BANCO BPM GROUP

Consolidated interim financial report

as at 30 June 2021

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This document is a courtesy translation into English of the document in Italian approved by the Board of Directors. 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 30 June 2021: € 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 30 JUNE 2021

	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
Joint General Manager	Domenico De Angelis
Joint General Manager	Salvatore Poloni
	Manager responsible for preparing the Company's financial reports
	Gianpietro Val
	Independent Auditors
	PricewaterhouseCoopers S.p.A.

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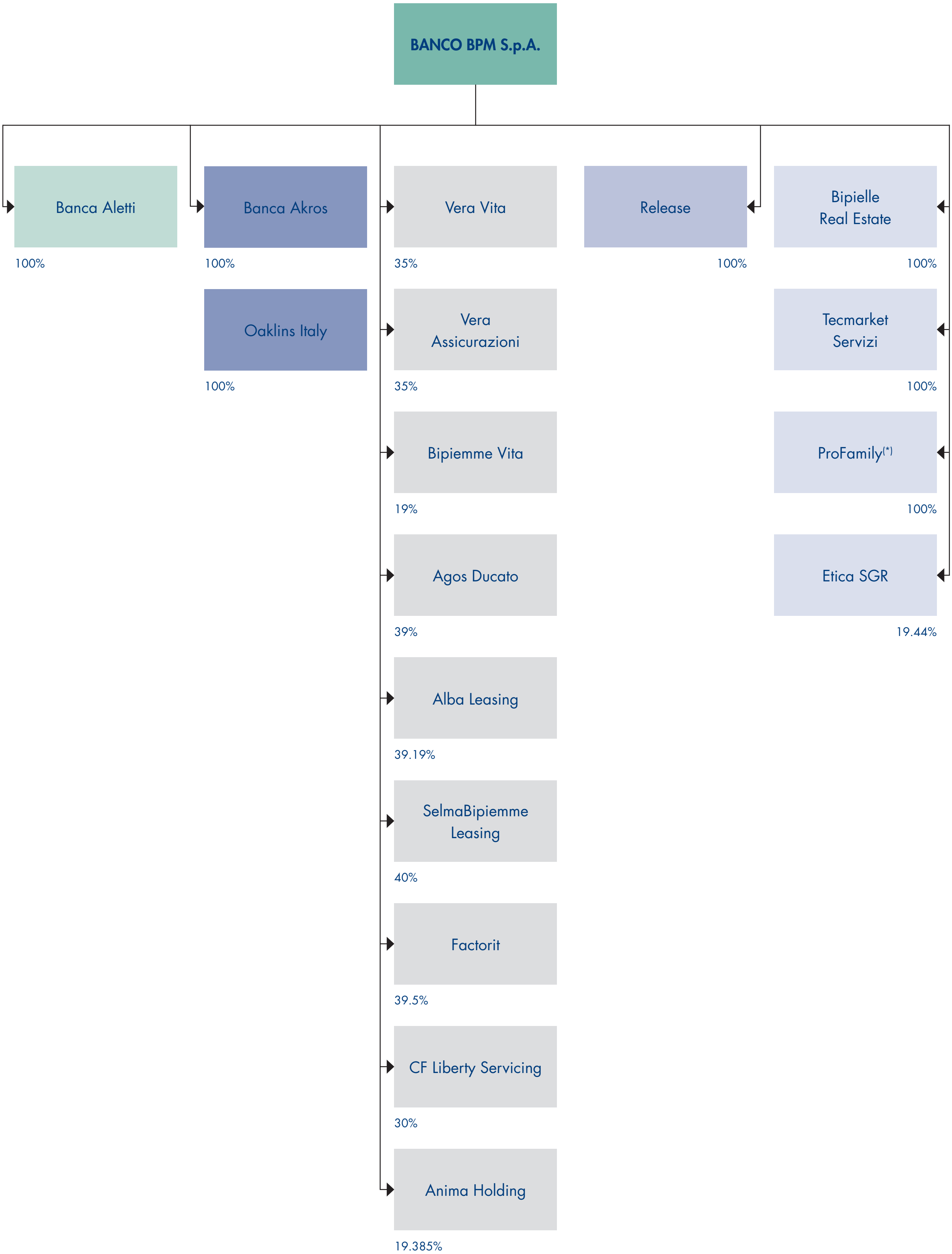
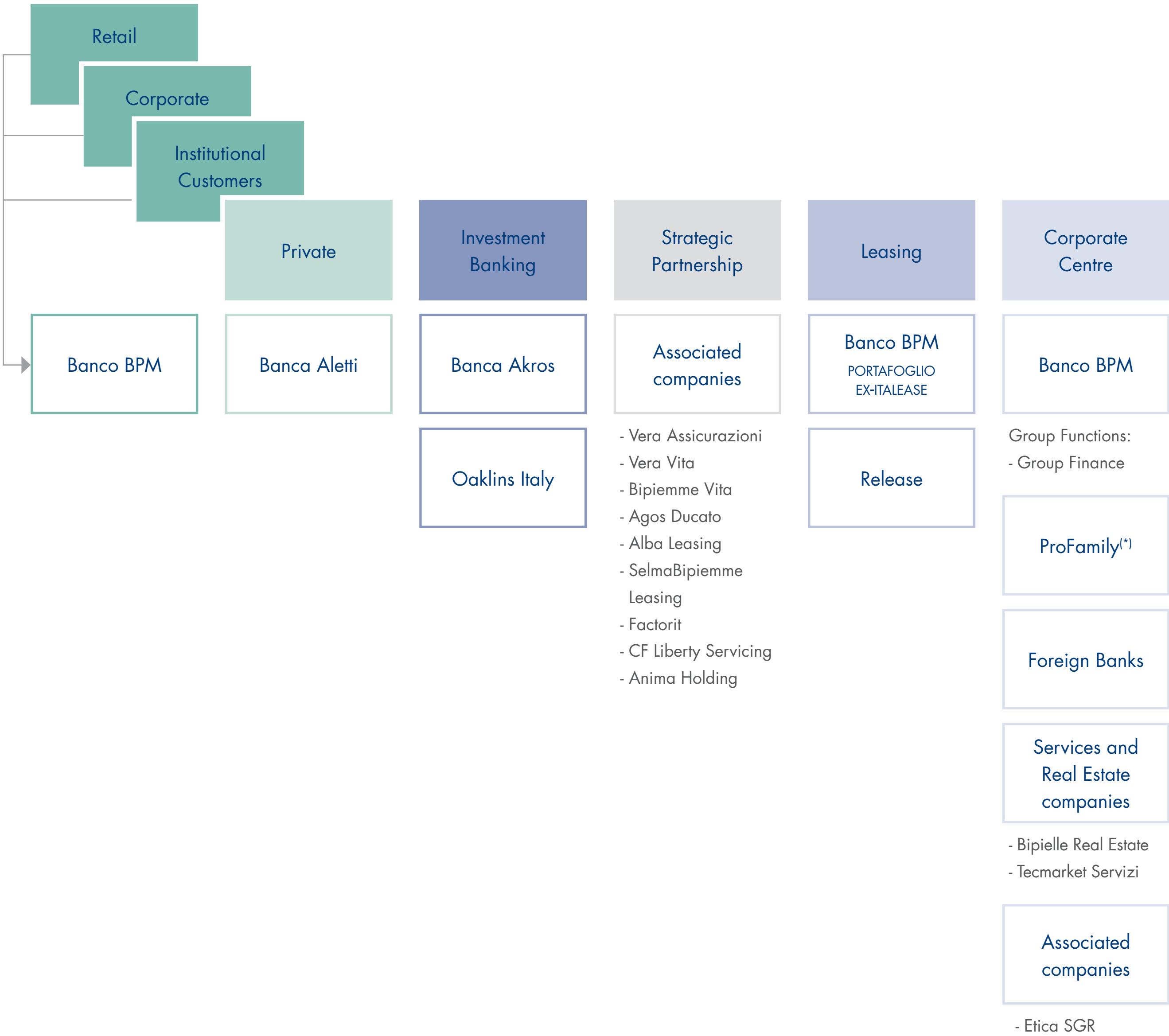
GROUP STRUCTURE: MAIN COMPANIES



(*) Company incorporated into the Parent Company on 19 July 2021.

GROUP STRUCTURE: BUSINESS LINES



(*) Company incorporated into the Parent Company on 19 July 2021.

GROUP TERRITORIAL NETWORK

N° BRANCHES

NORTH	1,157
CENTRE	218
SOUTH AND ISLANDS	135
TOTAL	1,510

Banco BPM Group Branches in Italy	Number
Banco BPM	1,454
Banca Aletti	55
Banca Akros	1
Total	**1,510**

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 highlights and main ratios of the Group, calculated based on the reclassified financial statements, are presented below. The underlying calculations for these are illustrated in the "Results" section of this Report.

(millions of euro)	I half 2021	I half 2020 (*)	Change
Income statement figures			
Financial margin	1,117.3	1,023.9	9.1%
Net fee and commission income	950.1	816.9	16.3%
Operating income	2,323.5	1,955.9	18.8%
Operating expenses	(1,275.5)	(1,248.7)	2.1%
Profit (loss) from operations	1,048.0	707.2	48.2%
Profit (loss) before tax from continuing operations	525.8	209.8	150.7%
Profit (loss) after tax from continuing operations	392.5	170.8	129.9%
Parent Company's profit (loss) for the period	361.3	105.2	243.4%

(*) The figures relating to the previous period have been restated to provide a like-for-like comparison.

(millions of euro)	30/06/2021	31/12/2020	Change
Balance sheet figures			
Total assets	198,530.1	183,685.2	8.1%
Loans to customers (net)	109,374.2	109,335.0	0.0%
Financial assets and hedging derivatives	45,955.5	41,175.6	11.6%
Group shareholders' equity	12,918.0	12,225.2	5.7%
Customers' financial assets			
Direct funding	120,146.4	116,936.7	2.7%
Direct funding without repurchase agreements with certificates	122,601.9	120,141.1	2.0%
Indirect funding	99,623.3	94,807.3	5.1%
Indirect funding without protected capital certificates	96,460.5	91,575.9	5.3%
- Asset management	62,918.1	59,599.2	5.6%
- Mutual funds and SICAVs	43,797.7	40,797.6	7.4%
- Securities and fund management	4,140.3	3,945.2	4.9%
- Insurance policies	14,980.1	14,856.4	0.8%
- Administered assets	36,705.2	35,208.1	4.3%
- Administered assets without protected capital certificates	33,542.4	31,976.7	4.9%
Information on the organisation			
Average number of employees and other staff (*)	20,345	20,776	
Number of bank branches	1,510	1,808	

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

The following table shows several alternative performance measures (APM) identified by 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.

The aforementioned measures are based on 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.

In line with the guidance contained in the update of the document "ESMA32_51_370 – Question and answer – ESMA Guidelines on Alternative Performance Measures (APMS)", published on 17 April 2020, no changes have been made to the APMs to take into account the effects of the Covid-19 crisis.

In this regard, it should also be noted that for each APM, evidence of the calculation formula has been provided and the figures used can be inferred from the information contained in the table above and/or in the reclassified financial statements provided in the "Results" section of this Report.

Financial and economic ratios and other Group figures

	30/06/2021	31/12/2020
Alternative performance measures		
Profitability ratios (%)		
Annualised Return on equity (ROE) (*)	5.75%	0.17%
Annualised Return on assets (ROA) (*)	0.36%	0.01%
Financial margin / Operating income	48.09%	50.90%
Net fee and commission income / Operating income	40.89%	40.07%
Operating expenses / Operating income	54.90%	58.53%
Operational productivity figures (thousands of euro)		
Loans to customers (net) per employee (**)	5,376.0	5,262.7
Annualised operating income per employee (*) (**)	228.4	199.8
Annualised operating expense per employee (*) (**)	125.4	117.0
Credit risk ratios (%)		
Net bad loans / Loans to customers (net)	0.87%	1.34%
Net unlikely to pay / Loans to customers (net)	2.44%	2.55%
Net bad loans / Shareholders' equity	7.33%	11.96%
Other ratios		
Financial assets and hedging derivatives / Total assets	23.15%	22.42%
Total derivatives / Total assets	0.94%	1.45%
- net trading derivatives / total assets	0.91%	1.41%
- net hedging derivatives / total assets	0.04%	0.04%
Net trading derivatives (***) / Total assets	0.16%	0.21%
Net loans / Direct funding	91.03%	93.50%
Regulatory capitalisation and liquidity ratios		
Common Equity Tier 1 ratio (CET1 capital ratio) (****)	14.07%	14.63%
Tier 1 capital ratio (****)	15.78%	15.85%
Total capital ratio (****)	18.78%	18.75%
Liquidity Coverage Ratio (LCR)	216%	191%
Leverage ratio	5.66%	5.66%
Banco BPM stock		
Number of outstanding shares	1,515,182,126	1,515,182,126
Official closing prices of the stock		
- Final	2.713	1.808
- Maximum	3.040	2.456
- Minimum	1.781	1.043
- Average	2.383	1.538
Basic EPS (*)	0.239	0.014
Diluted EPS (*)	0.239	0.014

(*) The annualised result does not represent a forecast of profits for the year.
(**) 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.
(***) The aggregate of net trading derivatives corresponds to the mismatch, in absolute terms, between the derivatives included under 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".
(****) The figures referring to 31 December 2020 were calculated considering the profit (loss) for the year net of the dividend of 6 cents per share, approved by the Shareholders' Meeting on 15 April 2021, taken from the profit for the year 2019, as a result of compliance with what is set forth in ECB Recommendation of 27 March 2020.

Interim report on operations

ECONOMIC SCENARIO

The Covid-19 pandemic

During the first six months of the current year, the vaccination campaigns against the Covid-19 pandemic undertaken by the authorities of the main industrialised economies entered into full swing. After a problematic launch, especially in Europe, they entered phases of particular acceleration and intensity, which made it possible for the epidemic scenario to take a positive turn. In the wake of the encouraging results, all efforts at the end of the half remain concentrated on the extension of vaccinations to broader swaths of the population in order to reduce risks of hospitalisation, de facto decreasing the classification of the illness to a lower level of danger. This favourable development has fuelled expectations that advanced economies will attain sufficient vaccination rates to achieve near herd immunity in the third and fourth quarters of 2021, while the very slow progress in vaccination campaigns in developing economies do not make it possible to forecast an analogous result before the end of 2022.
Certain fears have in any event emerged as a result of variants - first and foremost the “Delta” variant, which is currently the most contagious - against which the two doses of the vaccine represent a valid safeguard, at least in order to reduce the risk of hospitalisation and/or unfortunate outcomes of the illness. Indeed, the main risk continues to be the emergence of one or more coronavirus variants that are more contagious and resistant to current vaccines. In particular, the risk of a vaccine-resistant virus mutation in developing countries like Brazil or India is rather concerning, as in those countries the too slow vaccination campaigns and ongoing strong waves of the pandemic could boost the likelihood of such an event.
Following the rapid mass immunisation of the population, the normalisation of economic activity in advanced and newly industrialised (China) countries experienced a sudden acceleration and, thanks to their significant weight, the impact on global growth was appreciable and decisive. Indeed, for now, the recovery is uneven, driven primarily by the latter.

The international scenario

In the first half of 2021, due to the recovery in activity - particularly in the second quarter - the global economy returned to pre-pandemic levels, moving on from the recovery phase, in which manufacturing was the key sector, to a new phase of expansion, with rapid growth extending to services as well. In line with the improvement in economic activity, the recovery in global trade also continued, at times with greater vigour: according to available estimates, trade will grow by 11% in 2021, surpassing pre-pandemic levels.

Over just five quarters, a deep recession was followed by a rapid recovery. This trend points to a completely unprecedented “V” shaped economic recovery. In 2021, GDP growth for the global economy should indeed reach its most rapid pace for over 40 years, with the International Monetary Fund estimating a surge of 6.0% (+0.8% compared to the last forecast developed at the end of 2020). Such development is supported by the progressive global spread of the vaccine as well as by the expansion of fiscal stimulus measures in the main economies, business adaptations to the pandemic and the anticipation of a vigorous rally in aggregate demand in many countries. The updated forecasts currently remain driven essentially by the advanced economies, whose solid outlooks for recovery are, in turn, driven primarily by the United States. A certain unevenness continues to persist, even within advanced economies: in several countries, companies in many sectors, and as a result households, have not yet exited the recession phase.

Specifically, during the half-year period the US economy benefitted from a relatively rapid administration of vaccines as well as the strong fiscal stimulus measures proposed by the Biden Administration. The newly elected president, strong from an additional electoral success in January, when thanks to the special elections in Georgia the Democrats won a de facto majority in the Senate (where the vote of the Vice President breaks any tie vote), already in the first quarter signed the $1.9 trillion 2021 American Rescue Plan Act. The package includes $1,400 cheques to all eligible individuals and an extension of the $300 per week in extra federal unemployment benefits until 6 September. Furthermore, financing was also provided to small companies, state and local governments and to support the fight against the pandemic (vaccinations, testing and tracing of Covid-19). The measure joined the $900 billion in spending provided by the “Consolidated Stabilization Act 2021” approved on 21 December 2020, bringing the amount of supporting fiscal interventions to $2.8 trillion.

