (item 70), "Net trading income" (item 80), net of both the reclassification of the amounts of fees on the placement of Certificates for a total of 22.6 million (c) and 3.3 million (d), re-attributed to net fee and commission income, and the impact deriving from the change in own credit risk on issues of Certificates for 7.2 million (g), re-attributed to the customised item of the reclassified income statement called "Change in own credit risk on Certificates issued by the Group, net of taxes". The aggregate in question also includes the "Fair value gains/losses on hedging derivatives" (item 90), the "Net gains (losses) from other financial assets and liabilities measured at fair value through profit and loss" (item 110) and the "Gains/losses on disposal or repurchase" (item 100) net of the gains/losses from the assignment of receivables not represented by debt securities, of 210.3 million (h), re-attributed to the management aggregate "Net adjustments to loans to customers". The items of net financial result pertaining to insurance companies are also excluded, corresponding to 4.5 million (i), shown under "Profit (loss) on insurance business";
- **"Profit (loss) on insurance business"** corresponds to financial statement items "160 Net premiums" and "170 Balance of other income/expenses from insurance activities", plus the share relating to interest income and expense, to fee and commission income and expense and to the net financial result pertaining to insurance companies, as illustrated above (i);
- **"Personnel expenses"** is represented by the financial statement item "190 a) Personnel expenses" and by several charges functionally related to personnel, amounting to 2.8 million (l), recognised in the financial statements under item 190 b) "Other administrative expenses" and by the recovery of training costs of 3.8 million (f), recorded under item "230 Other operating expenses/income", as described above;
- **"Other administrative expenses"** is represented by the financial statement item 190 b), net of recoveries on indirect taxes, legal fees and other expenses, totalling 270.6 million (e), included in the item "230 Other operating expenses/income", as described above, and of several charges connected to personnel, recognised in the reclassified item "Personnel expenses" for 2.8 million (l). "Banking industry" charges totalling 225.0 million (m) introduced for banks under the single and national resolution funds (SRF and NRF) are also excluded and are shown, net of the related tax effect, in the separate item "Charges related to the banking system, net of taxes";
- "**Net value adjustments to property, plant and equipment and intangible assets**" corresponds to the accounting items 210 and 220, net of adjustments to intangibles with a finite useful life (client relationships and value of business acquired), allocated to the reclassified income statement item "Purchase Price Allocation net of taxes", amounting to 38.1 million (a);
- the total of "**Net adjustments to loans to customers**" and "**Net adjustments to securities and other financial assets**" starts from income statement items 130 "Net credit impairment losses/recoveries" and 140 "Gains (losses) from contractual modification without derecognition". Specifically, "Net adjustments to loans to customers" include adjustments to exposures classified in the portfolio of financial assets at amortised cost - loans to customers - loans (amounting to 480.6 million), the negative result of disposals of loans, amounting to 210.3 million (h) (included in item 100), as well as gains (losses) from contractual modification without derecognition (item 140 of the income statement). Instead, this excludes net impairment losses on exposures classified in the portfolio of financial assets at amortised cost represented by debt securities, totalling 5.4 million (p), as well as net impairment losses on exposures classified in the portfolio of financial assets at amortised cost – loans to banks – loans and securities (n) and (o) totalling 1.5 million, all fully presented in the item of the reclassified income statement "Net adjustments to securities and other financial assets";
- "**Fair value gains (losses) on property, plant and equipment**" correspond to item 260 of the official income statement;
- the aggregate of "**Net adjustments to securities and other financial assets**" includes net

impairment losses on exposures classified in the portfolio of financial assets at amortised cost – loans to banks - loans and securities (n) and (o) totalling 1.5 million, as well as net impairment losses on exposures classified in the portfolio of financial assets at amortised cost consisting of debt securities (included in item 130) issued by customers (p) totalling 5.4 million;

- **"Net provisions for risks and charges"** correspond to item 200 of the official income statement;
- "**Gains (losses) on interests in associates and joint ventures and other investments**" correspond to item 280 of the official income statement and to the gains (losses) on disposal of interests in associates and joint ventures and other investments carried at equity (item 250 of the official income statement), net of the portion of gains (losses) of the investees carried at equity, overall a positive 157.5 million (b) included in the reclassified aggregate "Gains (losses) on interests in associates and joint ventures carried at equity" and of the effect of the remeasurement at fair value of the interest previously held in Banco BPM Vita of 10.7 million (a) recognised in "Purchase Price Allocation net of taxes";
- "**Taxation charge related to profit or loss from continuing operations**" corresponds to item 300 of the official income statement, net of the negative tax effects relating to "banking industry charges" of 73.1 million (m), the PPA of 17.0 million (a) and the impact of the change in credit risk on Certificates issued of -2.4 million (g);
- the item "**Charges related to the banking system, net of taxes**" includes charges for a total of 225.0 million (m) recognised in the accounts in item 190 b) of the official income statement, net of the related tax effect, amounting to 73.1 million (m);
- the item "**Goodwill impairment**" corresponds to item 270 of the official income statement;
- the item "**Change in own credit risk on Certificates issued by the Group, net of taxes**" shows the economic impact of a change in own credit risk related to the issue of Certificates, recognised in the accounts in item 80 of the official income statement for 7.2 million (g), net of the related tax effect, amounting to -2.4 million (g);
- lastly, the item "**Purchase Price Allocation net of taxes**" includes the effects of the PPA relating to loans, amounting to -13.4 million (a) and the client relationship and VoBA, amounting to -38.1 million (a), and the effect of the remeasurement at fair value of the interest previously held in Banco BPM Vita of -10.7 million (a) net of the relative tax effects, amounting to 17.0 million (a).

Reconciliation between the items in the consolidated income statement and the reclassified consolidated income statement schedule for 2021

2021	Income statement	Reclassifications		Reclassified income statement
Net interest income				**2,041,628**
10. Interest and similar income	2,425,188	25,488	(a)	
20. Interest and similar expense	(409,048)			
Gains (losses) on interests in associates and joint ventures carried at equity				**231,940**
250. Gains (losses) of associates and joint ventures		231,940	(b)	
Financial margin				**2,273,568**
Net fee and commission income				**1,911,203**
40. Fee and commission income	2,018,601	10,508	(c)	
50. Fee and commission expense	(117,906)			
Other net operating income				**75,280**
230. Other operating expenses/income	363,082	(282,519)	(d)	
		(5,283)	(e)	
Net financial result				**250,695**
70. Dividends and similar income	53,718			
80. Net trading income	79,523	(10,508)	(c)	
		(6,504)	(f)	
90. Fair value gains/losses on hedging derivatives	(848)			
100. Gains (Losses) on disposal or repurchase	(129,080)	248,052	(g)	
110. Net gains (losses) from other financial assets and liabilities measured at fair value through profit and loss	16,342			
Other operating income				**2,237,178**
Operating income				**4,510,746**
Personnel expenses				**(1,667,799)**
190 a) Personnel expenses	(1,670,739)	(2,343)	(h)	
		5,283	(e)	
Other administrative expenses				**(601,151)**
190 b) Other administrative expenses	(1,100,834)	2,343	(h)	
		282,519	(d)	
		214,821	(i)	
Net value adjustments to property, plant and equipment and intangible assets				**(246,825)**
210. Depreciation and impairment losses on property, plant and equipment	(165,828)			
220. Amortisation and impairment losses on intangible assets	(114,457)	33,460	(a)	
230. Other operating expenses/income				
Operating expenses				**(2,515,775)**
Profit (loss) from operations				**1,994,971**
Net adjustments to loans to customers				**(887,199)**
130 a) Net credit impairment losses/recoveries relating to financial assets at amortised cost	(629,997)	(582)	(l)	
		274	(m)	
		(321)	(n)	
		(248,052)	(g)	
140. Gains (losses) from contractual modification without derecognition	(8,521)			
Fair value gains (losses) on property, plant and equipment				**(141,633)**
260. Fair value gains (losses) on property, plant and equipment and intangible assets	(141,633)			
Net adjustments to securities and other financial assets				**(328)**