The two stimulus packages "gave wings" to the US economic recovery, although accelerating demand encountered significant supply side constraints, preventing the economy from growing at an even faster pace than it currently is. In the second quarter, the Biden Administration also proposed a significant $1 trillion package of infrastructure investments (bipartisan plan), which was blocked by Republicans during the first vote in Congress.
Alongside the highly expansionary fiscal policy, the Federal Reserve maintained an extremely accommodating monetary policy: no changes are expected in reference rates until 2023, while monthly purchases linked to the Quantitative Easing programme ($120 billion per month, of which $80 billion in treasuries and $40 billion in mortgage backed securities) are expected to continue throughout the year, guaranteeing a sustainable economic recovery, aside from support to the job market.
Specifically, US GDP grew by 6.4% on an annualised basis in the first quarter (+4.3% in the 4th quarter of 2020), thanks to growth in personal consumption expenditure (PCE), +11.4% on an annualised basis, non-residential fixed investments, +11.7%, federal public expenditure, +13.8%, residential fixed investments, +13.1%, and state and local entity public expenditure, +0.8%. The leap was partially attenuated by the downturn in inventories in the private sector (-2.7% contribution to GDP) and exports, -2.1% on an annualised basis, decreases which were combined with an increase in imports, +9.5%. The second quarter substantially confirmed the results of the first, in part not meeting expectations of more brilliant performance: GDP rose by +6.5% on an annualised basis thanks to an acceleration in spending on consumption (PCE), +11.8% on an annualised basis, progress in spending on non-residential fixed investments, +8.0%, and the resumption in the growth of exports, +6.0%.
Although the job market recovery is continuing, it has lost steam in recent months: first-time applications for unemployment benefits are up once again - 419,000 for the week ending on 17 July, the highest level since mid-May (compared to a peak of 665,000 reached during the global financial crisis). Non-farm payrolls in any event grew by 850 thousand in June (916 thousand in March 2021), while in June the unemployment rate was 5.9% (compared to 5.8% in May), although this still marks an improvement compared to 6.0% in March.
The rapid increase in aggregate demand against interruptions in global supply chains and the related bottlenecks in the supply of goods (reduction in new vehicle manufacturing and increase in the price of used vehicles, increase in demand in sectors particularly impacted by the pandemic, such as transport services) then resulted in a strong acceleration in inflationary trends: in June, consumer prices were up +5.4% (+2.6% in March).
In the first half of the year, the Japanese economy instead suffered from an extension of its state of emergency (and the associated distancing measures). The authorities of the largest prefectures in Japan came to this decision as a result of the increase in cases of infection, thus stifling outlooks for economic growth. Consumer confidence was therefore again put to the test: the relative index went from 36.1 in March to 34.7 in April, to end at 34.1 in May. Consumer spending thus marked a difficult start to the second quarter: retail sales were down, by -4.6% month on month in April and -0.4% month on month in May, respectively. In May, industrial production declined by -6.5% (against +1.7% in March). The purchasing managers' index (PMI) for the services sector fell once again in June to 52.4, compared to 53.0 in May. On the other hand, it should be highlighted that the average of these indexes in the first two months of the second quarter in any event remained above first quarter levels, and that core orders of machinery in June marked an improvement of 7.8% month on month in May (+3.7% in March after two negative months).
After declining by 5.1% on an annualised basis in the first quarter, in the second GDP should have marked a limited improvement also thanks to activities linked to the 2020 Tokyo Olympics: estimates are around +0.5% on an annualised basis, while for all of 2021 the expected growth rate is +3.7%, primarily concentrated in the second part of the year. The faltering evolution of growth has been reflected in the job market: the unemployment rate was back up in the second quarter: 2.8% in April and 3.0% in May (compared to 2.6% in March). Inflation trends also remain rather modest although finally, after 13 months, they recently began reaching marginally positive values: +0.1% yoy in May and +0.2% in June.
In the first half of the year, the Chinese economy continued its vigorous post-pandemic recovery. This is not solely a base effect linked to bad performance in the first half of 2020: in May, industrial production reached a level roughly 7% higher than pre-crisis levels, different from the US and the EMU, where pre-crisis levels were reached once again only in the second quarter. Indeed, it benefitted from the early - compared to Western developed economies - exit from the health crisis (despite localised outbreaks), as well as the recovery in domestic demand and the vigorous recovery in foreign demand. In addition, despite the crunch in speculative financial transactions, especially those collateralised with commodities, the total social financing trend remained positive, although it was slowing: 3,670 billion yuan in June compared to 3,340 billion yuan in March, constituting a significant factor supporting growth.
In detail, after marking +0.6% growth in the first quarter of 2021 compared to the previous quarter (+18.3% yoy), it accelerated in the second quarter, closing with an improvement of +1.3% qoq (+7.9% yoy), driven both by the good performance of exports (+32.2% yoy in June vs. +27.9% in May) as well as the brilliant performance of retail sales, +12.1% yoy in June, against an increase in industrial production of +8.3% yoy. The data appear to be

consistent with an estimated increase in GDP for the entire year 2021 of +8.7% (+2.2% in 2020). Despite stimulus measures, the inflation rate also remains under control: +1.1% yoy in June compared to +1.3% in May, against a producer price trend that is still rather sustained, despite a modest downturn in the monthly comparison: +8.8% yoy, compared to +9.0% yoy in May 2021.
Amongst the emerging and developing economies, vaccination progress has been slow, with significant coronavirus outbreaks currently under way in Latin America, India and many other Asian countries, like Indonesia. Economic outlooks improved in Mexico and Turkey, thanks to stronger than expected recoveries at the end of 2020 and the beginning of 2021. The Covid-19 pandemic continued to represent a significant constraint for economic activity in the second quarter. More targeted lockdowns and increased consumer adaptations, like online shopping, often drove down the negative impact on the economy. According to IMF estimates, emerging and developing economies should expand by 6.7% in 2021. Prometeia expects India to record 7.2% growth in 2021 (-7.0% in 2020), while Russia should just recover the ground lost in 2020: +3.1% in 2021 against -3.1% in the previous year. On the other hand, in Brazil the prolonged impact of the pandemic should be reflected to a lesser extent, with expected growth of 5.6% in 2021 (-4.4% in 2020).
Moving on to the main commodities, due to vigorous aggregate demand at international level, prices marked intense and sudden accelerations, especially in the first quarter. There were strong rallies in metals as well as plastics, forest commodities and agricultural commodities. The energy sector (oil and natural gas) saw much more gradual increases. Overall, the sharp increases in shipping freight rates and bottlenecks throughout international supply chains played a considerable role, particularly impacting the automotive industry. As a result of these factors, global inflation is expected to accelerate in the course of the year, from +2.9% in 2020 to +4.4% in 2021, with a greater boost in the emerging economies, +5.5% compared to +4.2% in 2020.

The economy in Europe and Italy

In the first half of the year, Eurozone economic trends were rather uneven: after a weak start in the first quarter, impacted by the effects of the third wave of Covid, the intensification of vaccination campaigns rapidly changed the scenario, and the half-year closed with a broad recovery in the Eurozone economy, partially narrowing the gap with respect to US growth trends. The end of restrictive lockdowns, the increase in bond purchases by the European Central Bank (ECB) and the imminent launch of the largest European stimulus plan ever (NGEU, Next Generation EU) impacted the jump in domestic demand, especially in the second quarter, and are expected to further boost growth in the second half of 2021. The European economic recovery plan (NGEU) approved in July 2020 and rendered operative with the regulation of 9 February 2021 and the Member State ratification completed on 31 May, is a temporary instrument worth more than 800 billion euro designed for the economic recovery of the EU, intended to repair the economic and social damages caused by the coronavirus pandemic with a view to creating a greener and more digital, resilient and competitive post-Covid-19 Europe. Along with the EU's long-term budget (Multiannual Financial Framework, MFF), it represents the most significant package of stimulus measures ever funded in Europe, reaching the consolidated total of 2,018 billion at current prices (1,211 billion for the long-term budget + 806.9 billion for NGEU). The measures contemplated by Next Generation EU, which will be funded via fundraising in the capital market from 2021 to 2026, include roughly 390 billion in subsidies and around 360 billion in loans to be repaid over a medium/long-term time horizon.
Also thanks to this package, the peak of the Eurozone's economic boost could arrive after the end of this year, unlike other major economies such as the United States, where growth is expected to have peaked in the second quarter of this year or China, where it peaked in the fourth quarter of last year.
With the acceleration of vaccination programmes and the reopening of service industries, "sentiment" surveys have taken off. The Eurozone consumer and business confidence index rose from 90.4 in December 2020 to 101.0 in March, to then rebound to 117.9 in June 2021 (that of French companies rose to its highest levels of the last three years in May, while the IFO survey on the expectations of German businesses had its best result since January 2011). Thanks to leave plans for workers, a relatively low number of them lost their jobs during the pandemic. This triggered a 0.3% increase in the disposable income of households in 2020, despite the deep recession in 2020, and savings as a percentage of income nearly doubled to 20%, closing the year 7.1% above the twenty-year average and the pre-pandemic level (12.9%). Thanks to part of this excess saving caused by the lockdown, area consumers began to resume their spending - the main engine of the European economy - at full pace, releasing repressed demand.
As noted above, in the first quarter of 2021, the uneven nature of the restriction and distancing measures still in force in certain area countries caused the expenditure on final consumption of households to decline by -2.3% in the Eurozone and -1.9% in the EU (after recording -2.9% and -2.7% in the previous quarter, respectively). Gross fixed

capital formation rose by +0.2% in the Eurozone and by +0.8% in the EU (against the previous +2.5% and +2.0%). Exports were up by +1.0% in the Eurozone and by +1.1% in the EU (after +3.8% and +4.0%). Imports increased by +0.9% in the Eurozone and by +1.1% in the EU (compared to +4.5% and +4.4%). The government's final expenditure contributions were neutral in both areas.
The initial indications for the second quarter, in the wake of the improvement in a series of economic indicators driven by the PMIs (the composite rose from 49.1% in December 2020 to 59.5% in June 2021; it was 53.2% in March 2021), point to a significant acceleration in growth, estimated at +0.8% compared to the previous quarter, driven by corporate investments due to the fiscal package described above and household consumption sustained by disposable income. In this sense, the acceleration of retail sales in May (+4.6% compared to April) and the Service PMI, to 58.3 in June compared to 46.4 in December 2020 (49.6 in March), provide some reassurance. On the other hand, industrial production trends were less clear, with a decline of -1.0% in May (but at +20.5% yoy) after an improvement of +0.8% (39.3%) in April.
The job market can provide some useful indications on ongoing trends: while the unemployment rate was improving, at 7.9% in June compared to 8.1% in March and 8.3% in December 2020, unfilled jobs rose in June to 2.1% from 1.9% in December 2020, representing a certain matching difficulty between labour supply and demand, an element which could have contributed to causing some friction on the supply side. The nominal hourly cost of labour rose by +1.5% in the first quarter (+2.8% in the fourth quarter of 2020). Consumer price trends remain rather moderate: +0.9% yoy in June, at the same levels as March (+0.9%) but accelerating compared to December 2020 (+0.2%). On the other hand, there is a certain degree of pressure coming from producer prices, which were up by 9.6% in May yoy compared to -2.0% in December 2020, raising questions concerning a possible sudden acceleration in inflation in the coming months.

Naturally, the health emergency impacted Italian economic trends in the first half of the year. Specifically, the accentuation of restrictive measures due to the second wave of the pandemic around the end of 2020 significantly influenced economic activity in the final quarter of 2020 and the first quarter of 2021, interrupting the sharp rebound triggered by the first phase of remission from the virus. Subsequently, with the arrival of spring and the launch of the vaccination campaign, expectations rapidly improved and in the second quarter of the year economic activity accelerated significantly. The services sector, first and foremost commerce, transport, lodging and restaurants, paid the highest price during the second wave of the virus. To the contrary, manufacturing sectors managed to continue to ride the wave of the recovery that started in the third quarter of 2020, despite a slowdown.

In any event, the economic system demonstrated a partly unexpected resilience: indeed, in the first quarter of the year, GDP, expected to be down, actually showed slightly positive growth, unlike in the other major Eurozone countries, where there was a decline in GDP for the entire period. The abundant measures that the government has kept deployed and strengthened to combat the effects of the restrictions have provided robust support. The first quarter was characterised on the political front by the crisis of the second Conte government, after which the Draghi government took power on 13 February, which contributed to reinforcing the expectations of economic operators and favoured a reduction in the BTP-Bund spread. In late April, the government submitted its "National Recovery and Resilience Plan (NRRP)" to the EU Council, which was then approved in mid-July.
In detail, the change in Italian GDP in the first quarter was 0.1% qoq (-1.8% in the final quarter of 2020) and -0.8% in the comparison with the first quarter of 2020. This trend reflected on one hand the weakness in household consumption and foreign demand, which made a negative contribution to quarterly GDP of 0.7% and 0.5%, respectively, and on the other hand the sustained tone of investments and stock formation (both contributed +0.7% to GDP).
On the other hand, in the second quarter, based on available indicators, growth is expected to have accentuated due to the gradual relaxation of restrictions. The most recent estimates place the increase in GDP with respect to the previous quarter at around 1.2%. A new expansion in industry and the progressive initiation of a recovery in services is expected to have contributed to this improvement. Indeed, business and households confidence indicators marked a significant recovery in expectations. Industrial production forecast models indicate further progress in the second quarter, of around 1.5%, despite the downturn suffered in May (-1.5% compared to the previous month). The services sector finally benefitted from the easing of restrictions on activity, and should be up compared to the first quarter. Indeed, in May the services PMI surpassed the threshold consistent with expansion for the first time since summer 2020 and rose further in June.
However, the recovery was driven especially by investments, particularly those in plants and machinery by businesses; the trend in investments in means of transport was more moderate. Investments in construction were also up in the spring, in continuity with the first quarter. Consumption is expected to have resumed growth in the second quarter, but the propensity to save remains high, as it is still impacted by a cautious approach. Progress being made

in vaccinations, the reduction in contagion and the progressive reduction in restrictions on mobility have supported a gradual recovery in household spending, after the considerable decline in the first quarter, but overall during the half-year a certain amount of caution prevailed. Indeed, employment was down, albeit slightly, in the first quarter (-0.9% compared to the previous quarter), particularly in the private services sector (-2.0%), thanks to the support provided by the government measures to expand unemployment benefits and prohibit dismissals. These measures are coming to a close, barring any reconsiderations, which is triggering a certain prudence. The most recent data relating to May show some recovery in the number of people employed. The unemployment rate came to 10.5% in the same period, down by 0.1% compared to the previous month. Household disposable income also marked a certain improvement, after the collapse of 2.6% in real terms suffered in 2020, supported by the transfer measures implemented by the government.
The numerous government initiatives to support the economy naturally boosted the deficit and public debt in 2021 as well, with the suspension of the Fiscal Compact remaining in force throughout 2022. The more than 100 billion in extraordinary support expected for 2021, after the analogous amount spent in 2020, are driving, according to estimates, net debt to 11.0% of GDP (9.5% in 2020) and the GDP/public debt ratio to 158.3% (155.8% in 2020). Most of these measures are destined to come to an end this year, with effects on public accounts limited to 2021. Estimates for 2022 indicate a reduction in net debt to 5.8%. Already in summer 2021, an initial tranche of roughly 205 billion will be available for use (235.6 billion considering the national complementary fund resources), as made available for Italy by the "Next Generation EU" plan following the approval of the NRRP sent by the Italian government to the Council of the European Union.

Monetary policy and the financial markets

For the beginning of 2021, the financial markets were still highly impacted by news concerning the evolution of the pandemic and vaccination campaigns. After a positive start, the half-year period recorded greater volatility due to the discovery of new virus variants and the accumulation of delays in vaccine deliveries, which were combined with uncertainty as regards the timing of the fiscal stimulus in the United States.
In Italy, the credit market was negatively influenced by political instability resulting from the resignation of the second Conte government in January, which triggered a slight increase in the spread on domestic government bonds, which was easily recovered as expectations pointed to a term of office with Mario Draghi at the helm. The continuation of the pandemic with the development of the third wave indeed required governments to renew their income support measures, which had been set to expire in 2021.
From mid-February, there was a strong increase in inflationary expectations in Europe and especially in the United States, which translated into a sudden increase in nominal and real rates, in the presence of actual inflation which continued to hover at low levels. The exacerbation of the curves further harmed the Investment Grade Bond classes, while the high yield sector showed greater stability, as the good outlooks for an economic recovery continued to support demand for new issues in the presence of still appealing returns in absolute terms. The progress made in the vaccination campaigns were taken as a positive sign for the strengthening of the US dollar and the British pound.
For Italy, the new high-profile and highly European-oriented government which took office, guided by former ECB President Mario Draghi, contributed to the good sovereign market performance. Strengthened expectations regarding inflation also translated into a considerable sell-off on government bonds of core countries (starting with the United States), in any event with peripheral countries (particularly Italy) overperforming with respect to core countries in terms of credit risk.
The first quarter closed with new Western stock market highs as a result of optimism surrounding vaccination campaigns and excellent macroeconomic data, particularly in the US. A continuation of the trends described appeared certain to the point of determining an exit from the pandemic for the United States that was roughly six months early (compared to Europe). Concerns regarding inflation again generated market volatility, particularly in early May, despite the continuation of accommodating responses on the part of the central banks. In Europe, the credit market continued to be supported by outlooks for an economic recovery, while the credit market in Italy appeared to benefit primarily from outlooks for bank M&A transactions and expectations concerning the implementation of the Next Generation EU programme. Although off and on, Covid-19 was now perceived by the financial markets as a problem being rapidly overcome: investor attention therefore returned primarily to company accounts and the fundamentals, which were measured with respect to pre-Covid consensus levels.
During the month of June, the credit market continued to be supported by expansionary monetary and fiscal policies enacted by governments and central banks and strongly recovering economic data. A possible rate hike by the Fed, emerging during the mid-month meeting, resulted in a temporary increase in volatility, which did not however prevent a further contraction in credit spreads, which reached their lowest levels since the start of the pandemic.

Although monetary policy remains in the spotlight, there were no significant changes until June when for the first time, the Fed hinted at a reduction in the monthly pace of its bond buying programme (compared to $120 billion), while projections on the policy rate level revealed that the majority of the Federal Reserve Board members expected two rate increases in the course of 2023. This resulted in a change in inflationary expectations, the steepness of curves and medium/long-term returns, quickly also reflected by the European market.

Turning to Europe, it is important to recall that the mix of instruments deployed by the European Central Bank remained stable, with APP and PEPP purchases destined to continue (although with variable intensity) at least until March 2022, to end only after the first policy rate hike. Banking system liquidity was guaranteed by the third series of TLTRO which was subject to an important revision at the 10 December session, and was then implemented as of January 2021:

- introduction of three new auctions, all with a three-year duration, in June, September and December 2021;
- extension until June 2022 (from June 2021) of the collateral easing measures and the period in which it is possible to benefit from the discount of 50 additional bps on the cost of financing;
- raising of the maximum draw-down threshold to 55% of eligible loans.

It is important to add that the strategy review by the European Central Bank concluded in June, establishing:

- the HICP index as the reference benchmark for price stability (with the inclusion of costs related to owner-occupied housing);
- adoption of a symmetrical inflation target of 2%;
- adoption of an ambitious programme for fighting against climate change, which calls for the inclusion of climate variables in the monetary policy framework with an extension of the level of analysis, modelling and disclosure. Climate variables will also be assessed as regards the banking sector risk assessment, collateral and the corporate sector purchase programme (CSPP).