2021	Income statement	Reclassifications		Reclassified income statement
130 b) Net credit impairment losses/recoveries relating to financial assets measured at fair value through other comprehensive income	(957)	582	(l)	
		(274)	(m)	
		321	(n)	
Net provisions for risks and charges				**(26,039)**
200. Net provisions for risks and charges	(26,039)	-	(l)	
Gains (losses) on interests in associates and joint ventures and other investments				**(18,768)**
250. Gains (losses) of associates and joint ventures	213,314	(231,940)	(b)	
280. Gains (losses) on disposal of investments	(142)			
Profit (loss) before tax from continuing operations				**921,004**
Taxation charge related to profit or loss from continuing operations				**(253,828)**
300. Taxation charge related to profit or loss from continuing operations	(84,955)	(69,826)	(i)	
		(19,488)	(a)	
		2,150	(f)	
		(81,709)	(o)	
Profit (loss) after tax from continuing operations		**98,392**		**667,176**
Charges related to the banking system, net of taxes		(144,995)	(i)	**(144,995)**
Impact of the realignment of tax values to book values		81,709	(o)	**81,709**
Change in own credit risk on Certificates issued by the Group, net of taxes		4,354	(f)	**4,354**
Purchase Price Allocation net of taxes		(39,460)	(a)	**(39,460)**
Profit (loss) for the year attributable to non-controlling interests				**284**
340. Profit (loss) for the year attributable to non-controlling interests	284			
Parent Company's profit (loss) for the year	**569,068**	**-**		**569,068**

The letters shown in the column "Reclassifications" are provided for easier understanding of the reclassifications made.

With regard to the above statement of reconciliation, note that:

- **"Net interest income"** is represented by the algebraic balance of interest and similar income (item 10) and interest and similar expense (item 20), net of the PPA relating to loans to customers, amounting to 25.5 million (a), classified within the reclassified income statement item "Purchase Price Allocation net of taxes";
- **"Gains (losses) on interests in associates and joint ventures carried at equity"** shows the portion of the economic results pertaining to investee companies carried at equity (included in item 250), positive overall and amounting to 231.9 million (b) and together with the "Net interest income", it represents the aggregate defined as the **"Financial margin"**;
- **"Net fee and commission income"** is represented by the algebraic balance of fee and commission income (item 40) and fee and commission expense (item 50); it also includes the reclassification of the upfront fees relating to the placement of Certificates through the Group network (10.5 million (c)) from item 80 of the official schedule "Net trading income";
- "**Other net operating income**" is represented by the financial statement item 230 "Other operating expenses/income", net of recoveries on indirect taxes, legal fees and other expenses, totalling 282.5 million (d), which for the purpose of the reclassification, are shown net of "Other administrative expenses", and of the recovery of training costs of 5.3 million (e) reclassified net of "Personnel expenses";
- the income statement item **"Net financial result"** includes "Dividends and similar income " (item 70), "Net trading income" (item 80), net of both the reclassification of the amount of upfront fees on the placement of Certificates for a total of 10.5 million (c), re-attributed to net fee and commission income, and the impact deriving from the change in own credit risk on issues of Certificates for 6.5 million (f), re-attributed to the customised item of the reclassified income statement called "Change in own credit risk on Certificates issued by the Group, net of taxes". The aggregate in question also includes the "Fair value gains/losses on hedging derivatives" (item 90), the "Net gains (losses) from other financial assets and

liabilities measured at fair value through profit and loss" (item 110) and the "gains/losses on disposal or repurchase" (item 100) net of the gains/losses from the assignment of receivables not represented by debt securities, of 248.1 million (g), re-attributed to the management aggregate "Net adjustments to loans to customers";

- "**Personnel expenses**" is represented by the financial statement item "190 a) Personnel expenses" and by several charges functionally related to personnel, amounting to 2.3 million (h), recognised in the financial statements under item 190 b) "Other administrative expenses" and by the recovery of training costs of 5.3 million (e), recorded under item "230 Other operating expenses/income", as described above;
- "**Other administrative expenses**" is represented by the financial statement item 190 b), net of recoveries on indirect taxes, legal fees and other expenses, totalling 282.5 million (d), included in the item "230 Other operating expenses/income", as described above, and of several charges connected to personnel, recognised in the reclassified item "Personnel expenses" for 2.3 million (h). Ordinary and extraordinary charges totalling 214.8 million (i) introduced for banks under the single and national resolution funds (SRF and NRF) are also excluded and are shown, net of the related tax effect, in the separate item "Charges related to the banking system, net of taxes";
- "**Net value adjustments to property, plant and equipment and intangible assets**" corresponds to the accounting items 210 and 220, net of adjustments to intangibles with a finite useful life (client relationships), allocated to the reclassified income statement item "Purchase Price Allocation net of taxes", amounting to 33.5 million (a);
- the total of "**Net adjustments to loans to customers**" and "**Net adjustments to securities and other financial assets**" starts from income statement items 130 "Net credit impairment losses/recoveries" and 140 "Gains (losses) from contractual modification without derecognition". Specifically, "Net adjustments to loans to customers" include adjustments to exposures classified in the portfolio of financial assets at amortised cost - loans to customers - loans (amounting to 630.0 million), the negative result of disposals of loans, amounting to 248.1 million (g) (included in item 100), as well as gains (losses) from contractual modification without derecognition (item 140 of the income statement). Instead, this excludes net impairment losses on exposures classified in the portfolio of financial assets at amortised cost represented by debt securities, totalling 0.3 million (n), as well as net impairment losses on exposures classified in the portfolio of financial assets at amortised cost – loans to banks – loans and securities (l) and (m) totalling 0.3 million, all fully presented in the item of the reclassified income statement "Net adjustments to securities and other financial assets";
- "**Fair value gains (losses) on property, plant and equipment**" correspond to item 260 of the official income statement;
- the aggregate of "**Net adjustments to securities and other financial assets**" includes net impairment losses on exposures classified in the portfolio of financial assets at amortised cost – loans to banks – loans and securities (l) and (m) totalling 0.3 million, as well as net impairment losses on exposures classified in the portfolio of financial assets at amortised cost consisting of debt securities (included in item 130) issued by customers (n) totalling 0.3 million;
- **"Net provisions for risks and charges"** correspond to item 200 of the official income statement;
- "**Gains (losses) on interests in associates and joint ventures and other investments**" correspond to item 280 of the official income statement and to the gains (losses) on disposal of interests in associates and joint ventures and other investments carried at equity (item 250 of the official income statement), net of the portion of gains (losses) of the investees carried at equity, overall a positive 231.9 million (b) included in the reclassified aggregate "Gains (losses) on interests in associates and joint ventures carried at equity";
- "**Taxation charge related to profit or loss from continuing operations**" corresponds to item 300 of the official income statement, net of the negative tax effects relating to "banking industry charges" of 69.8 million (i), the PPA of 19.5 million (a) and the impact of the change in credit risk on Certificates issued of 2.1 million (f). The item in question is also shown net of the positive impact of 81.7 million (o) deriving from the realignment of tax values to book values of Group property used in operations, shown in a separate item of the reclassified income statement called "Impact of the realignment of tax values to book values";
- the item **"Charges related to the banking system, net of taxes"** includes ordinary and extraordinary charges for a total of 214.8 million (i) recognised in the accounts in item 190 b) of the official income statement, net of the related tax effect, amounting to 69.8 million (i);

- the item "**Impact of the realignment of tax values to book values**" shows the amount recognised in item 300 of the official income statement, positive for 81.7 million (o), deriving from the exercise of the option to realign the tax values of properties to their book values, as illustrated above;
- the item "**Change in own credit risk on Certificates issued by the Group, net of taxes**" shows the economic impact of a change in own credit risk related to the issue of Certificates, recognised in the accounts in item 80 of the official income statement for -6.5 million (f), net of the related tax effect, amounting to 2.1 million (f);
- lastly, the item "**Purchase Price Allocation net of taxes**" includes the effects of the PPA relating to loans, amounting to -25.5 million (a) and the client relationship, amounting to -33.5 million (a), net of the relative tax effects, amounting to 19.5 million (a).

Consolidated balance sheet: contribution of insurance companies

Asset items (thousands of euro)	**31/12/2022**	**of which contribution of insurance companies**
10. Cash and cash equivalents	13,130,815	28,380
20. Financial assets at fair value through profit and loss	8,935,495	2,445,825
a) financial assets held for trading	4,508,497	-
c) other financial assets mandatorily measured at fair value	4,426,998	2,445,825
30. Financial assets measured at fair value through other comprehensive income	12,826,691	3,446,171
40. Financial assets at amortised cost	139,139,766	773
a) loans to banks	5,492,238	8
b) loans to customers	133,647,528	765
50. Hedging derivatives	1,717,211	-
60. Fair value change of financial assets in macro fair value hedge portfolios (+/-)	(488,403)	-
70. Interests in associates and joint ventures	1,453,955	-
80. Technical reserves of reinsurers	3,087	3,087
90. Property, plant and equipment	3,034,689	518
100. Intangible assets	1,286,734	66,329
of which: goodwill	56,709	9,983
110. Tax assets	4,622,827	49,129
a) current	265,552	-
b) deferred	4,357,275	49,129
120. Non-current assets and disposal groups held for sale	214,737	81,907
130. Other assets	3,808,291	115,685 (*)
Total assets	**189,685,895**	**6,237,804**

(*) The item includes the effect of cancellations of intra-group accounts and of other consolidation adjustments in relation to insurance companies.