In the stock market's financial sectors, the stock prices of both European banks and Italian banks recorded performance of 24% on average since the start of the year, marking highs in the first week of June. On the other hand, insurance segment trends were visibly divergent (+6.7% in the 6 months in Europe), with a considerable underperformance since the start of April. The trend of Italian insurance companies was more aligned with the banking sector, improving by 20.3% in the half-year period. The performance of the Asset Management segment in Italy was also positive, with stock market performance that we estimate at 14.5%, on the basis of an index weighted by the capitalisation of listed issuers.
The average spread of Credit Default Swaps (CDS) relating to European banking issuers did not record significant changes after the re-rating that took place in fall 2020 after the announcement of the first anti-Covid vaccines, closing the half-year at around 55 bps. CDSs marked similar performance for the main Italian banks.
In the bond market, the European banking sector recorded a strong appreciation in relative terms with respect to non-banking sectors (Iboxx BBB spread between the two segments fell to 12.2 bps at the end of the period), returning to the pre-Covid levels of February 2020. The spread between subordinated and senior securities (Itraxx 5Y) remained at low levels, around 50 bps, levels reached only in February 2020.
In Europe, the government bond market recorded modest fluctuations in spreads in the first six months of the year against an increase in the yield of the Bund curve, which reached 50 bps in May, to then decline to 15 bps in June: for Italy, the BTP/Bund spread surpassed 125 bps only in January during the fall of the second Conte government, to then clearly return to below the 100 bps threshold, around which it fluctuated in the following months; after the Draghi government took office, market trends reflected nearly exclusively expectations concerning the possible evolution of the ECB's monetary policy (use of PEPP), rather than the political situation of the new executive branch. The yield spreads of Italy compared to Spain (35-40 bps) and Portugal (45-50 bps) changed only slightly.

Domestic banking activity

The trend in domestic banking activity in the first half of 2021 benefitted from the improvement in the economic situation which characterised economic activity, at first timidly and then more significantly starting in the second quarter. The evolution in lending volumes was also still influenced by the exceptional measures supporting lending introduced by the government last year with the "Cura Italia" (Heal Italy) and "Liquidità" (Liquidity) decrees. The moratoria on mortgages and credit lines and the state guarantee on loans were most recently extended from 30 June to 31 December, although with several limited modifications.

In the initial months of the year, non-financial private sector lending in Italy therefore continued to expand at a sustained pace, surpassing that of the Eurozone as a whole.
However, lending to companies began to slow the tumultuous growth that characterised last year. The component linked to the moratoria began to decline significantly - the outstanding stock was nearly cut in half - while recourse to state guarantees on loans remains lively. The demand of businesses was less linked to liquidity requirements and more to debt renegotiation requirements; there are also signs of a recovery in financing for new fixed investments.
At the same time, disbursements to the individuals sector are accelerating, supported by expectations of an improvement in real estate prices and the continuation of a context of extremely low interest rates, as well as accommodating offer policies on the part of the banking system.
The monetary measures adopted, in particular the financing guaranteed to the banking system by the TLTRO III auctions, provide the necessary funding to support this expansion. Banks' ordinary funding also recorded significant growth rates in 2021, sustained by the accumulation of liquid assets by households, primarily current accounts, following the continuation of the phase of uncertainty and a recovery in disposable income.
More specifically, based on the latest figures released by the ABI, the trend of loans to businesses and households (calculated including securitised loans and net of changes in amounts not related to transactions or reclassifications) showed a yoy increase of +4.0% at June. In particular, breaking the figures down by type of borrower, loans to non-financial companies rose in May - latest available raw data - by +1.7% yoy, a slowdown compared to the end of the year (+5.8% yoy in December 2020), while those to households recorded an increase of +2.9% (+1.6% in December 2020). Credit quality continued to improve on many levels. Net bad loans (net of write-downs and provisions already made) were down to 18.0 billion euro in May, compared to 26.2 billion twelve months earlier: -8.2 billion, corresponding to a decrease of 31.3%. The ratio of net bad loans to total loans, again in May, was 1.04% (compared to 1.50% twelve months earlier). The decay rate on total loans, based on available data up to March, remained stable compared to December 2020 at 1.1%.
With regard to funding, the trend of total funding (deposits from resident customers and bonds) was up in June 2021 by +6.8% yoy. Deposits continued to grow to a very significant extent: +144 billion euro compared to one year earlier (+8.9%). Medium/long-term funding, namely through bonds, instead fell in the last 12 months by 18.3 billion (-8.1%).
The bank interest spread in June 2021, calculated as the difference between the average rate on loans and the average rate on total funding from households and non-financial companies, remained at particularly low levels: 173 basis points (from 182 bps 12 months prior). In the same month, the mark-up (calculated as the difference between the average rate on loans to households and non-financial companies and the 3-month Euribor rate) stood at 274 bps, basically stable compared to the same month of the previous year (-1 bp), while the mark-down (calculated as the difference between the 3-month Euribor rate and the rate on total funding) deteriorated further in the comparison with June 2020, from a negative value of 93 bps to 101 bps.

The trend in managed assets was very favourable. In May 2021, the assets of Italian and foreign open-ended funds amounted to 1,190.6 billion, up by +18.1% compared to the 12 previous months, and by +5.0% compared to the end of 2020. Net inflows of open-ended funds amounted to 23.1 billion from the beginning of the year.

SIGNIFICANT EVENTS DURING THE PERIOD

The main events, which occurred during the first half of the year, are described below.

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

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

Support to private customers - moratoria

In the first half of 2021, Banco BPM applied what was set forth in Decree Law no. 73 of 25 May 2021 ("Sostegni bis" [Support two] Decree), which renewed the majority of the provisions set forth in Art. 54 of the Cura Italia Decree, which expired on 17 December 2020.
The decree provides for a moratoria on the payment of first home mortgages by making recourse to the "First home mortgage solidarity fund" referred to as the "Gasparrini Fund" or the "CONSAP Fund", with a suspension of instalments for up to 18 months.
This solution envisaged the payment of a benefit corresponding to 50% of the interest accrued during the suspension period.

The main new elements introduced are described below:

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

With regard to this support measure for consumers, the timing for sending the request for suspension/access to the Fund and for the response to the applicant customer were defined directly by the legislation in question.

The Consap moratoria provided in the first half of 2021 totaled more than 1,100 for approximately 105 million.
Banco BPM has also granted additional types of moratoria to private customers with the number of operations equal to approximately 8,400:

- what is known as "commercial moratoria", which envisages the suspension of the entire instalment for a maximum period of 12 months. At 30 June 2021, roughly 8,300 suspensions were provided for around 823 million;
- the Italian Banking Association moratoria for consumers. At 30 June 2021, roughly 100 suspensions were provided for around 10 million.

Support to business customers

Support to business customers - moratoria

With reference to the topic of moratoria, in the course of 2021, Banco BPM worked in compliance with the government provisions which lead to subsequent automatic extensions, unless waived by customers, of the moratoria pursuant to Art. 56 of the "Cura Italia" Decree Law until 30 June 2021.

Support to business customers - loans

The activity to support business customers continued through the significant use of the facilitation instruments made available by the "Liquidity" Decree Law of 8 April 2020, which was subsequently converted into Law no. 40 of 5 June 2020 and the relative possibility to access specific loans guaranteed by the Guarantee Fund for SMEs and by SACE. With respect to the "Business" segment, the impact of disbursements guaranteed by the Guarantee Fund for SMEs and SACE on total disbursements exceeded 80% during the period.

During the period, requests for extensions were also responded to, particularly for transactions referring to the "Liquidity" Decree Law - Article 13, paragraph 1, letter m).

Overall, considering interventions in favour of individuals and businesses, loans still outstanding amount to 24.5 billion and are primarily represented by exposures subject to moratoria and new loans disbursed via public guarantee mechanisms (liquidity measures).

In more detail, the support measures represented by the moratoria compliant with EBA guidelines not yet expired at 30 June amount to 9.5 billion, of which 9.4 billion performing; the latter decrease to 4.8 billion in the beginning of August and are roughly 74% concentrated in the best rating classes. The expired moratoria, which at 30 June amount to 4.9 billion, have a low average default rate (1.25%).

The liquidity measures amount to 14.9 billion; the amount of the public guarantee received is equal to approximately 86% of the value disbursed. These exposures are nearly entirely classified in the performing portfolio, of which roughly 6% in "Stage 2".

For additional details, please refer to the section dedicated to commenting on the consolidated balance sheet figures.

Derisking activities

During the first half of the year, the Group further accelerated the derisking process through a plan for the assignment of non-performing loans for a gross total of 1.65 billion (including some "small tickets").

In this context, the "Rockets Project" entailed the assignment of bad loans for a gross amount of 1.5 billion.
That operation was finalised in June, in the form of a securitisation, with the assignment of loans to the special purpose vehicle Aurelia SPV S.r.l., which issued the Notes (Senior, Mezzanine and Junior). A state guarantee (the "GACS"), the extension of which was approved by the European Commission. 95% of the mezzanine and junior notes were purchased by companies controlled by Elliott funds.

The finalisation of that transaction had a significant positive effect for the Group in terms of a reduction in the stock of gross non-performing loans and an improvement in credit quality indicators.

Partnership agreements in the bancassurance sector

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

More specifically, the agreement provides, in exchange for Banco BPM's waiving of the call already exercised[1], for the recognition to it of a right of early exit from the partnership, originally due to end in 2033, which can be exercised in the period between 1 January and 30 June 2023. In particular, the parties agreed to grant Banco BPM an unconditional purchase option on the 65% stake held by Cattolica in the JV Vera Vita and Vera Assicurazioni.
The agreement provides for protection mechanisms for both parties linked to the exercise price of the call and to the price adjustments for any retained profits, distributions of reserves or extraordinary dividends or share capital increases or capital payments in regard to the joint ventures.

Moreover, at the end of June, Banco BPM redefined the agreements for the partnership currently in place with the Covéa, referring to the joint ventures Bipiemme Vita, 81%-owned by Covéa Coopérations and 19%-owned by Banco BPM, and Bipiemme Assicurazioni, wholly-owned by Bipiemme Vita.
These agreements provide for, inter alia, the recognition in favour of Banco BPM of an unconditional option to purchase 81% of the share capital of Bipiemme Vita, which can be exercised in the period between 8 September 2021 and 31 December 2023. Where said option is not exercised, the partnership can continue until the end of 2028, except where the put and call options recognised respectively to Covéa and the Bank are exercised in given time windows.

For additional details on the partnership agreements, please refer to the section "Interests in associates and joint ventures - Item 70 of the assets" contained in "Part B – Information on the Consolidated Balance Sheet" in the Explanatory notes.

The new Strategic Plan

As regards the evolution of medium/long-term operations, the Group will present its new strategic plan by the date of approval of the balance sheet and income statement as at 30 September 2021, as described in the section relating to the outlook for business operations, which should be referred to for the details.
Indeed, please recall that in March 2020, the 2020-2023 Strategic Plan was approved which, as it is based on assumptions and objectives established prior to the adoption of the restrictive measures relating to the Coronavirus emergency, can no longer be considered current.

Other events in the period

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

On 10 May, the subsidiary Banca Akros entered into the deed for the purchase of shares representing 80% of the share capital of Oaklins Italy S.r.l., a company operating in the "Mergers & Acquisitions" advisory services segment, for consideration of 2.8 million.
The remaining 20% of the share capital was acquired on 28 May, for an equivalent value of 0.7 million.
The deeds of purchase for the two transactions were registered with the competent Companies' Register on 18 May 2021 and 11 June 2021, respectively.

This acquisition will enable Banca Akros to access an international network active in M&A activities, complementary to the domestic investment banking activity already performed by the Bank, thus strengthening its offer to customers of M&A and financial advisory services.
The new subsidiary has been included within the Banco BPM Banking Group.

For further details on the transaction described above, please refer to Part G – Business combinations regarding companies or divisions in the Explanatory notes.

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

Important funding operations completed

In January, the Parent Company finalised the issue of an Additional Tier 1 perpetual instrument for the amount of 400 million, intended for institutional investors.
The securities, issued at par, may be called by the issuer from 19 January 2026 and subsequently every six months; the fixed six-monthly coupon, non-cumulative, was set at 6.50% and the payment of the same is fully discretionary and subject to certain limitations.
The investors that participated in the transaction are asset managers, hedge funds and banks, and are mostly foreign.
The transaction is part of the drive to render the capital structure more efficient and enables the Tier 1 capital target to be achieved, further strengthening the Group's capital position.

In June, the placement of a 300 million 10-year Tier 2 subordinated bond issue for institutional investors was also concluded, which is included within the Group's Euro Medium Term Notes Programme.
The bond, primarily subscribed by foreign investors, provides for a fixed coupon of 2.875% for the first five years.

Lastly, as described in more detail in the section dedicated to events taking place after the end of the half-year period, in early July Banco BPM successfully concluded the placement of its first senior preferred Social Bond issue intended for institutional investors for an amount of Euro 500 million, maturing in 2026.
For additional details, please refer to the "Significant events after the end of the interim period" section in Part A of the Explanatory Notes.

Streamlining of the Group's corporate and organisational structure

As part of the initiatives to streamline the corporate and operational structure of Banco BPM Group, on 9 February, the Parent Company's Board of Directors approved the proposed mergers by incorporation of the subsidiaries ProFamily S.p.A. and Bipielle Real Estate S.p.A..

More specifically, the merger of ProFamily into the Parent Company Banco BPM is to be made in accordance with the agreements signed with the Crédit Agricole Group, with a view to further consolidating their partnership in the consumer credit sphere in Italy.
This transaction, as described in the section describing events taking place after the end of the half-year, was completed on 19 July, according to the simplified form established for wholly-owned companies.

Instead, the purpose of the incorporation of Bipielle Real Estate S.p.A., expected to be completed in early 2022, is to concentrate the overall ownership of the real estate assets directly in the Parent Company, which will also control the complex of organisational structures responsible for managing said real estate.
This transaction will also be carried out in the simplified forms envisaged for wholly-owned companies.

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

Lastly, in the first half of the year, the reorganisation and streamlining plan on the sales network was completed, with the closure of around 300 small branches.

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

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

In June 2021, Banco BPM and several Group companies decided to take advantage of the right to realign the tax value of some properties with the higher book values recognised in the financial statements as at 31 December 2020.

The total capital benefit recognised as at 30 June 2021 is 206.7 million, of which 79.2 million against the income statement and 127.4 million against valuation reserves.

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

Please refer to Part A of the Explanatory notes - section "Real estate: realignment of mismatches between the tax value and the higher book value (DL 14 August 2020)" for an exhaustive description of the effects of this realignment.

Change in company officers

The Shareholders' Meeting on 15 April appointed Silvia Muzi as standing auditor and Francesca Culasso as alternate auditor to the Board of Statutory Auditors, who shall remain in office until the Shareholders' Meeting called to approve the financial statements for the year that will end on 31 December 2022.
As a result of the above-mentioned appointments, Wilmo Carlo Ferrari will stop acting as Standing Auditor and also, in accordance with gender balance laws, will return to acting as an Alternate Auditor.

EU-Wide Stress Test 2021: Banco BPM achieves better results than last year (2018)

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

Banco BPM achieved significant results, highlighting:

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

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

In the months between the dates of approval of the 2020 draft budget and the interim financial statements as at 30 June 2021, new complaints were limited both in number and as a total additional relief (+10 million). As at 19 July 2021, due to settlements reached, claims and disputes for total relief figure exceeding 560 million were settled against claims that on the same date amounted to a total of around 713 million.
For information, reference should be made to section "Liabilities provisions – Items 90 and 100" contained in "Part B – Information on the consolidated balance sheet" of these Explanatory Notes.

Inspections and proceedings of the Supervisory Authorities

During its standard business activities, the Group is subject to inspections conducted by the Supervisory Authorities. More specifically, as regards the Single Supervisory Mechanism, the Group is subject to the prudential supervision of the European Central Bank (ECB); with regard to specific matters, supervision is the direct responsibility of the Bank of Italy and CONSOB.
Supervisory activities entail making ordinary and recurring inspections at the offices of the Parent Company ("on/off-site inspection"), accompanied by "remote" inspections, conducted through structured and continuous exchanges of information, as opposed to specific requests for documentation and in-depth examination of specific areas.
In 2019, 2020 and 2021, the Group received numerous inspections, which regarded the following areas: Credit Quality Review (both Corporate and Retail portfolios), Liquidity, Funding Risk, IRRBB, Credit Risk (AIRB) and Market

Risk Estimation Models, Anti-Money Laundering, Product Governance and Adequacy of transactions arranged by customers, Internal Governance and Remuneration and approval of the internal model for credit risk.

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

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

<u>Inspections by the ECB</u>

a) 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 began on 26 April 2021 and is currently under way;
b) for the assessment of the Bank's request for authorisation to adopt the new definition of prudential default (entailing a substantial amendment of the internal model to estimate credit risk pursuant to Delegated Regulation (EU) 529/14 of the Commission): the off-site phase started on 14 September and concluded on 13 November 2020. Banco BPM received the Final Decision on 7 May 2021 and on 15 June 2021 sent the corrective action plan, which is currently under way;
c) for the approval of the internal model relating to credit risk (Credit Conversion Factor, "CCF"/Exposure at Default, "EAD"; Expected Loss Best Estimate, "ELBE"; Loss Given Default, "LGD" for non-performing assets; Probability of Default, "PD") for the following exposure classes: Corporate - Other; Corporate - Small and Medium Enterprise, "SME"; Retail - Other SME; Retail - Retail - Secured by real estate non-SME; Retail - Secured by real estate SME. The on-site phase started on 14 October 2019 and ended - in off-site mode due to the Covid-19 health emergency - on 19 March 2020. In a letter dated 4 March 2021, the ECB sent its final decision concerning that inspection. The measure confirms the authorisation to adopt modifications to the models, establishing several qualitative measures for the most part aimed at regulatory improvements, as well as prudential - concerning the estimate of margins of conservatism and the methods for calculating LGD - in the application of such models, effective for supervisory reporting as of 31 March 2021. The Bank's activity plan aimed at implementing the remediation actions is currently under way;
d) regarding Internal Governance Remuneration: the on-site phase started on 9 October 2019 and ended on 13 December 2019; Banco BPM received the Final Follow-up letter on 16 December 2020 and, on 13 January 2021, sent the corrective action plan, which is currently under way;
e) for the validation of the Internal model for market risk (Value at Risk, "VaR", Stressed Value at Risk, "sVaR", Incremental Risk Charge, "IRC") for the following risk categories: "debt instruments – specific risk; Forex Risk": the on-site phase ended on 19 July 2019. On 16 November 2020, Banco BPM received the Final Decision (with the relative authorisation to use the new model) and on 16 December 2020 sent the corrective action plan, currently under way; said action plan also included the results of the supplementary decision sent by the ECB in December 2020 on completion of the additional horizontal analysis conducted on the outcomes of the previous TRIMIX inspection in 2018;
f) on liquidity risk and funding risk (Liquidity, Funding Risk and Interest Rate Risk Banking Book, "IRRBB"): the on-site phase ended on 17 May 2019. On 4 February 2020, Banco BPM received the Final Decision and on 3 March 2020 it sent the corrective action plan, which concluded on 30 June 2021;
g) as regards "Credit Risk" (PD; LGD; CCF) with regard to the "Corporate - Other" and "SME" portfolios: the on-site phase started on 17 September 2018 and ended on 16 November 2018. Banco BPM received the Final Decision on 7 October 2020, indicating the binding supervisory measures and recommendations; on 5 November 2020, Banco BPM sent the corrective action plan, which is currently under way;
h) as regards credit risk, the credit quality review, with reference to the corporate, asset based and project finance portfolios: the on-site phase ended on 3 October 2018. Banco BPM received the Final Decision on 21 October 2019, and the corrective action plan, sent on 7 November 2019, has concluded;

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

Inspections by the Bank of Italy

With regard to combating money laundering in on-line transactions set in place through digital channels: the on-site phase ended on 2 August 2019. On 6 November 2019, the outcome of the inspection was presented; on 17 December 2019, Banco BPM submitted the concluded corrective action plan, in compliance with the deadline, on 31 March 2021.