Liabilities and shareholders' equity items (thousands of euro)	31/12/2022	of which contribution of insurance companies
10. Financial liabilities at amortised cost	153,874,094	439
a) due to banks	32,636,506	18
b) due to customers	108,307,067	421
c) debt securities in issue	12,930,521	-
20. Financial liabilities held for trading	10,181,692	-
30. Financial liabilities designated at fair value	3,938,518	1,441,830
40. Hedging derivatives	948,424	-
50. Fair value change of financial liabilities in macro fair value hedge portfolios (+/-)	(1,173,078)	-
60. Tax liabilities	279,983	19,645
a) current	1,610	23
b) deferred	278,373	19,622
70. Liabilities associated with assets classified as held for sale	31,731	31,731
80. Other liabilities	3,430,984	6,465 (*)
90. Provisions for employee severance pay	258,457	1,267
100. Provisions for risks and charges	730,395	496
a) commitments and guarantees given	144,164	-
b) post-employment benefits and similar obligations	99,330	-
c) other provisions	486,901	496
110. Technical reserves	4,414,424	4,414,424
120. Valuation reserves	(624,011)	(67,366)
140. Equity instruments	1,389,794	-
150. Reserves	4,219,445	381,996
170. Share capital	7,100,000	-
180. Own shares (-)	(18,266)	-
190. Non-controlling interests (+/-)	720	-
200. Profit (loss) for the year (+/-)	702,589	6,877
Total liabilities and shareholders' equity	**189,685,895**	**6,237,804**

(*) The item includes the effect of cancellations of intra-group accounts and of other consolidation adjustments in relation to insurance companies.

It should be noted that the contribution of insurance companies recognised in item 150 "Reserves" conventionally represents the sum of the share capital and reserves of Banco BPM Vita as at 31 December 2022 before the consolidation process.

Consolidated income statement: contribution of insurance companies

Items (thousands of euro)	2022	of which contribution of insurance companies
10. Interest and similar income	2,937,053	40,945
of which: interest income using the effective interest method	2,618,598	40,876
20. Interest and similar expense	(595,587)	(175)
30. Net interest income	**2,341,466**	**40,770**
40. Fee and commission income	1,998,389	14,502
50. Fee and commission expense	(143,896)	(1,499)
60. Net fee and commission income	**1,854,493**	**13,003**
70. Dividends and similar income	60,840	1,032
80. Net trading income	174,105	-
90. Fair value gains/losses on hedging derivatives	1,402	-
100. Gains (losses) on disposal or repurchase of:	(165,927)	(73)
a) financial assets at amortised cost	(60,948)	-
b) financial assets measured at fair value through other comprehensive income	(101,636)	(73)
c) financial liabilities	(3,343)	-
110. Net gains (losses) from other financial assets and liabilities measured at fair value through profit and loss	(9,146)	(5,423)
a) financial assets and liabilities designated at fair value	163,348	-
b) other financial assets mandatorily measured at fair value	(172,494)	(5,423)
120. Operating income	**4,257,233**	**49,309**
130. Net credit impairment losses/recoveries relating to:	(482,702)	96
a) financial assets at amortised cost	(480,574)	95
b) financial assets measured at fair value through other comprehensive income	(2,128)	1
140. Gains (losses) from contractual modification without derecognition	1,713	-
150. Net income from financial activities	**3,776,244**	**49,405**
160. Net premiums	359,803	359,803
170. Balance of other income/expenses from insurance activities	(357,484)	(357,484)
180. Net income from financial and insurance activities	**3,778,563**	**51,724**
190. Administrative expenses:	(2,758,642)	(13,619)
a) personnel expenses	(1,609,881)	(7,726)
b) other administrative expenses	(1,148,761)	(5,893)
200. Net provisions for risks and charges	(57,214)	(3)
a) commitments and guarantees given	(14,407)	-
b) other net provisions	(42,807)	(3)
210. Depreciation and impairment losses on property, plant and equipment	(183,093)	(438)
220. Amortisation and impairment losses on intangible assets	(135,102)	(7,163)
230. Other operating expenses/income	345,930	(19,748) (*)
240. Operating expenses	**(2,788,121)**	**(40,971)**
250. Gains (losses) of associates and joint ventures	146,781	-
260. Fair value gains (losses) on property, plant and equipment and intangible assets	(108,347)	-
270. Value adjustments to goodwill	(8,132)	-
280. Gains (losses) on disposal of investments	2,258	-
290. Profit (loss) before tax from continuing operations	**1,023,002**	**10,753**
300. Taxation charge related to profit or loss from continuing operations	(321,199)	(3,876)
310. Profit (loss) after tax from continuing operations	**701,803**	**6,877**
330. Profit (loss) for the year	**701,803**	**6,877**
340. Profit (loss) for the year attributable to non-controlling interests	786	-
350. Parent Company's profit (loss) for the year	**702,589**	**6,877**