Inspections by CONSOB

a) With regard to product governance and procedures to assess the adequacy of transactions arranged by customers: the inspection started in April 2019 and ended on 3 December 2019. On 30 July 2020, Banco BPM received a technical note in which, without starting any penalty proceeding, the Authority drew the Bank's attention to several aspects. On 16 October 2020, the Bank submitted the relative plan of corrective action to the Authority, to be implemented progressively, which is currently under way;
b) on 18 February 2021, Consob initiated a penalty procedure concerning the assessment due to the Bank's failure to meet the disclosure obligation pursuant to Art. 16 of the European Market Abuse Regulation no. 596/2014 (MAR), on orders and transactions suspected of constituting market abuse or attempted market abuse, carried out by two Bank customers. This procedure is currently in the preliminary investigation phase.

Project activities and technological investments: IBOR's Transition – Benchmark rate transition

During the first half of 2021, activities continued for alignment with the provisions set forth in European Regulation 1011/2016 (Benchmark Reform, BMR), which established the new regulatory framework for the benchmark indices - which included those widely used, namely Euribor, Libor and Eonia - with the objective of bringing the market indices and the relative calculation methods in line with international standards.
The gradual process continued of revision and/or replacement of the main financial benchmarks with alternative risk-free interest rates (Risk-Free Rates, RFR), based on effective transactions concluded in the market, with consequent availability only the next day ("T+1" rates).
From the regulatory perspective, Regulation (EU) 2021/168 of the European Parliament and of the Council of 10 February 2021 amended Regulation (EU) 2016/1011 (as well as EU Regulation 2012/648) as regards the exemption of certain third-country spot foreign exchange benchmarks and the designation of replacements for certain benchmarks in cessation. The legal replacement of a benchmark rate is planned, providing the Commission with the possibility to designate one or more replacements of the benchmark indexes when certain conditions are met and if the contract does not include a fallback clause or it is not adequate. Furthermore, on 11 May 2021, the "Working Group on euro risk-free rates" published the recommendations resulting from two public consultations carried out in November 2020, indicating the applicable alternative rates separated by instrument category or by segment.
Subsequent communications from the Financial Conduct Authority (FCA) and the LIBOR administrator clarified that the LIBOR index will be discontinued for the majority of maturities and currencies (EUR, GBP, CHF, JPY; USD only for one-week and two-month tenors) by the end of 2021, while the other maturities for the dollar of the LIBOR will be by the end of 2023.
Lastly, on 24 June 2021, considering the imminent cessation of publication of the LIBOR, the European Commission, the European Central Bank in its banking supervision function, the European Banking Authority (EBA) and the European Securities and Markets Authority (ESMA) published a Statement urging market participants to substantially reduce their exposure to the USD, GBP, JPY, CHF and EUR LIBOR. It is advised to: i) cease as soon as possible and in any event by 31 December 2021 the use of the LIBOR for all tenors and currencies, including the dollar (although it will stop being used in 2023), within any new contracts; ii) limit the use of "synthetic" LIBOR rates (calculated with an alternative methodology) only with reference to contracts already in place that are difficult to update; and iii) establish robust written plans identifying alternative interest rates for all contracts that use the LIBOR as their reference rate. As concerns the Euribor, aside from the significant modifications to the calculation method ("hybrid" methodology) which took place in 2019, there are no further changes.

The activity of the working groups for the identification of possible alternative rates to those currently commonly used, if they should cease or be discontinued, continued and in April 2021 the Risk Free Rate named "€STR Compounded Average Rate" was published.
Considering regulatory and market developments, the Banco BPM "IBOR Transition" working group, which involves the main structures in the organisational, accounting, financial, legal and IT areas, concentrated its activities in the first half of 2021 on the following areas of intervention:

- preparation of interventions for the transition from the EONIA rate to the €STR rate planned in October 2021 by the Clearing Houses;
- renegotiation of bilateral positions (CSA) as part of the transition from the EONIA rate to the €STR rate;
- definition of new replacement clauses to be applied to loan agreements in Euro currency, based on the compounded backward looking €STR (the new risk free overnight rate for the Euro, calculated every day by the ECB on the basis of actual transactions in the interbank market on the previous day), last reset (the average is based on the period preceding the instalment start date, to make it possible to know the applicable rate in advance), with a depth of 1 or 3 months (depending on the instalment frequency, 1 month or more than 1 month). A credit spread adjustment is added to the rate to offset, on the basis of historical data (5 years of depth) the average spread with the Euribor;
- management of contracts in foreign currency following the cessation of the EUR/GBP/CHF/JPY LIBOR (for all tenors) and USD LIBOR (for the 1W and 2M tenors) as of the end of 2021, particularly as regards the update of economic conditions for "foreign currency loans" and new contractual clauses for "multi-currency current accounts" with any associated credit lines;
- management of the Product Catalogue and Information Sheets in consideration of the contractual amendments, with the required activities within the Internal Bodies of Banco BPM;
- initiation and consolidation of the Project for IT implementations to manage the contractual formats which will include the new fallback clauses, the new "forward" indices for loans (forward €STR, SOFR and other forward RFR indices), information on the "substitute rate" in outstanding contracts (stock) and the management of the cessation of the index and the activation of the substitute rate;
- definition and signing by the Banco BPM Group (February 2021) of the ISDA Protocol for positions in OTC derivatives; management of the format of the derivative contract with the individual customer (new contracts);
- update of the "robust written plan" set forth in the BMR Regulation, particularly with regard to the "Index Catalogue".

The following table shows a summary of the instruments potentially concerned by the reform in question (operating data referring to 31 March 2021):

Amounts in millions of euro	Product categories											
	Loans and advances (*)		Deposits payable (**)		Bonds in portfolio		Bonds issued		Derivatives			
									OTC		With Clearinghouse	
	number of contracts	amount	number of contracts	amount	number of contracts	amount	number of contracts	amount	number of contracts	notional	number of contracts	notional
IBOR Contracts:												
referring to EONIA	**54**	**658**	**28**	**93**	**1**	**18**			**35**	**195**	**280**	**10,022**
referring to EURIBOR	**323,891**	**55,176**	**338,214**	**15,163**	**96**	**3,214**	**2**	**1,000**	**13,341**	**35,296**	**1,653**	**40,321**
referring to LIBOR	**76**	**548**	**-**	**-**	**-**	**-**	**-**	**-**	**37**	**1,392**	**87**	**2,554**
of which: USD	71	539	-	-	-	-	-	-	37	1,392	75	2,393
of which: GBP	3	3	-	-	-	-	-	-	-	-	4	82
of which: CHF	2	5	-	-	-	-	-	-	-	-	6	69
of which: JPY	-	-	-	-	-	-	-	-	-	-	2	10
RFR Contracts:												
referring to €STR	**28**	**598**	**12**	**146**	**-**	**-**	**-**	**-**	**-**	**-**	**280**	**7,242**
referring to SONIA	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
referring to SOFR	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

(*) Loans: includes mortgages and other loans with maturity (for example, mortgage-backed current accounts, pool loans, floating rate lease agreements) and current accounts (overdrafts and credit facilities indexed to the Euribor).
(**) Deposits: primarily current accounts (indexed to the Euribor).
Loans and Deposits in €STR/EONIA: derivative margin accounts. The majority of these are expected to transition to this section by the end of the year.

RESULTS

Introduction

The balance sheet and income statement are shown below 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.

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:

- the impacts arising from Purchase Price Allocations made following past 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 in the item "Taxation charge related to profit or loss from continuing operations". The figures for the previous periods of comparison were restated on a like-for-like basis;
- 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";
- 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 include 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;
- 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" - included in the item "Net financial result" up to the third quarter of 2020 - has been included, from 30 September 2020, 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 recorded during 2020, as, with an operating outlook, they are not deemed expressive of actual profitability of the Group. The figures for the previous periods of comparison were restated on a like-for-like basis;
- 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 extraordinary charges to be incurred for early retirement incentives, also through the voluntary use of the extraordinary benefits of the Solidarity Fund for the sector, and for the streamlining of the branch network are presented, net of the related tax effect, in a separate item named "Charges related to company restructuring, net of taxes", instead of in the items "Personnel expenses" or "Depreciation and impairment losses on property, plant and equipment";
- the impact of exercising the option to realign the tax values to the book values of the intangible assets acquired as part of the business combination between Banco Popolare Group and Banca Popolare di Milano Group and 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".

Annexed to the consolidated condensed interim financial statements is a statement of reconciliation between the reclassified income statement and that drawn up based on Circular no. 262, with comments illustrating the reclassifications made.

Consolidated income statement figures

Reclassified consolidated income statement

Reclassified income statement items *(thousands of euro)*	**I half 2021**	**I half 2020 (*)**	**Change**
Net interest income	1,019,196	953,621	6.9%
Gains (losses) on interests in associates and joint ventures carried at equity	98,079	70,302	39.5%
Financial margin	**1,117,275**	**1,023,923**	**9.1%**
Net fee and commission income	950,074	816,934	16.3%
Other net operating income	39,918	31,599	26.3%
Net financial result	216,260	83,472	159.1%
Other operating income	**1,206,252**	**932,005**	**29.4%**
Operating income	**2,323,527**	**1,955,928**	**18.8%**
Personnel expenses	(844,039)	(816,979)	3.3%
Other administrative expenses	(308,033)	(308,674)	(0.2%)
Net value adjustments to property, plant and equipment and intangible assets	(123,453)	(123,089)	0.3%
Operating expenses	**(1,275,525)**	**(1,248,742)**	**2.1%**
Profit (loss) from operations	**1,048,002**	**707,186**	**48.2%**
Net adjustments to loans to customers	(472,578)	(476,242)	(0.8%)
Fair value gains (losses) on property, plant and equipment	(36,889)	(5,416)	581.1%
Net adjustments to securities and other financial assets	528	(8,383)	
Net provisions for risks and charges	(12,805)	(7,614)	68.2%
Gains (losses) on disposal of interests in associates and joint ventures and other investments	(437)	220	
Profit (loss) before tax from continuing operations	**525,821**	**209,751**	**150.7%**
Taxation charge related to profit or loss from continuing operations	(133,326)	(39,000)	241.9%
Profit (loss) after tax from continuing operations	**392,495**	**170,751**	**129.9%**
Charges related to the banking system, net of taxes	(78,553)	(75,684)	3.8%
Impact of the realignment of tax values to book values	79,220	-	
Change in own credit risk on Certificates issued by the Group, net of taxes	(11,920)	27,183	
Purchase Price Allocation net of taxes (**)	(20,037)	(18,527)	8.2%
Profit (loss) for the period attributable to non-controlling interests	112	1,508	(92.6%)
Parent Company's profit (loss) for the period	**361,317**	**105,231**	**243.4%**

(*) The figures relating to the previous period have been restated to guarantee a like-for-like comparison.
(**) PPA relating to receivables and client relationships, net of related tax effects.

Reclassified consolidated income statement – Quarterly changes

lassified income statement item (thousands of euro)	2021		2020			
	Q2	Q1	Q4	Q3 (*)	Q2 (*)	Q1 (*)
Net interest income	522,367	496,829	509,019	519,921	479,507	474,114
Gains (losses) on interests in associates and joint ventures carried at equity	56,535	41,544	23,729	36,768	48,036	22,266
Financial margin	**578,902**	**538,373**	**532,748**	**556,689**	**527,543**	**496,380**
Net fee and commission income	478,679	471,395	429,225	417,651	376,371	440,563
Other net operating income	21,747	18,171	12,731	11,675	14,855	16,744
Net financial result	116,533	99,727	77,845	157,325	82,712	760
Other operating income	**616,959**	**589,293**	**519,801**	**586,651**	**473,938**	**458,067**
Operating income	**1,195,861**	**1,127,666**	**1,052,549**	**1,143,340**	**1,001,481**	**954,447**
Personnel expenses	(417,135)	(426,904)	(407,212)	(356,950)	(397,954)	(419,025)
Other administrative expenses	(153,903)	(154,130)	(125,341)	(159,797)	(154,094)	(154,580)
Net value adjustments to property, plant and equipment and intangible assets	(60,603)	(62,850)	(67,229)	(64,796)	(61,710)	(61,379)
Operating expenses	**(631,641)**	**(643,884)**	**(599,782)**	**(581,543)**	**(613,758)**	**(634,984)**
Profit (loss) from operations	**564,220**	**483,782**	**452,767**	**561,797**	**387,723**	**319,463**
Net adjustments to loans to customers	(255,513)	(217,065)	(536,225)	(324,340)	(262,999)	(213,243)
Fair value gains (losses) on property, plant and equipment	(36,964)	75	(30,989)	(316)	(5,094)	(322)
Net adjustments to securities and other financial assets	939	(411)	7,249	104	(3,728)	(4,655)
Net provisions for risks and charges	(5,615)	(7,190)	(35,587)	907	(9,809)	2,195
Gains (losses) on disposal of interests in associates and joint ventures and other investments	(393)	(44)	(354)	1,324	129	91
Profit (loss) before tax from continuing operations	**266,674**	**259,147**	**(143,139)**	**239,476**	**106,222**	**103,529**
Taxation charge related to profit or loss from continuing operations	(50,628)	(82,698)	47,946	(22,464)	(13,293)	(25,707)
Profit (loss) after tax from continuing operations	**216,046**	**176,449**	**(95,193)**	**217,012**	**92,929**	**77,822**
Charges related to company restructuring, net of taxes	-	-	(187,030)	-	-	-
Charges related to the banking system, net of taxes	(19,309)	(59,244)	(10,216)	(53,001)	(18,169)	(57,515)
Impact of the realignment of tax values to book values	79,220	-	128,324	-	-	-
Goodwill impairment	-	-	(25,100)	-	-	-
Change in own credit risk on Certificates issued by the Group, net of taxes	(5,105)	(6,815)	(41,116)	2,194	(110,739)	137,922
Purchase Price Allocation net of taxes (**)	(9,705)	(10,332)	(11,543)	(11,422)	(11,962)	(6,565)
Profit (loss) for the period attributable to non-controlling interests	78	34	220	2,520	1,537	(29)
Parent Company's profit (loss) for the period	**261,225**	**100,092**	**(241,654)**	**157,303**	**(46,404)**	**151,635**

(*) The figures relating to previous periods have been restated to provide a like-for-like comparison.
(**) PPA relating to receivables and client relationships, net of related tax effects.

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 tangible assets, goodwill and other intangible assets, extraordinary debits/credits by Resolution Funds and the Interbank Deposit Protection Fund, effects associated with legislative changes, exceptional results, etc.);

- the economic impacts deriving from the fair value measurement of properties and other tangible assets (artworks);
- 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 those on 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 effect tied to the above P&L impacts.

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 Explanatory Notes, which highlight trends in equity items.

In light of the criteria set out above, it should be noted that in the first half of 2021 the following non-recurring items were recognised:

- the item "personnel expenses" includes 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" includes write-downs due to impairment of fixed assets for a total of 1.3 million;
- the item "Net adjustments to loans to customers" includes the amount relating to losses connected to the sales of loans finalised as part of the "Rockets" project as a result of the change in the strategy for the management of non-performing loans decided upon in the half-year. L'impatto economico negativo ritenuto avente carattere non ricorrente ammonta a 94.0 milioni come illustrato nella successiva sezione di commento dei risultati economici del periodo;
- "Fair value gains (losses) on property, plant and equipment" includes net value adjustments of 36.9 million;
- the item "Gains (losses) on disposal of interests in associates and joint ventures and other investments", non-recurring by nature, shows net losses of 0.4 million;
- the "Taxation charge related to profit or loss from continuing operations" include the tax impacts of the aforementioned non-recurring items amounting to 37.7 million;
- "Charges related to the banking system, net of taxes" includes 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" includes the income of 79.2 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, the net impact on the profit for the half-year of non-recurring items was a negative 20.7 million.

In the first half of 2020, restated for the sake of uniformity of comparison, the following non-recurring items had been classified:

- "Net value adjustments to property, plant and equipment and intangible assets" included write-downs due to impairment of fixed assets for a total of 2.1 million;
- "Fair value gains (losses) on property, plant and equipment" included losses of 5.4 million;
- the item "Gains (losses) on disposal of interests in associates and joint ventures and other investments" by definition non-recurring, was positive by 0.2 million;
- the "Taxation charge related to profit or loss from continuing operations" included the tax impacts of the aforementioned non-recurring items amounting to +2.1 million;

- "Charges related to the banking system, net of taxes" included additional contributions paid to the National Resolution Fund amounting to 18.2 million (equal to 26.9 million gross net of the related tax effect of 8.7 million).

On the whole, also taking account of the effects attributable to minorities (+0.3 million), non-recurring items relating to the first six months of 2020 were negative amounting to 23.2 million.

Reclassified consolidated income statement

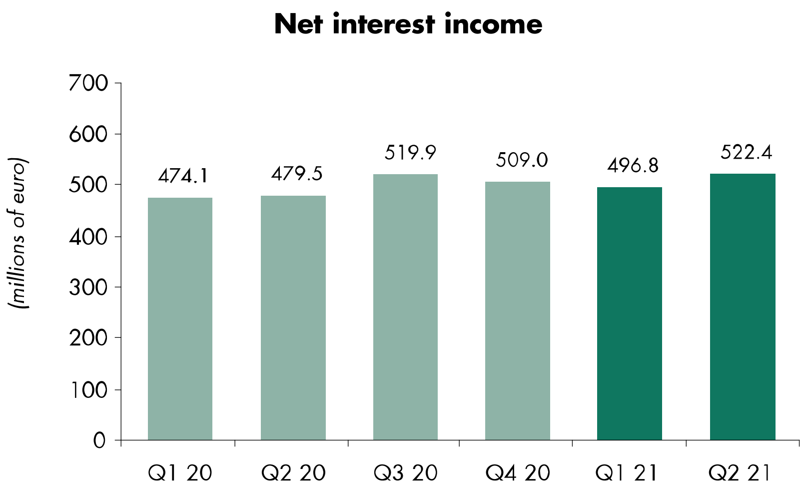
The main income statement items as at 30 June 2021 are illustrated below.