(*) The item includes the effect of cancellations of intra-group accounts and of other consolidation adjustments in relation to insurance companies.

Country by Country Reporting

The regulations for country by country reporting, introduced with Art. 89 of Directive 2013/36/EU (CRD IV), implemented in Italy with the 4th update to Bank of Italy Circular 285 of 17 December 2013 (Part One, Title III, Chapter 2), involves an annual obligation to publish the information set out in letters a), b), c), d), e) and f) of Art. 89 of CRD IV.

To that end, the required information is provided, broken down by individual letter.

(A) Name of companies and nature of business

The activities carried out by Banco BPM Group are indicated in the following table, which refers to that indicated in Art. 317 of Regulation 575/2013 of the European Parliament and of the Council (CRR), integrated with additional specific business activities.
These activities are grouped, based on criteria of prevalence, with the "business segments" which, in brief, refer to the Group's internal management structure and are referred to in the Report on Operations (section "Results by business segment", as well as in "Part L - Segment Reporting" in the Notes to the Consolidated Financial Statements as at 31 December 2022).

Taken from the CRR: par. 4, Art. 317, Table 2		**Banco BPM Group business segments**							
Business line	**List of activities**	**Retail**	**Corporate**	**Institutional**	**Private**	**Investment Banking**	**Insurance**	**Strategic Partnerships**	**Corporate Centre**
Corporate Finance	Underwriting commitments of financial instruments or placement of financial instruments on the basis of an irrevocable commitment		✔			✔			
	Services associated with underwriting commitments		✔			✔			
	Investment advisory		✔			✔			
	Investment research and financial analysis and other forms of general advisory activities involving transactions in financial instruments		✔			✔			
Trading and sales	Own account trading					✔			✔
	Receipt and transmission of orders regarding one or more financial instruments	✔			✔	✔			
	Execution of orders for customers	✔			✔	✔			
	Placement of financial instruments without irrevocable commitments	✔			✔	✔			
	Management of multilateral trading facilities								
Retail brokerage (with natural persons or SMEs meeting the criteria set under Art. 123 for the retail exposures class)	Receipt and transmission of orders regarding one or more financial instruments	✔			✔	✔			
	Execution of orders for customers	✔			✔	✔			
	Placement of financial instruments without irrevocable commitments	✔			✔	✔			
Commercial banking	Collection of deposits or other repayable funds	✔	✔	✔					
	Lending transactions	✔	✔	✔					
	Finance leases							✔	✔
	Issuing of guarantees and unsecured guarantees	✔	✔	✔					
Retail banking (with natural persons or SMEs meeting the criteria set under Art. 123 for the retail exposures class)	Collection of deposits or other repayable funds	✔			✔				
	Lending transactions	✔						✔	
	Finance leases	✔						✔	✔
	Issuing of guarantees and unsecured guarantees	✔							
Payment and settlement	Payment services	✔	✔						
	Issuing and management of means of	✔	✔						

Taken from the CRR: par. 4, Art. 317, Table 2		Banco BPM Group business segments							
Business line	**List of activities**	**Retail**	**Corporate**	**Institutional**	**Private**	**Investment Banking**	**Insurance**	**Strategic Partnerships**	**Corporate Centre**
	payment								
Agency services	Custody and administration of financial instruments for customers, including custody and associated services such as management of cash/collateral					✔			✔
Asset management	Portfolio management							✔	
	UCITS management								✔
	Other forms of portfolio management						✔	✔	
Other services and support activity	Treasury management and own account funding								✔
	Equity interest portfolio management								✔
	IT asset management								✔
	Real estate asset management and maintenance								✔

With reference to the main content, the business segment:

- **"Retail"** includes management and marketing of banking and financial products/services and loan brokering mainly aimed at private customers and small businesses. These activities are for the most part carried out by the Parent Company's Commercial Network;
- **"Corporate"** includes management and marketing of banking and financial products/services and loan brokering aimed at medium and large-sized companies. These activities are for the most part carried out by the Parent Company's Commercial Network;
- **"Institutional"** includes management and marketing of banking and financial products/services and loan brokering aimed at bodies and institutions (UCITs, SICAVs, insurance companies, pension funds, banking foundations). Those activities are conducted in an equal amount by the Commercial Network of the Parent Company, for "local institutional" counterparties, and by specialised branches, for "systemically-important institutional" counterparties;
- **"Private"** includes management and marketing of banking and financial products/services and loan brokering aimed at private customers with assets that, individually and/or within their business, amount to at least 1 million. These activities are carried out by the subsidiary Banca Aletti;
- **"Investment banking"** includes the structuring of financial products, access to regulated markets, support and development of specialised financial services. These activities are carried out by Banca Akros and by Oaklins Italy;
- **the "Insurance"** segment includes the contribution of the interests held in Vera Vita, Vera Assicurazioni, Banco BPM Vita and Banco BPM Assicurazioni;
- **"Strategic partnerships"** includes the contribution of the interests held in Agos Ducato, Alba Leasing, SelmaBipiemme Leasing, Gardant Liberty Servicing and Anima Holding;
- **"Corporate Centre"**, in addition to governance and support functions, includes the portfolio of owned securities, the treasury and the Group's Asset and Liability Management, the stock of bond issues placed on institutional markets, the activities relating to the Group's leasing business, equity interests not classified as "Strategic Partnerships" and companies operating in the real estate sector.

To a marginal extent with respect to the Group's total volumes, certain retail activities included in the above classifications are also conducted by the foreign subsidiary Banca Aletti & C. (Suisse) S.A. (specialised financial services for private customers). With reference to 31 December 2022, the impact of foreign business can be considered negligible, both in terms of total consolidated assets and total consolidated income.

(B) Turnover

Turnover refers to Operating income, as under item 120 of the consolidated income statement, which amounted to 4,257.2 million as at 31 December 2022 (3,936.5 million as at 31 December 2021). Please see the Consolidated Income Statement schedule for 2022.

(C) Number of FTE employees

In terms of full-time equivalent employees, the figure as at 31 December 2022 totalled 19,157, including Co.Co.Pro. (temporary contracts) and internship contracts (19,435 as at 31 December 2021).

(D) Profit or loss before tax

The Group's profit (loss) before tax corresponds to the sum of items 290 and 320 of the consolidated income statement, which is +1,023.0 million (+653.7 million as at 31 December 2021). Please see the Consolidated Income Statement schedule for 2022.

(E) Taxes on profit or loss

The tax on the Group's profit for 2022 corresponds to the amount shown in item 300 of the consolidated income statement, which is a negative figure of -321.9 million (-84.9 million as at 31 December 2021). Please see the Consolidated Income Statement schedule for 2022.

As shown in the Notes to the consolidated financial statements, Part C - Information on the consolidated income statement, Section 21 - Taxation charge related to profit or loss from continuing operations - Item 300, note that the only taxes relating to foreign countries refer to the taxes determined according to Swiss tax regulations by the subsidiaries Bipielle Bank (Suisse) S.A. in liquidation and Banca Aletti & C. (Suisse) S.A. based in Switzerland, of 0.2 million (0.1 million as at 31 December 2021).

(F) Public grants received

During 2022, Banco BPM Group received public grants to provide personnel training courses totalling 3.5 million euro (4.8 million as at 31 December 2021).

To that end, note that in the listing of these grants, in compliance with the provisions established for preparing the disclosure in question, transactions carried out with central banks for the purposes of financial stability are excluded, as are operations with the objective of facilitating the mechanism used to transmit monetary policy.

Address
Banco BPM S.p.A.
Piazza F. Meda, 4 - 20121 Milano - Italia
Piazza Nogara, 2 - 37121 Verona - Italia

Investor Relations
tel. +39-02.77002057 | +39-045.8675537
investor.relations@bancobpm.it
www.bancobpm.it
www.gruppo.bancobpm.it

Layout
Galli Thierry stampa s.r.l.