Operating income

Net interest income

(thousands of euro)	I half 2021	I half 2020	Abs. Change	% Change
Financial assets (securities)	210,594	221,495	(10,901)	(4.9%)
Net interest due to customers	846,003	903,671	(57,668)	(6.4%)
Net interest due to banks	(2,814)	(25,118)	22,304	(88.8%)
Securities issued and other financial liabilities at fair value	(129,193)	(163,739)	34,546	(21.1%)
Hedging derivatives (net balance) (*)	(47,522)	(31,098)	(16,424)	52.8%
Net interest on other assets/liabilities	142,128	48,410	93,718	193.6%
Total	**1,019,196**	**953,621**	**65,575**	**6.9%**

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



Net interest income was equal to 1,019.2 million, a 6.9% increase on the first half of 2020 (953.6 million): this was due to the greater contribution made by TLTRO III financing operations which, in view of the achievement of the net lending objectives, starting from 24 June 2020, provide for the payment of a special interest rate, equal to -0.5%, in addition to the rate applied for the entire duration of the loan.
Net interest income in the second quarter totalled 522.4 million, up by 5.1% from the figure in the first quarter of 2021 (496.8 million), also due to the greater contribution from TLTRO III loans.

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

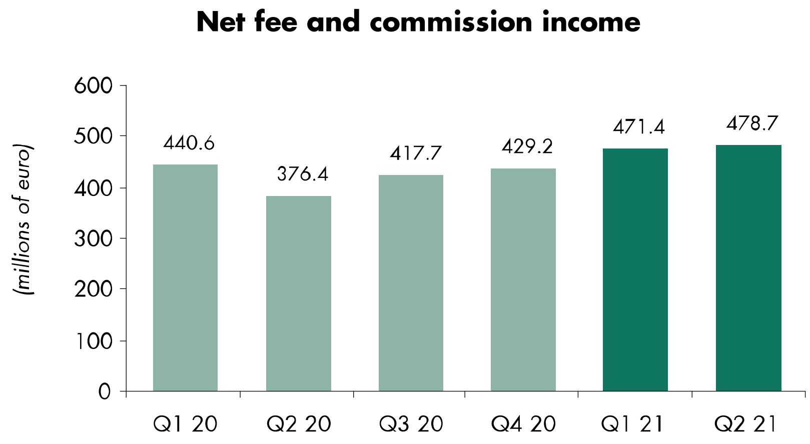
The **result of the investee companies carried at equity** was positive for 98.1 million, up compared to the figure for the corresponding period of last year (70.3 million). The amount in the first half of 2021 includes the contribution of the associate Anima Holding[1] (equal to 34.5 million), carried at equity since the second quarter of 2020.
The main contribution to the item in question is provided by consumer credit channelled from the interest held in Agos Ducato, equal to 50.8 million, up compared to 47.6 million in H1 2020.
The second quarter contribution was a positive 56.5 million, up compared to the first quarter (41.5 million). Within this aggregate, the main contribution was provided by consumer credit, driven by the investment held in Agos Ducato and the result of Anima Holding.

(thousands of euro)	I half 2021	I half 2020	Abs. Change	% Change
Agos Ducato	50,799	47,617	3,182	6.7%
Anima Holding	34,480	6,598	27,882	422.6%
Vera Vita	4,114	6,463	(2,349)	(36.3%)
Vera Assicurazioni	(123)	4,141	(4,264)	
Bipiemme Vita	3,211	2,214	997	45.0%
Factorit	2,691	1,839	852	46.3%
Other investee companies	2,907	1,430	1,477	103.3%
Total	**98,079**	**70,302**	**27,777**	**39.5%**

Net fee and commission income

(thousands of euro)	I half 2021	I half 2020	Abs. Change	% Change
Management, brokerage and advisory services	486,802	389,945	96,857	24.8%
Savings products and policies	409,000	325,905	83,095	25.5%
- Placement of financial instruments	11,717	34,389	(22,672)	(65.9%)
- Distribution and portfolio management	329,839	241,042	88,797	36.8%
- Bancassurance	67,444	50,474	16,970	33.6%
Consumer credit	18,795	12,980	5,815	44.8%
Credit cards	20,493	15,511	4,982	32.1%
Custodian bank	750	717	33	4.6%
Trading of securities and currencies and order collection	34,701	35,482	(781)	(2.2%)
Other remuneration	3,063	(650)	3,713	
Keeping and management of current accounts and loans	308,916	284,185	24,731	8.7%
Collection and payment services	81,659	71,506	10,153	14.2%
Guarantees given and received	34,029	31,903	2,126	6.7%
Other investee companies	38,668	39,395	(727)	(1.8%)
Total	**950,074**	**816,934**	**133,140**	**16.3%**

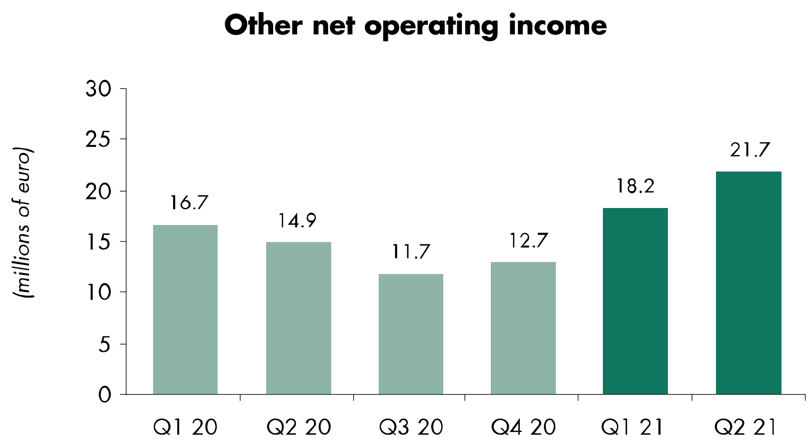
[1] The contribution to the consolidated income statement for the first half of the year 2021 also includes the profit resulting from the investee in the final quarter of 2020, equal to 9.8 million pro-rata. Please recall that, for the preparation of the 2020 financial statements, it was not possible to recognise the contribution of the fourth quarter, as Anima Holding approved its draft financial statements on 1 March 2021 and therefore subsequent to Banco BPM.



Net fee and commission income in the first half totalled 950.1 million, marking significant growth (+16.3%) compared to the same period of the previous year.
This trend is attributable to the contribution from both management, brokerage and advisory services (+24.8% compared to 30 June 2020), and the commercial banking services segment (+8.7% compared to the first half of 2020).
Net fee and commission income in the second quarter amounted to 478.7 million, up by 1.5% compared to the extremely positive result recorded in the first quarter, mainly due to the contribution of fee and commission income on management, brokerage and advisory services (+3.6% compared to the first quarter).

Other net operating income

(thousands of euro)	I half 2021	I half 2020	Abs. Change	% Change
Income on current accounts and loans	2,757	6,473	(3,716)	(57.4%)
Rental income	19,236	19,899	(663)	(3.3%)
Expenses on leased assets	(13,152)	(12,105)	(1,047)	8.6%
Other income and charges	31,077	17,332	13,745	79.3%
Total	**39,918**	**31,599**	**8,319**	**26.3%**

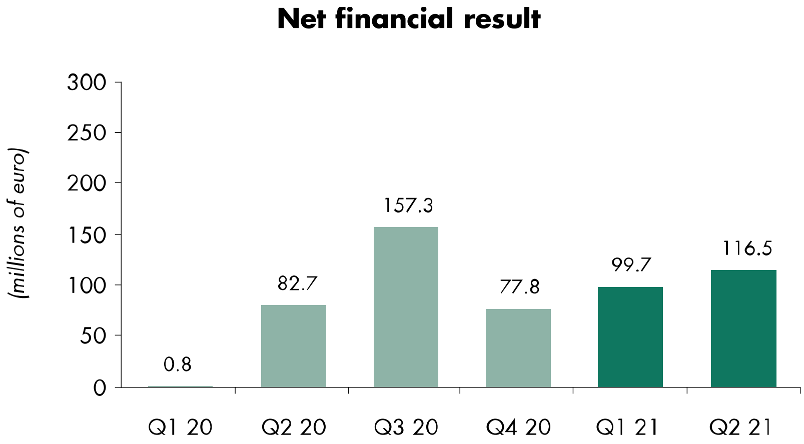


Other net operating income totalled 39.9 million, compared to the figure of 31.6 million for the first half of the previous year. The second quarter contribution was 21.7 million compared to 18.2 million in the first quarter of 2021.

Net financial result

(thousands of euro)	I half 2021	I half 2020 (*)	Abs. Change	% Change
Net trading income	65,562	19,261	46,301	240.4%
Gains/losses on disposal of financial assets	90,901	50,876	40,025	78.7%
Dividends and similar income on financial assets	8,946	18,798	(9,852)	(52.4%)
Gains/losses on repurchase of financial liabilities	(730)	119	(849)	
Fair value gains/losses on hedging derivatives	2,087	(8,855)	10,942	
Other income/expense	49,494	3,273	46,221	1412.2%
Total	**216,260**	**83,472**	**132,788**	**159.1%**

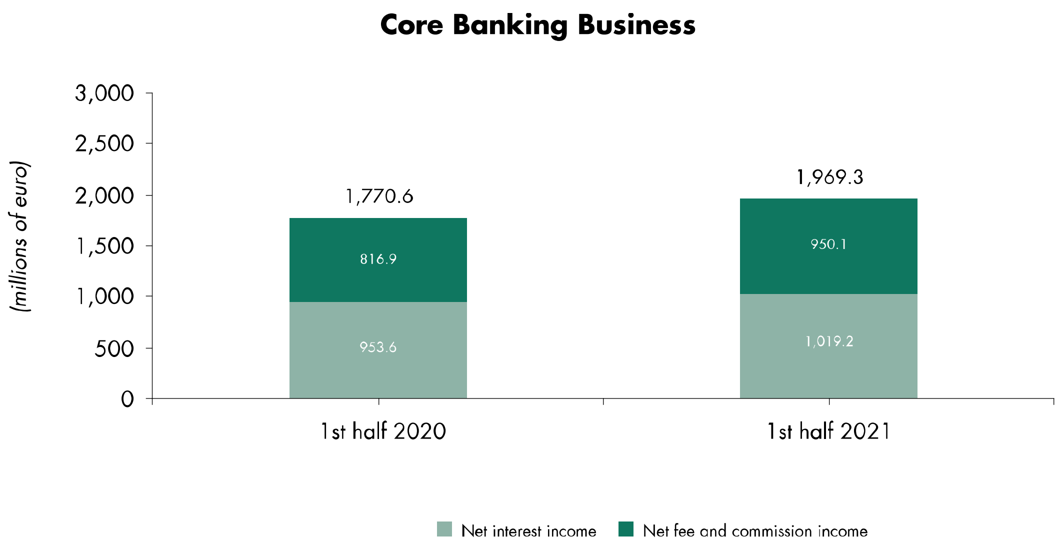
(*) The figures relating to the previous period have been restated to guarantee a like-for-like comparison.



The **net financial result**[1] for the first half was a positive 216.3 million compared to the figure of 83.5 million recorded as at 30 June 2020; specifically, during the half, excellent results derived from the gains in disposal of securities for 90.9 million, profit on trading of 65.6 million and the total result of the measurement of assets and liabilities at fair value for 49.5 million.
The net financial result in the second quarter was a positive 116.5 million, compared to € 99.7 million in the first quarter, with significant growth of 16.9%, mainly due to the fair value measurement of certain positions in equity instruments.

By virtue of the trends described, the total **operating income** therefore amounted to 2,323.5 million, a considerable increase compared to € 1,955.9 million recorded in the same period of the previous year (+18.8%).

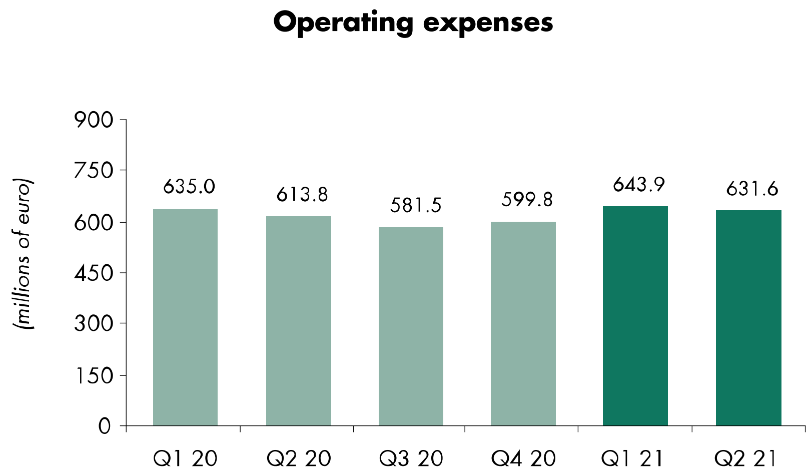
[1] The item does not include the accounting effect, shown in a separate item of the reclassified income statement, of the change in the credit rating of the Group in regard to the fair value measurement of its own certificate issues, which led to the recognition of a -17.8 million charge in the half, compared to the positive impact of +40.6 million recorded as at 30 June 2020.



Taking only revenues from "**core banking business**" into account, represented by the sum of the aggregates relating to net interest income and net fee and commission income, the first half of 2021 reached 1,969.3 million, up by 11.2% compared to the same period of last year.

Operating expenses

(thousands of euro)	I half 2021	I half 2020	Abs. Change	% Change
Personnel expenses	**(844,039)**	**(816,979)**	**(27,060)**	**3.3%**
Other administrative expenses	**(308,033)**	**(308,674)**	**641**	**(0.2%)**
- Taxes and duties	(159,046)	(145,542)	(13,504)	9.3%
- Services and consulting	(147,037)	(138,742)	(8,295)	6.0%
- Property	(30,127)	(33,031)	2,904	(8.8%)
- Postal, telephone and stationery	(11,657)	(12,741)	1,084	(8.5%)
- Maintenance and fees for furniture, machines and systems	(44,343)	(42,084)	(2,259)	5.4%
- Advertising and entertainment	(5,252)	(6,217)	965	(15.5%)
- Other administrative expenses	(52,873)	(55,516)	2,643	(4.8%)
- Expense recoveries	142,302	125,199	17,103	13.7%
Value adjustments to property, plant and equipment and intangible assets	**(123,453)**	**(123,089)**	**(364)**	**0.3%**
- Value adjustments to property, plant and equipment	(83,530)	(85,918)	2,388	(2.8%)
- Value adjustments to intangible assets	(38,649)	(35,056)	(3,593)	10.2%
- Net write-downs for impairment	(1,274)	(2,115)	841	(39.8%)
Total	**(1,275,525)**	**(1,248,742)**	**(26,783)**	**2.1%**



Personnel expenses, of 844.0 million, showed growth of 3.3% compared to the 817.0 million in the first half of 2020, which had benefited from the savings relating to the provisions allocated for the incentive system in the previous year. As at 30 June 2021, the total number of employees was 20,551, down compared to 21,663 resources at the end of 2020, due to the exit of around 1,000 resources on 30 June 2021 as part of the programme entailing the use of the Solidarity Fund for the sector. That decrease in personnel will result in cost savings starting from the second half of 2021.
In the second quarter this item, equal to 417.1 million, showed a decrease of 2.3% compared to the 426.9 million in the first quarter, mainly due to the effects of one-off components of remuneration, which were an indirect effect of the pandemic.

Other administrative expenses[1], equal to 308.0 million, are substantially in line with the figure for the first half of 2020, equal to 308.7 million.

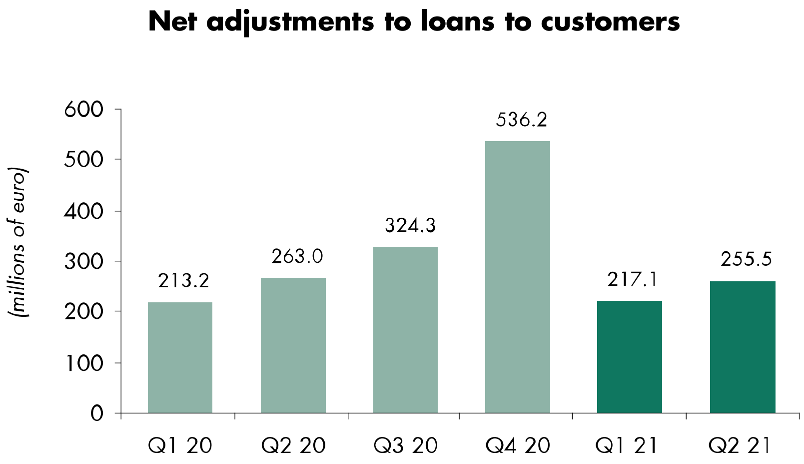
Value adjustments on property, plant and equipment and intangible assets were equal to 123.5 million, in line with the figure of 123.1 million in the first half of 2020.

Total **operating expenses** therefore amounted to 1,275.5 million, up by 2.1% compared to 1,248.7 million in the first half of 2020.

Adjustments and provisions

(thousands of euro)	I half 2021	I half 2020	Abs. Change	% Change
Net value adjustments to loans to customers	**(250,203)**	**(464,239)**	**214,036**	**(46.1%)**
Specific value adjustments: derecognition	(23,013)	(55,617)	32,604	(58.6%)
Specific value adjustments: other	(625,638)	(628,691)	3,053	(0.5%)
Specific recoveries	398,089	331,911	66,178	19.9%
Net portfolio adjustments/recoveries	359	(111,842)	112,201	
Gains (losses) on disposal of loans	**(222,375)**	**(12,003)**	**(210,372)**	**1752.7%**
Total	**(472,578)**	**(476,242)**	**3,664**	**(0.8%)**

[1] The aggregate does not include the "systemic charges", represented by the contributions to the Resolution Funds, reported in a separate item of the reclassified income statement, net of the relative tax.



Net adjustments on loans to customers in the first half were equal to 472.6 million, substantially in line with same period of the previous year (476.2 million). Those adjustments also include the charge deriving from the assignment of loans finalised as part of Project "Rockets" as a result of the change in the non-performing loans strategy decided during the half year. The economic effect of that assignment amounts to 134.6 million, as illustrated in Part A of the Explanatory notes in the section "Project Rockets - sales of a portfolio of exposures classified as bad loans".
However, if the loans had not been assigned, ordinary value adjustments would have been recognised on them in any event; therefore the non-recurring negative economic effect amounts to 94.0 million.

As at 30 June 2021, the cost of credit, measured by the ratio of net value adjustments on loans to net loans, was 86 basis points.

Fair value gains (losses) on property, plant and equipment show a loss of 36.9 million at 30 June 2021, compared to 5.4 million in the first half of the previous year.

The item **net adjustments to securities and other financial assets** includes net gains of 0.5 million (8.3 million in net adjustments as at 30 June 2020).

Net provisions for risks and charges in the first half were equal to 12.8 million, while in the corresponding period of the previous year, net provisions of 7.6 million were recognised.

As at 30 June 2021, no significant **gains (losses) on disposal of interests in associates and joint ventures and other investments** were recognised, as also in the first half of last year.

Due to the trends described, the**income (loss) before tax from continuing operations** was equal to 525.8 million compared to 209.8 million in the first half of 2020.

Other revenue and cost items

Taxation charges on profit or loss from continuing operations were equal to -133.3 million (-39.0 million in the first half of 2020).

Income (loss) after tax from continuing operations therefore was equal to 392.5 million, a 129.9% increase compared to 170.8 million in the first half of the previous year.

The income statement for the period also included **charges related to the banking system, net of taxes** , equal to 78.6 million (75.7 million in the first half of 2020), consisting of the ordinary contribution to the Single Resolution Fund (SRF) and the additional contribution to the National Resolution Fund (116.4 million before tax, against 112.1 million as at 30 June 2020).

The item **Impact of the realignment of tax values to book values** includes the positive impact on the income statement for 79.2 million, resulting from the exercise of the right of realignment of the tax values of the Group's operating properties to book values.

In the period, the **change in own credit risk on Certificates issued by the Group, net of taxes**, had a negative impact equal to 11.9 million (-17.8 million including taxes), with respect to the income recognised in the first half of 2020 equal to 27.2 million (40.6 million pre-tax), which felt the effects of the onset of the pandemic on the financial markets.

As at June 30, 2021, the impact of the **Purchase Price Allocation net of taxes** was equal to -20.0 million, against -18.5 million in the first half of 2020.

Considering the share of income due to non-controlling interests, equal to 0.1 million, the first half of 2021 closed with a **net profit for the period** equal to 361.3 million (105.2 million as at 30 June 2020).

The **profit net of non-recurring components** in the first half came to 382.0 million, compared to 128.4 million recorded in the first half of 2020 (+197.5%).

Consolidated balance sheet figures

Reclassified consolidated balance sheet

Below is the reclassified balance sheet as at 30 June 2021 compared with the balances in the financial statements as at 31 December 2020.
A reconciliation between the items in the consolidated balance sheet and the reclassified consolidated balance sheet is attached to this report.

(thousands of euro)	30/06/2021	31/12/2020	Change	
Cash and cash equivalents	20,718,259	8,858,079	11,860,180	133.9%
Loans measured at AC (amortised cost)	117,948,446	120,455,666	(2,507,220)	(2.1)%
- Loans to banks	8,574,201	11,120,681	(2,546,480)	(22.9)%
- Loans to customers (*)	109,374,245	109,334,985	39,260	0.0%
Other financial assets and hedging derivatives	45,955,539	41,175,632	4,779,907	11.6%
- At FV through Profit and Loss	8,586,411	9,118,571	(532,160)	(5.8)%
- At FV through OCI	15,446,918	10,710,796	4,736,122	44.2%
- At AC	21,922,210	21,346,265	575,945	2.7%
Interests in associates and joint ventures	1,688,530	1,664,772	23,758	1.4%
Property, plant and equipment	3,434,805	3,552,482	(117,677)	(3.3)%
Intangible assets	1,221,008	1,218,632	2,376	0.2%
Tax assets	4,679,750	4,704,196	(24,446)	(0.5)%
Non-current assets and disposal groups held for sale	100,031	72,823	27,208	37.4%
Other assets	2,783,778	1,982,900	800,878	40.4%
Total assets	**198,530,146**	**183,685,182**	**14,844,964**	**8.1%**
Direct funding	120,146,355	116,936,669	3,209,686	2.7%
- Due to customers	106,883,300	102,162,461	4,720,839	4.6%
- Securities and financial liabilities designated at fair value	13,263,055	14,774,208	(1,511,153)	(10.2)%
Due to banks	44,269,311	33,937,523	10,331,788	30.4%
Lease payables	722,106	760,280	(38,174)	(5.0)%
Other financial liabilities designated at fair value	12,683,212	14,015,427	(1,332,215)	(9.5)%
Liability provisions	1,276,783	1,415,473	(138,690)	(9.8)%
Tax liabilities	311,668	464,570	(152,902)	(32.9)%
Liabilities associated with assets classified as held for sale	2,437	-	2,437	
Other liabilities	6,198,958	3,928,139	2,270,819	57.8%
Total liabilities	**185,610,830**	**171,458,081**	**14,152,749**	**8.3%**
Non-controlling interests	1,289	1,894	(605)	(31.9)%
Group shareholders' equity	12,918,027	12,225,207	692,820	5.7%
Consolidated shareholders' equity	**12,919,316**	**12,227,101**	**692,215**	**5.7%**
Total liabilities and shareholders' equity	**198,530,146**	**183,685,182**	**14,844,964**	**8.1%**

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

The evolution of the main balance sheet aggregates as at 30 June 2021 is illustrated below.

Loan brokering activities

Direct funding

(thousands of euro)	30/06/2021	% impact	31/12/2020	% impact	Abs. Change	% Change
Current accounts and deposits	**104,166,431**	**86.7%**	**99,964,064**	**85.5%**	**4,202,367**	**4.2%**
- bank accounts and demand deposits	103,004,657	85.7%	98,490,060	84.2%	4,514,597	4.6%
- fixed-term deposits and other restricted current accounts	1,161,774	1.0%	1,474,004	1.3%	(312,230)	(21.2%)
Securities	**13,263,055**	**11.0%**	**14,774,208**	**12.6%**	**(1,511,153)**	**(10.2%)**
- bonds and liabilities at fair value	13,223,944	11.0%	14,704,719	12.6%	(1,480,775)	(10.1%)
- certificates of deposit and other securities	39,111	0.0%	69,489	0.1%	(30,378)	(43.7%)
Repurchase agreements	**1,165,402**	**1.0%**	**495,505**	**0.4%**	**669,897**	**135.2%**
Loans and other payables	**1,551,467**	**1.3%**	**1,702,892**	**1.5%**	**(151,425)**	**(8.9%)**
Direct funding	**120,146,355**	**100.0%**	**116,936,669**	**100.0%**	**3,209,686**	**2.7%**
Direct funding without repurchase agreements	**118,980,953**		**116,441,164**		**2,539,789**	**2.2%**
Other funding (Protected capital certificates)	3,620,930		3,699,901		(78,971)	(2.1%)
Total direct funding without repurchase agreements with certificates	**122,601,883**		**120,141,065**		**2,460,818**	**2.0%**

Direct funding [1]as at 30 June 2021 amounted to 122.6 billion, up compared to 31 December 2020 by +2.0% and by 7.1% compared to 30 June 2020.
More specifically, over the period, there was an increase of 4.5 billion in the segment represented by the current accounts and demand deposits of the commercial network (+4.6%). As regards bonds issued, the stock as at 30 June came to 13.3 billion, down by 1.5 billion compared to 31 December 2020, due to higher reimbursements of securities that had matured than new issues in the period.
In comparison on an annual basis, demand deposits increased by 11.6 billion (+12.7%), while the decrease in securities issued was equal to 3.2 billion (-19.4%).
The funding guaranteed by the stock of certificates with unconditionally protected capital as at 30 June 2021 was equal to 3.6 billion, substantially in line with the 3.7 billion as at 31 December 2020 (3.1 billion as at 30 June 2020).

Indirect funding

(thousands of euro)	30/06/2021	% impact	31/12/2020	% impact	Abs. Change	% Change
Managed assets	**62,918,089**	**63.2%**	**59,599,197**	**62.9%**	**3,318,892**	**5.6%**
mutual funds and SICAVs	43,797,752	44.0%	40,797,605	43.0%	3,000,147	7.4%
securities and fund management	4,140,255	4.2%	3,945,198	4.2%	195,057	4.9%
insurance policies	14,980,082	15.0%	14,856,394	15.7%	123,688	0.8%
Administered assets	**36,705,249**	**36.8%**	**35,208,130**	**37.1%**	**1,497,119**	**4.3%**
Total indirect funding	**99,623,338**	**100.0%**	**94,807,327**	**100.0%**	**4,816,011**	**5.1%**
Underlying funding for protected capital certificates	3,162,880		3,231,474		(68,594)	(2.1%)
Total indirect funding without certificates	**96,460,458**		**91,575,853**		**4,884,605**	**5.3%**

Indirect funding net of protected capital certificates[2], was equal to 96.5 billion, up 5.3% compared to 31 December 2020 and 9.1% on an annual basis.
The component of managed assets was equal to 62.9 billion, an increase compared to the figure of € 59.6 billion as at 31 December 2020 (+5.6%), due to the contribution of funds and SICAVs and asset management. Deposits relating to the bancassurance sector were stable.
Administered assets reached 33.5 billion, an increase of 1.6 billion (+4.9%) compared to the end of 2020.

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

On an annual basis, managed assets increased by 8.8%, mainly due to the contribution of funds and SICAVs (+5.0 billion), while the administered asset component increased by 9.8%.

Loans to customers

(thousands of euro)	30/06/2021	% impact	31/12/2020	% impact	Abs. Change	% Change
Mortgage loans	78,452,383	71.7%	76,393,191	69.9%	2,059,192	2.7%
Bank accounts	8,730,441	8.0%	8,538,393	7.8%	192,048	2.2%
Repurchase agreements	2,549,745	2.3%	3,482,261	3.2%	(932,516)	(26.8%)
Finance leases	1,410,459	1.3%	1,491,577	1.4%	(81,118)	(5.4%)
Credit cards, personal loans and salary-backed loans	1,758,003	1.6%	1,890,737	1.7%	(132,734)	(7.0%)
Other transactions	14,013,316	12.8%	15,222,324	13.9%	(1,209,008)	(7.9%)
Senior securities from sales of non-performing loans	2,459,898	2.2%	2,316,502	2.1%	143,396	6.2%
Total net loans to customers	**109,374,245**	**100.0%**	**109,334,985**	**100.0%**	**39,260**	**0.0%**

Net loans to customers [1]totalled € 109.4 billion as at 30 June 2021, stable compared to the figure as at 31 December 2020. Performing exposures rose (+0.6%), with a volume of new loans to households and businesses of € 12.1 billion[2] in the period, non-performing exposures fell 13.4% compared to the end of 2020, due to the assignments finalised in the first half. On an annual basis, net loans recorded an increase of 1 billion (+0.9%), deriving from the balance of the increase in performing exposures of 2.7 billion (+2.6%) and the decrease in non-performing loans of 1.7 billion (-31.2%), primarily linked to the "Rockets" assignment.

Credit quality

<u>Loans to customers at amortised cost</u>

(thousands of euro)	30/06/2021		31/12/2020		Abs. Change	% Change
	Net exposure	% impact	Net exposure	% impact		
Bad loans	946,981	0.9%	1,462,216	1.3%	(515,235)	(35.2%)
Unlikely to pay	2,673,630	2.4%	2,784,817	2.5%	(111,187)	(4.0%)
Non-performing past-due exposures	95,958	0.1%	45,642	0.0%	50,316	110.2%
Non-performing loans	**3,716,569**	**3.4%**	**4,292,675**	**3.9%**	**(576,106)**	**(13.4%)**
Performing loans	103,197,778	94.4%	102,725,808	94.0%	471,970	0.5%
Senior securities from sales of non-performing loans	2,459,898	2.2%	2,316,502	2.1%	143,396	6.2%
Performing exposures	**105,657,676**	**96.6%**	**105,042,310**	**96.1%**	**615,366**	**0.6%**
Total loans to customers	**109,374,245**	**100.0%**	**109,334,985**	**100.0%**	**39,260**	**0.0%**

[1] The aggregate does not include loans to customers which, following the application of IFRS 9, must be measured at fair value. Those loans, amounting to 0.3 billion, are included under financial assets at fair value.
[2] Management figure.

(thousands of euro)	30/06/2021				31/12/2020			
	Gross exposure	Total write-downs	Net exposure	Coverage	Gross exposure	Total write-downs	Net exposure	Coverage
Bad loans	2,123,080	(1,176,099)	946,981	55.4%	3,578,445	(2,116,229)	1,462,216	59.1%
Unlikely to pay	4,824,939	(2,151,309)	2,673,630	44.6%	4,945,663	(2,160,846)	2,784,817	43.7%
Non-performing past-due exposures	113,636	(17,678)	95,958	15.6%	62,018	(16,376)	45,642	26.4%
Non-performing loans	**7,061,655**	**(3,345,086)**	**3,716,569**	**47.4%**	**8,586,126**	**(4,293,451)**	**4,292,675**	**50.0%**
of which: forborne	3,715,590	(1,667,325)	2,048,265	44.9%	4,155,253	(1,913,282)	2,241,971	46.0%
Performing loans (*)	**106,122,872**	**(465,196)**	**105,657,676**	**0.4%**	**105,508,486**	**(466,176)**	**105,042,310**	**0.4%**
of which: Stage 1	94,800,523	(124,130)	94,676,393	0.1%	98,314,977	(155,710)	98,159,267	0.2%
of which: Stage 2	11,322,349	(341,066)	10,981,283	3.0%	7,193,511	(310,467)	6,883,044	4.3%
of which: forborne	3,550,851	(148,007)	3,402,844	4.2%	1,780,370	(94,599)	1,685,771	5.3%
Total loans to customers	**113,184,527**	**(3,810,282)**	**109,374,245**	**3.4%**	**114,094,612**	**(4,759,627)**	**109,334,985**	**4.2%**

(*) Includes senior securities from sales of non-performing loans for an amount of 2,459.9 million (of which 2,461.1 million in gross exposure and 1.2 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".

The table below provides the details of loans to customers subject to the Covid-19 support measures.
These loans are classified in the accounting portfolio of "Financial assets at amortised cost", as shown in table "4.4 a Loans at amortised cost subject to Covid-19 support measures: gross value and total value adjustments" contained in Part B of the Notes.

Loans subject to Covid-19 support measures: gross and net values

Exposure types / Amounts	Gross exposure	Total value adjustments and total provisions	Net exposure	Total partial write-offs*
A. Bad loans	**4,550**	**2,595**	**1,955**	**-**
b) Forborne exposures compliant with GL	11	11	-	-
b) Other forborne exposures	1,740	1,738	2	-
c) New loans	2,799	846	1,953	-
B. Unlikely to pay loans	**180,590**	**54,391**	**126,199**	**-**
b) Forborne exposures compliant with GL	141,509	43,335	98,174	-
b) Other forborne exposures	14,139	4,446	9,693	-
c) New loans	24,942	6,610	18,332	-
C. Non-performing past-due loans	**11,839**	**2,683**	**9,156**	**-**
b) Forborne exposures compliant with GL	6,115	1,283	4,832	-
b) Other forborne exposures	2,847	937	1,910	-
c) New loans	2,877	463	2,414	-
D. Performing past-due loans	**42,446**	**1,437**	**41,009**	**-**
b) Forborne exposures compliant with GL	19,156	959	18,197	-
b) Other forborne exposures	4,085	409	3,676	-
c) New loans	19,205	69	19,136	-
E. Other performing loans	**24,302,257**	**137,495**	**24,164,762**	**-**
b) Forborne exposures compliant with GL	9,355,734	130,220	9,225,514	-
b) Other forborne exposures	134,639	902	133,737	-
c) New loans	14,811,884	6,373	14,805,511	-
Total (A+B+C+D+E)	**24,541,682**	**198,601**	**24,343,081**	**-**

(*) Value to be shown for disclosure purposes.

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 reference date of the financial statements, or by new loans disbursed through public guarantee mechanisms. In this regard, note that the sub-item "a) Forborne exposures compliant with GL" refers to those support measures that are compliant with the guidelines of the EBA (EBA/GL/2020/02).

The loans affected by these support measures totalled 24,541.7 million, in terms of gross exposure, and 24,404.5 million relate to the Parent Company.

For further details on the types of measures granted by the Group to support its customers, please refer to the section dedicated to the significant events during the period in this Report.

Net non-performing loans (bad loans, unlikely to pay and past due and/or overdue exposures) amounted to 3.7 billion as at 30 June 2021.
An analysis of the individual items shows the following dynamics:

- net bad loans of 0.9 billion, down by 35.2% compared to 31 December 2020 and 38.9% compared to 30 June 2020;
- unlikely to pay loans of 2.7 billion, down by 4.0% compared to 31 December 2020 and 28.5% compared to 30 June 2020;
- net past-due exposures of 96 million (46 million as at 31 December 2020 and 111 million as at 30 June 2020). This increase is due to the introduction, from 1 January 2021, of the new definition of default.

The coverage rate for the entire impaired loans aggregate came to 47.4% (50.0% as at 31 December 2020).
More specifically, as at 30 June 2021, the coverage ratio was as follows:

- bad loans 55.4% (59.1% as at 31 December 2020);
- Unlikely to pay loans 44.6% (43.7% as at 31 December 2020);
- past due 15.6% (26.4% at 31 December 2020).

The evolution of the coverage of non-performing loans is correlated to the significant decrease in the incidence of gross bad loans on the total portfolio of non-performing loans (from 41.7% at the end of 2020 to 30.1% as at June 2021) resulting from the finalisation of the Rockets project and an increase in the secured component of bad loans.

The *coverage ratio* of performing loans came out at 0.44%, stable compared to 31 December 2020.

Financial assets

(thousands of euro)	30/06/2021	% impact	31/12/2020	% impact	Abs. Change	% Change
Debt securities (*)	39,679,098	86.3%	33,859,700	82.2%	5,819,398	17.2%
Equity instruments	1,953,369	4.3%	1,387,043	3.4%	566,326	40.8%
UCIT units	1,060,214	2.3%	1,015,377	2.5%	44,837	4.4%
Total securities portfolio	**42,692,681**	**92.9%**	**36,262,120**	**88.1%**	**6,430,561**	**17.7%**
Derivative trading and hedging instruments	1,872,283	4.1%	2,661,631	6.5%	(789,348)	(29.7%)
Loans	1,390,575	3.0%	2,251,881	5.5%	(861,306)	(38.2%)
Total financial assets	**45,955,539**	**100.0%**	**41,175,632**	**100.0%**	**4,779,907**	**11.6%**

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

Financial assets were equal to 46.0 billion, up by 11.6% compared to 41.2 billion as at 31 December 2020; the increase was mainly concentrated in debt securities (+5.8 billion) and, in particular, in the portfolio of securities measured at fair value through other comprehensive income. The aggregate in question as at 30 June 2021 consisted of debt securities for 39.7 billion, equities and UCITS units for 3.0 billion, derivative instruments for 1.8 billion and other financial assets, mainly repurchase agreements, for € 1.4 billion.

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

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

(thousands of euro)	30/06/2021	% impact	31/12/2020	% impact	Abs. Change	% Change
Debt securities	2,635,637	30.7%	2,128,251	23.3%	507,386	23.8%
Equity instruments	1,627,702	19.0%	1,061,431	11.6%	566,271	53.3%
UCIT units	1,060,214	12.3%	1,015,377	11.1%	44,837	4.4%
Total securities portfolio	**5,323,553**	**62.0%**	**4,205,059**	**46.1%**	**1,118,494**	**26.6%**
Financial and credit derivatives	1,872,283	21.8%	2,661,631	29.2%	(789,348)	(29.7%)
Loans	1,390,575	16.2%	2,251,881	24.7%	(861,306)	(38.2%)
Overall total	**8,586,411**	**100.0%**	**9,118,571**	**100.0%**	**(532,160)**	**(5.8%)**

Financial assets measured at fair value through other comprehensive income

(thousands of euro)	30/06/2021	% impact	31/12/2020	% impact	Abs. Change	% Change
Debt securities	15,121,251	97.9%	10,385,184	97.0%	4,736,067	45.6%
Equity instruments	325,667	2.1%	325,612	3.0%	55	0.0%
Total	**15,446,918**	**100.0%**	**10,710,796**	**100.0%**	**4,736,122**	**44.2%**

Financial assets at amortised cost

(thousands of euro)	30/06/2021	% impact	31/12/2020	% impact	Abs. Change	% Change
Debt securities (*)	21,922,210	100.0%	21,346,265	100.0%	575,945	2.7%
Total	**21,922,210**	**100.0%**	**21,346,265**	**100.0%**	**575,945**	**2.7%**

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

Exposure to sovereign risk

The Group's total exposure in sovereign debt securities as at 30 June 2021 was 34,763.7 million, and is provided below, broken down by country (amounts in thousands of euro):

Country	Total debt securities
Italy	21,162,327
Spain	3,189,016
Ireland	19,566
Germany	1,639,173
France	4,261,101
Austria	143,470
Other EU countries	445,332
Total EU countries	**30,859,985**
USA	3,679,615
Chile	22,478
China	125,897
Mexico	28,162
HONG KONG	28,991
Other countries	18,600
Total other countries	**3,903,743**
Total	**34,763,728**

Exposure is mainly concentrated within the Parent Company Banco BPM, which as at 30 June held a total of 34,162.9 million, mostly relative to Italian government bonds.

Investments in sovereign debt securities are classified at 58.0% in the portfolio of financial assets at amortised cost, 35.3% in the portfolio of financial assets measured at fair value through other comprehensive income and 6.7% in the portfolio of financial assets at fair value through profit and loss as they are held for trading.
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 2021	Maturing between 2022 and 2026	Maturing between 2027 and 2031	Maturity beyond 2031	Total fair value as at 30/06/2021	Total fair value by hierarchy		
						LEVEL 1	LEVEL 2	LEVEL 3
Italy	39,344	1,248,103	328,022	10,029	1,625,498	1,625,498	-	-
Spain	-	13,399	422,589	-	435,988	435,988	-	-
France	-	-	246,735	478	247,214	247,214	-	-
Germany	-	14,739	-	2	14,741	14,741	-	-
Other EU countries	-	1	3	2	7	7	-	-
Total	**39,344**	**1,276,242**	**997,349**	**10,511**	**2,323,447**	**2,323,447**	**0**	**-**

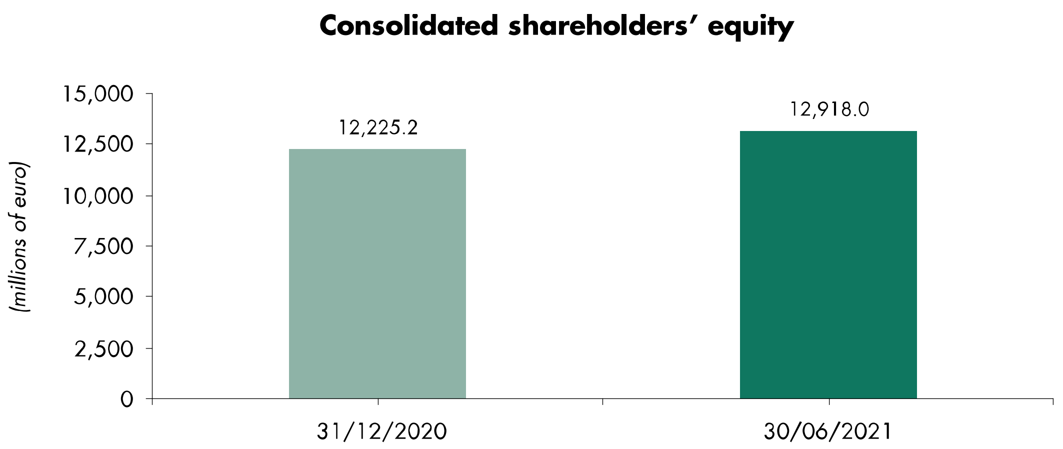
Financial assets measured at fair value through other comprehensive income

Status	Maturing by 2021	Maturing between 2022 and 2026	Maturing between 2027 and 2031	Maturity beyond 2031	Total fair value as at 30/06/2021	Net reserve at FVTOCI	Value adjustments	Total fair value by hierarchy		
								LEVEL 1	LEVEL 2	LEVEL 3
Italy	3,492,465	1,299,245	1,192,604	310,467	6,294,782	17,424	-	6,294,782	-	-
Spain	-	268,757	1,102,562	-	1,371,319	9,477	-	1,371,319	-	-
France	-	284,937	1,822,717	-	2,107,654	994	-	2,107,655	-	-
Germany	-	-	888,980	-	888,980	(2,780)	-	888,980	-	-
Other EU countries	-	4,577	128,773	17,182	150,532	2,820	-	150,532	-	-
Total	**3,492,465**	**1,857,516**	**5,135,636**	**327,649**	**10,813,267**	**27,935**	**-**	**10,813,268**	**-**	**-**

Financial assets at amortised cost

Status	Maturing by 2021	Maturing between 2022 and 2026	Maturing between 2027 and 2031	Maturity beyond 2031	Total book value as at 30/06/2021	Total fair value	Total fair value by hierarchy		
							LEVEL 1	LEVEL 2	LEVEL 3
Italy	2,495,729	9,830,515	769,645	146,157	13,242,046	13,635,326	13,635,326	-	-
Spain	-	365,317	1,016,392	-	1,381,709	1,443,749	1,443,749	-	-
France	-	-	1,906,233	-	1,906,233	1,957,721	1,957,721	-	-
Ireland	-	-	19,563	-	19,563	21,514	21,514	-	-
Germany	-	-	735,452	-	735,452	749,334	749,334	-	
Other EU countries	-	5,250	433,017	-	438,267	456,197	456,197	-	-
Total	**2,495,729**	**10,201,082**	**4,880,302**	**146,157**	**17,723,270**	**18,263,842**	**18,263,842**	**-**	**-**

Shareholders' equity and solvency ratios



The Group's consolidated shareholders' equity as at 30 June 2021, including valuation reserves and profit (loss) for the period, amounted to 12,918.0 million, compared to the figure at the end of 2020 of 12,225.2 million.
The increase of 692.8 million is due to the issuance of 400 million nominal Additional Tier 1 instruments in January, recognised in the financial statements for an amount of 397.4 million (equal to the consideration received less transaction costs) under item "140. Equity instruments" and the contribution of comprehensive income recorded during the period. The latter is positive by 401.3 million due to the net profit for the period of 361.3 million and the positive change in valuation reserves of 40.0 million.
Furthermore, there was a total of 105.9 million in other negative changes, referring primarily to the extraordinary distribution of dividends for 90.5 million and the payment of coupons on Additional Tier 1 instruments for 18.4 million.

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	Profit (loss) for the period
Balance as at 30/06/2021 as per the Parent Company's financial statements	**12,812,205**	**340,003**
Impact of the valuation at equity of associated companies	137,463	98,079
Cancellation of dividends received during the year by associated companies	-	(71,359)
Other consolidation adjustments	(31,641)	(5,406)
Balance as at 30/06/2021 as per the consolidated financial statements	**12,918,027**	**361,317**

Solvency ratios - reference legislation and standards to follow

The minimum capital requirements for 2021 are:
- minimum Common Equity Tier 1 ratio (CET1 ratio) of: 4.5% + 2.5% Capital Conservation Buffer (CCB);
- minimum Tier 1 capital ratio (Tier 1 ratio) of: 6.0% + 2.5% CCB;
- minimum Total capital ratio of: 8% + 2.5% CCB.

The Bank of Italy has confirmed the Countercyclical Capital Buffer ratio for exposures to Italian counterparties at zero per cent also for the first half of 2021.

With its communication of 30 November 2017, the Bank of Italy identified Banco BPM banking group as an Other Systemically Important Institution (O-SII). The O-SII reserve is equal to 0.19% for 2021 and will reach 0.25% on 1 January 2022.

On 11 December 2019 the European Central Bank (ECB) notified Banco BPM of its final decision regarding the minimum capital ratios that Banco BPM is required to meet on an ongoing basis, starting from 2020.

The decision is based on the supervisory review and evaluation process (SREP) conducted in compliance with Article 4(1)(f) of Regulation (EU) no. 1024/2013.
In compliance with Article 16 (2) (a) of the Regulation no. 1024/2013, which confers on the ECB the power to require supervised banks to hold own funds in excess of the minimum capital requirements laid down by current regulations, the requirement to be added to the requirements highlighted above was 2.25%.

Due to the health emergency linked to Covid-19, with the letter dated 8 April 2020, the ECB decided to amend the decision taken in December 2019, stipulating that the SREP requirement of 2.25% must be maintained by Banco BPM for 56.25% as Common Equity Tier 1 (CET1) and 75% as Tier 1 Capital (Tier 1).

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 0.002%, the minimum requirements that Banco BPM is required to meet for 2021 and until a new communication is issued, are as follows[1]:

- CET1 ratio: 8.458% phased-in and 8.518% fully phased;
- Tier 1 ratio: 10.379% phased-in and 10.439% fully phased;
- Total Capital ratio: 12.942% phased-in and 13.002% fully phased.

Banco BPM exercised the option for the full application of the transitory 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 decreases over time over a timeframe of five years, as indicated below:

- period from 1 January to 31 December 2018: 95% of the increase made in provisions for expected credit losses as a result of applying IFRS 9;
- period from 1 January 2019 to 31 December 2019: 85% of the increase in provisions for expected credit losses;
- period from 1 January 2020 to 31 December 2020: 70% of the increase in provisions for expected credit losses;
- period from 1 January 2021 to 31 December 2021: 50% of the increase in provisions for expected credit losses;
- period from 1 January 2022 to 31 December 2022: 25% of the increase in provisions for expected credit losses.

From 1 January 2023 the impact from the first-time adoption of IFRS 9 will be fully recognized 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 in the financial statements as at 30 June 2021 due to the new transitional regime set out by the amendments made by Regulation 873/2020 to Article 473a in relation to increased provisions allocated during the current year for expected losses on performing loans in relation to the amount of the same as at 1 January 2020.

The estimates of the Group's capital ratios, all other things being equal, had it not elected to exercise the above option, are called in brief "IFRS 9 fully phased". The capital ratios called "IFRS 9 phased-in" instead are calculated based on the above-mentioned transitional provisions.

As at 30 June 2021, the phased-in Common Equity Tier 1 ratio stood at 14.07%[2], against 14.63% as at 31 December 2020.
The phased-in ratio benefits from the exercise of the option for the full application of the transitional rules introduced with the new Article 473-bis of Regulation (EU) no. 575/2013, which dilutes over time the impact on own funds deriving from the application of the new impairment model introduced by the accounting standard IFRS 9. Excluding

[1] These requirements are set as follows:

- the Pillar 1 minimum requirement equal to 8% (of which 4.5% in terms of CET 1, 1.5% in terms of AT1 and 2% in terms of Tier 2)
- the P2R requirement communicated by the ECB equal to 2.25% to be met by CET1 (56.25%) and TIER1 (75%);
- a capital conservation buffer equal to 2.50%, to be entirely met by CET1;
- the O-SII buffer equal to 0.19% for 2021 and 0.25% fully phased-in (from 1 January 2022) to be met entirely by CET1;
- the countercyclical capital buffer equal to 0.002% to be met entirely with CET1 capital.

[2] Ratios calculated by including the profit of the first half of 2021 and deducting the amount of the expected dividend pay-out for the year compared to the profit for the period under way.

the impacts of the aforementioned transitional rules, the CET 1 ratio IFRS 9 fully phased stood at 12.87% (13.26% as at 31 December 2020).
The Tier 1 ratio phased-in was equal to 15.78% compared to 15.85% as at 31 December 2020, while the Total Capital ratio was equal to 18.78% compared to 18.75% as at 31 December 2020.

The fully-phased Tier 1 ratio was 14.46%, up compared to 14.32% as at 31 December 2020. The Total Capital ratio came to 17.48%, compared to 17.21% as at 31 December 2020.

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"). The regulation establishes a gradual phase-in [1]. As at 30 June 2020, the Banco BPM Group had a consolidated LCR equal to 193%.

In the near future, an additional liquidity requirement is expected to be introduced, measured over a longer time horizon, called the Net Stable Funding Ratio ("NSFR"). Said ratio, calculated according to the most recent rules set by the Quantitative Impact Study and including protected capital certificates, is higher than 100%.

Lastly, as regards the leverage ratio, the value as at 30 June 2021 was 5.19% (5.66% with the transitional definition of regulatory capital).

Key financial highlights of the main Group companies

A summary of the main interests in Group companies is presented below, with an indication of the most significant balance sheet, income statement and operating balances as at 30 June 2021.

(millions of euro)	Total assets	Shareholders' equity (*)	Direct Funding	Direct Funding	Net loans	Profit (Loss)
Banks						
Banca Aletti & C.	2,656.7	363.4	2,145.2	22,854.4	305.0	6.8
Banca Akros	8,902.7	718.7	1,547.6	-	1,286.6	2.3
Banca Aletti & C. (Suisse)	117.9	26.4	89.5	502.5	20.4	(0.6)
Bipielle Bank (Suisse)	22.1	20.4	-	-	-	(0.3)
Financial companies						
Aletti Fiduciaria	10.5	7.3	-	995.9	1.7	(0.1)
Release	1,429.0	513.8	6.4	-	563.8	(24.4)
ProFamily	1,450.7	102.4	0.1	-	1,333.5	5.5
Oaklins Italy	2.0	0.5	-	-	-	0.4
Other companies						
Bipielle Real Estate	1,297.3	1,266.4	-	-	7.1	21.8
Tecmarket Servizi	45.5	21.6	-	-	-	5.1
Ge.Se.So.	1.4	0.2	-	-	-	-

(*) amount inclusive of the profit (loss) for the period.

Banco BPM stock

From the start of 2021 to January 2021, the value of Banco BPM shares fluctuated between a minimum closing price of 1.781 euro on 25 January 2021 and a maximum closing price of 3.040 euro on 7 June 2021.

[1] 60% from 1 October 2015; 70% from 1 January 2016; 80% from 1 January 2017 and 100% from 1 January 2018.

From the beginning of the year 2021 until June 2021, the shares of the Banco BPM share reported a positive performance of 50.1%; during the first half of 2021, the average daily volumes were approximately 15.3 million shares.

In addition, it should be noted that at the end of June 2021, the Banco BPM share was "covered" by 19 equity research companies (of which: 11 with positive recommendations, 7 neutral and 1 negative), with which continuous dialogue was maintained during the year.

Lastly, the shareholders of Banco BPM have the following consultation agreements 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 Arts. 129 and 130 of CONSOB Regulation 11971 of 14 May 1999 ("Issuers' Regulation"):

- consultation agreement signed on 21 December 2020 between various Italian foundations and updated on 20 July 2021 with the entry of additional Italian foundations / professional associations (total share capital: 6.17%);
- consultation agreement signed on 18 January 2021 between other Banco BPM shareholders (total quota in the share capital updated as of 21 July 2021: 4.69%).

The essential information pursuant to Article 130 of the Issuers' Regulation relating to the aforementioned consultation agreements is available on the Banco BPM website www.gruppo.bancobpm.it - in the Investor Relations section - Banco BPM Stock, Shareholder Base and Dividends, under the item "Consultation Agreements".

Group ratings

Summary table of Banco BPM ratings

Rating Agency	Type of Rating	30/06/2021	31/12/2020
Moody's Investor Service	Long Term on Senior Unsecured Debt	Ba2 / Stable Outlook	Ba2/Negative Outlook
	Issuer Rating	Ba2 / Stable Outlook	Ba2/Negative Outlook
	Long Term on Deposits	Baa3/Stable Outlook	Baa3 / Negative Outlook
	Short Term on Deposits	P-3	P-3
	Baseline Credit Assessment	ba3	ba3
	Counterparty Risk Assessment	Baa3(cr)/P-3(cr)	Baa3(cr)/P-3(cr)
DBRS Morningstar	Long-Term Issuer Rating (Issuer Rating)	BBB (low)/Negative Trend	BBB (low)/Negative Trend
	Short-Term Issuer Rating (Issuer Rating)	R-2 (middle)/Negative Trend	R-2 (middle)/Negative Trend
	Long Term on Senior Debt	BBB (low)/Negative Trend	BBB (low)/Negative Trend
	Short Term on Debt	R-2 (middle)/Negative Trend	R-2 (middle)/Negative Trend
	Long Term on Deposits	BBB/Negative Trend	BBB/Negative Trend
	Short Term on Deposits	R-2 (high)/Negative Trend	R-2 (high)/Negative Trend
	Intrinsic Assessment	BBB (low)	BBB (low)
	Support Assessment	SA3	SA3

Summary table of Banca Akros ratings

Rating Agency	Type of Rating	30/06/2021	31/12/2020
DBRS Morningstar	Long-Term Issuer Rating	BBB (low)/Negative Trend	BBB (low)/Negative Trend
	Short-Term Issuer Rating	R-2 (middle)/Negative Trend	R-2 (middle)/Negative Trend
	Long Term on Senior Debt	BBB (low)/Negative Trend	BBB (low)/Negative Trend
	Short Term on Debt	R-2 (middle)/Negative Trend	R-2 (middle)/Negative Trend
	Long Term on Deposits	BBB/Negative Trend	BBB/Negative Trend
	Short Term on Deposits	R-2 (high)/Negative Trend	R-2 (high)/Negative Trend
	Support Assessment	SA1	SA1

During the first half of 2021, the following rating actions took place:

- On 12 May 2021, as part of a rating action on 10 Italian banks, Moody's modified the Outlook from Negative to Stable, on the Long-Term Deposit rating as well as the Issuer and Senior Unsecured Rating of Banco BPM. Subsequently, on 14 June, the agency published a Credit Opinion updating the analysis on Banco BPM. On 13 July 2021, Moody's took a new rating action on 5 Italian banks, reflecting an update of the bank analysis methodology. The agency therefore increased the junior senior unsecured long-term rating to Ba3 from B1 and confirmed the senior unsecured debt rating at Ba2. An update of the Credit Opinion was published on 16 July 2021;
- On 22 January 2021, DBRS Morningstar published the rating report on Banco BPM S.p.A., indicating the above-mentioned ratings of the Banco BPM Group and of Banca Akros.

RISK MANAGEMENT

Information on risks is provided in the part E "Information on risks and related hedging policies" in the explanatory notes to the consolidated condensed interim financial statements, to which reference should be made.

DISCLOSURE ON TRANSACTIONS WITH RELATED PARTIES

The information on transactions with related parties is included in part H "Transactions with related parties" of the explanatory notes to the consolidated condensed interim financial statements, to which reference is made.

OUTLOOK FOR BUSINESS OPERATIONS

As already noted, the first half of 2021 represented a turning point in the fight against Covid-19, with the full deployment of mass vaccination campaigns in many advanced economies, especially in the Western hemisphere. The combination of the slowdown in contagion and the spread of vaccinations amongst populations, with rather positive impacts on hospitalisations and on the number of unfortunate outcomes, provided newfound vigour to the global economy. The recovery is however uneven: concentrated especially in China, the US and Europe. Emerging and developing economies are instead following with a delay, reflecting the slow spread, or very early stages, of their vaccination campaigns.

In general, this changed context has returned vitality to aggregate demand, fuelled by the excess savings accumulated during the lockdown, and reignited the production machine, but also brought to light significant supply side bottlenecks, generating inflationary stress. In the Eurozone, and in Italy, the resumption of development was strongly supported by the ECB's monetary policy, still broadly expansionary, and the NGEU plan, which Italy will access through the "National Recovery and Resilience Plan (NRRP)".

Given the continuation of support measures (moratoria, guaranteed loans) throughout 2021 (since the start of the year, companies have taken advantage of 30 billion in guaranteed credit), with the drive to economic growth and especially investments, generated by the "return" of aggregate demand and the NRRP, the aggregate of lending to businesses will continue to grow this year as well. The significant amount of liquidity accumulated since 2020 by companies on a precautionary basis pending the re-initiation of investments will however tend to dampen these trends, especially for the short-term segment. On the other hand, loans to households will grow to a more significant extent thanks to the consolidation of the recovery and therefore of consumption.

With respect to credit quality, risk will start to rise again this year. The extension - with the Economy and Finance Document ("DEF") approved on 15 April - of the support measures taken by the authorities in 2020 will indeed limit the transition to non-performing status of the loans still under protection, without however preventing the progressive deterioration of other positions. The entry into force as of January 2021 of the new definition of default should lastly lead to a technical increase in risk indices, with all other conditions being equal.

Funding, especially beyond the short-term, will continue to benefit in 2021 from broad liquidity guaranteed by the ECB at a limited cost with a view to maintaining favourable financial conditions for economic development. Direct funding from households will continue to grow during the rest of the year as well, although at a more limited pace, supported primarily by the preference for liquidity (current accounts and time deposits), facilitating short-term funding.

The still unfavourable trend in money market rates will keep the mark-down broadly negative, while stability in interest rates receivable, favoured by support measures, will keep the mark-up fundamentally unchanged, resulting in a bank interest spread still marginally down.

Nonetheless, the increase in volumes will allow for an expansion of the margin from customers and, even with the continuing negative contribution from interest on securities, the premium mechanism connected to TLTRO transactions will enable the interest margin to grow to an appreciable extent. Net fees and commissions will resume growth, supported by the recovery in consumption and investments in asset management products. Other revenue from services will be influenced by low growth in dividends and the lower contribution of revenue from trading and fair value measurement, while revenue from indirect funding product distribution will benefit from positive net investments in mutual funds and asset management. The combination of the above-mentioned income statement items will enable net interest and other banking income to resume growth, albeit to a limited extent. Operating costs will mark a consistent reduction, driven by the double-digit downturn in personnel expenses, caused first and foremost by the elimination of significant extraordinary retirement incentive costs reported by the main banking groups in 2020, and the reduction in other costs, following further branch closures. Therefore, the operating profit will begin to grow once again to a significant extent. Lastly, adjustments on loans will reduce thanks to the extension of support measures to cover all of 2021, considerably lowering the cost of risk, with a positive effect on final net profit.

With regard to the operating performance of the Group in the rest of the year, the external context will inevitably continue to represent an important influence.

As things stand, core revenues, represented by net interest income and net fee and commission income, are expected to decrease slightly on those of the first half, reflecting seasonal elements typical of the second half of the year.

The actions will continue on curbing the trend of operating expenses, with a view to mitigating the negative impacts resulting from both the uncertain repeatability of certain recoveries and cost reductions that characterised last year,

above all as regards personnel expenses, and the increases relating to the application of the national contract for the industry and the increase in IT investments.
The current level of the cost of credit is expected to be substantially confirmed.
Save for significant new deteriorations in the scenario, which, given the exceptional nature and uncertainty of the context cannot be ruled out, the Group expects to generate net earnings per share of around 35 cents which, also considering its robust equity position, should allow for remuneration of shareholders, with a pay out ratio of around 40%.
With regard to the evolution of medium/long-term operations, the Group will present its new strategic plan by the date of approval of the financial statements as at 30 September 2021.

Consolidated condensed interim financial statements

FINANCIAL STATEMENTS

Consolidated balance sheet

Assets items	30/06/2021	31/12/2020
10. Cash and cash equivalents	20,718,259	8,858,079
20. Financial assets at fair value through profit and loss	8,512,755	9,043,525
a) financial assets held for trading	6,650,346	7,248,348
c) other financial assets mandatorily measured at fair value	1,862,409	1,795,177
30. Financial assets measured at fair value through other comprehensive income	15,446,918	10,710,796
40. Financial assets at amortised cost	139,870,656	141,801,931
a) loans to banks	9,446,346	11,974,822
b) loans to customers	130,424,310	129,827,109
50. Hedging derivatives	73,656	75,046
60. Faire value change of financial assets in macro fair value hedge portfolios (+/-)	31,790	52,288
70. Interests in associates and joint ventures	1,688,530	1,664,772
90. Property, plant and equipment	3,434,805	3,552,482
100. Intangible assets	1,221,008	1,218,632
of which:		
- goodwill	54,558	51,100
110. Tax assets	4,679,750	4,704,196
a) current	239,501	236,993
b) deferred	4,440,249	4,467,203
120. Non-current assets and disposal groups held for sale	100,031	72,823
130. Other assets	2,751,988	1,930,612
Total assets	**198,530,146**	**183,685,182**

Liabilities and shareholders' equity items	30/06/2021	31/12/2020
10. Financial liabilities at amortised cost	164,923,627	151,420,894
a) due to banks	44,276,123	33,944,598
b) due to customers	107,598,594	102,915,666
c) debt securities in issue	13,048,910	14,560,630
20. Financial liabilities held for trading	11,172,267	12,687,544
30. Financial liabilities designated at fair value	1,220,442	955,781
40. Hedging derivatives	504,648	585,680
50. Fair value change of financial liabilities in macro fair value hedge portfolios (+/-)	37,767	130,912
60. Tax liabilities	311,668	464,570
a) current	8,203	5,672
b) deferred	303,465	458,898
70. Liabilities associated with assets classified as held for sale	2,437	-
80. Other liabilities	6,161,191	3,797,227
90. Provisions for employee severance pay	343,298	369,498
100. Provisions for risks and charges	933,485	1,045,975
a) commitments and guarantees given	133,351	127,442
b) post-employment benefits and similar obligations	129,027	133,654
c) other provisions	671,107	784,879
120. Valuation reserves	350,294	310,412
140. Equity instruments	1,092,832	695,417
150. Reserves	4,021,905	4,112,500
170. Share capital	7,100,000	7,100,000
180. Own shares (-)	(8,321)	(14,002)
190. Non-controlling interests (+/-)	1,289	1,894
200. Profit (Loss) for the period (+/-)	361,317	20,880
Total liabilities and shareholders' equity	**198,530,146**	**183,685,182**

Consolidated income statement

Items	I half 2021	I half 2020
10. Interest and similar income	1,212,569	1,181,357
of which: interest income using the effective interest method	1,079,290	1,153,889
20. Interest and similar expense	(206,713)	(237,501)
30. Net interest income	**1,005,856**	**943,856**
40. Fee and commission income	1,008,454	865,493
50. Fee and commission expense	(62,153)	(60,900)
60. Net fee and commission income	**946,301**	**804,593**
70. Dividends and similar income	34,408	29,129
80. Net trading income	22,719	60,559
90. Fair value gains/losses on hedging derivatives	2,087	(8,855)
100. Gains (losses) on disposal or repurchase of:	(132,204)	38,992
a) financial assets at amortised cost	(144,858)	4,176
b) financial assets measured at fair value through other comprehensive income	13,384	34,697
c) financial liabilities	(730)	119
110. Net Gains (Losses) from other financial assets and liabilities measured at fair value through profit or loss	52,841	4,593
a) financial assets and liabilities designated at fair value	1,491	3,762
b) other financial assets mandatorily measured at fair value	51,350	831
120. Operating income	**1,932,008**	**1,872,867**
130. Net credit impairment losses/recoveries relating to:	(247,453)	(471,621)
a) financial assets at amortised cost	(247,191)	(470,290)
b) financial assets measured at fair value through other comprehensive income	(262)	(1,331)
140. Gains (losses) from contractual modification without derecognition	(2,222)	(1,001)
150. Net income from financial activities	**1,682,333**	**1,400,245**
180. Net income from financial and insurance activities	**1,682,333**	**1,400,245**
190. Administrative expenses:	(1,415,442)	(1,363,548)
a) personnel expenses	(847,793)	(815,403)
b) other administrative expenses	(567,649)	(548,145)
200. Net provisions for risks and charges	(12,805)	(7,614)
a) commitments and guarantees given	(6,234)	1,394
b) other net provisions	(6,571)	(9,008)
210. Depreciation and impairment losses on property, plant and equipment	(83,368)	(86,105)
220. Amortisation and impairment losses on intangible assets	(56,678)	(54,898)
230. Other operating expenses/income	186,906	157,362
240. Operating expenses	**(1,381,387)**	**(1,354,803)**
250. Gains (losses) of associates and joint ventures	98,079	70,302
260. Fair value gains (losses) on property, plant and equipment and intangible assets	(36,889)	(5,416)
280. Gains (losses) on disposal of investments	(437)	220
290. Profit (loss) before tax from continuing operations	**361,699**	**110,548**
300. Taxation charge related to profit or loss from continuing operations	(494)	(6,825)
310. Profit (loss) after tax from continuing operations	**361,205**	**103,723**
330. Net income (Loss) for the period	**361,205**	**103,723**
340. Profit (loss) for the period attributable to non-controlling interests	112	1,508
350. Parent Company's profit (loss) for the period	**361,317**	**105,231**
Basic EPS (euro)	0.239	0.070
Diluted EPS (euro)	0.239	0.070

Statement of Consolidated Comprehensive Income

Items	30/06/2021	30/06/2020
10. Profit (Loss) for the period	**361,205**	**103,723**
Other comprehensive income after tax without reclassification to the income statement	**122,173**	**(118,470)**
20. Equity instruments designated at fair value through other comprehensive income	(1,435)	(120,340)
30. Financial liabilities designated at fair value through profit and loss (changes to its own credit risk)	(6,932)	910
50. Property, plant and equipment	130,337	-
70. Defined benefit plans	137	946
90. Share of valuation reserves related to interests in associates and joint ventures carried at equity	66	14
Other comprehensive income after tax with reclassification to the income statement	**(82,176)**	**(20,181)**
100. Foreign investment hedges	314	(335)
110. Exchange rate differences	(781)	953
120. Cash flow hedges	(6,600)	5,643
150. Financial assets (other than equity instruments) measured at fair value through other comprehensive income	(71,282)	(25,742)
160. Share of valuation reserves related to interests in associates and joint ventures carried at equity	(3,827)	(700)
170. Total other comprehensive income after tax	**39,997**	**(138,651)**
180. Comprehensive income (Items 10+170)	**401,202**	**(34,928)**
190. Consolidated comprehensive income attributable to non-controlling interests	(112)	(1,508)
200. Consolidated comprehensive income attributable to the Parent Company	**401,314**	**(33,420)**

Statement of Changes of Consolidated Shareholders' Equity

30 June 2021	Balance as at 31/12/2020	Changes in opening balances	Balance as at 01/01/2021	Allocation of profit from previous year		Changes in the period									Shareholders' as at 30/06/2021	Group shareholders' equity as at 30/06/2021	Non-controlling interests as at 30/06/2021
							Operations on shareholders' equity										
				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	Comprehensive income for the period			
Share capital:	**7,101,310**	**-**	**7,101,310**	**-**		**-**	**-**	**-**					**(565)**		**7,100,745**	**7,100,000**	**745**
a) ordinary shares	7,101,310	-	7,101,310	-		-	-	-					(565)		7,100,745	7,100,000	745
b) other shares	-	-	-	-		-	-	-					-		-	-	-
Share premium reserve	**-**	**-**	**-**	**-**		**-**	**-**	**-**					**-**		**-**	**-**	**-**
Reserves:	**4,117,332**	**-**	**4,117,332**	**16,632**		**(16,872)**	**(4,059)**	**-**	**(90,544)**		**-**		**72**		**4,022,561**	**4,021,905**	**656**
a) retained earnings	3,796,621	-	3,796,621	16,632		(21,116)	(4,059)	-	(90,544)				72		3,697,606	3,696,948	658
b) other	320,711	-	320,711	-		4,244	-	-			-		-		324,955	324,957	(2)
Valuation reserves	**310,412**	**-**	**310,412**	**-**		**(115)**							**-**	**39,997**	**350,294**	**350,294**	**-**
Equity instruments	**695,417**	**-**	**695,417**							**397,415**					**1,092,832**	**1,092,832**	**-**
Own shares	**(14,002)**	**-**	**(14,002)**			**-**	**5,681**	**-**							**(8,321)**	**(8,321)**	**-**
Profit (Loss) for the period	**16,632**	**-**	**16,632**	**(16,632)**	**-**									**361,205**	**361,205**	**361,317**	**(112)**
Shareholders' equity	**12,227,101**	**-**	**12,227,101**	**-**	**-**	**(16,987)**	**1,622**	**-**	**(90,544)**	**397,415**	**-**		**(493)**	**401,202**	**12,919,316**	**12,918,027**	**1,289**
- of the Group	**12,225,207**	**-**	**12,225,207**	**-**	**-**	**(16,987)**	**1,622**	**-**	**(90,544)**	**397,415**	**-**		**-**	**401,314**	**12,918,027**		
- of non-controlling interests	**1,894**	**-**	**1,894**	**-**		**-**	**-**	**-**					**(493)**	**(112)**	**1,289**		

30 June 2020	Balance as at 31/12/2019	Changes in opening balances	Balance as at 01/01/2020	Allocation of profit from previous year		Changes in the period									Shareholders' equity as at 30/06/2020	Group shareholders' equity as at 30/06/2020	Non-controlling interests as at 30/06/2020
						Changes in reserves	Operations on shareholders' equity							Comprehensive income for the period			
				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:	**7,163,693**	**-**	**7,163,693**	**-**		**(37,944)**	**-**	**-**					**(10)**		**7,125,739**	**7,100,000**	**25,739**
a) ordinary shares	7,163,693	-	7,163,693	-		(37,944)	-	-					(10)		7,125,739	7,100,000	25,739
b) other shares	-	-	-	-		-	-	-					-		-	-	-
Share premium reserve	**-**	**-**	**-**	**-**		**-**	**-**	**-**					**-**		**-**	**-**	**-**
Reserves:	**3,490,528**	**-**	**3,490,528**	**781,437**		**(105,526)**	**(2,024)**	**-**	**-**		**-**		**1**		**4,164,416**	**4,164,082**	**334**
a) retained earnings	2,980,837	-	2,980,837	781,437		28,855	(2,024)	-	-				1		3,789,106	3,788,770	336
b) other	509,691	-	509,691	-		(134,381)	-	-			-		-		375,310	375,312	(2)
Valuation reserves	**164,830**	**-**	**164,830**	**-**		**134,113**							**-**	**(138,651)**	**160,292**	**160,298**	**(6)**
Equity instruments	**298,112**	**-**	**298,112**							**397,305**					**695,417**	**695,417**	**-**
Own shares	**(11,518)**	**-**	**(11,518)**			**-**	**1,419**	**(4,080)**							**(14,179)**	**(14,179)**	**-**
Profit (Loss) for the period	**781,437**	**-**	**781,437**	**(781,437)**	**-**									**103,723**	**103,723**	**105,231**	**(1,508)**
Shareholders' equity	**11,887,082**	**-**	**11,887,082**	**-**	**-**	**(9,357)**	**(605)**	**(4,080)**	**-**	**397,305**	**-**		**(9)**	**(34,928)**	**12,235,408**	**12,210,849**	**24,559**
- of the Group	**11,861,006**	**-**	**11,861,006**	**-**	**-**	**(9,357)**	**(605)**	**(4,080)**	**-**	**397,305**	**-**		**-**	**(33,420)**	**12,210,849**		
- of non-controlling interests	**26,076**	**-**	**26,076**	**-**		**-**	**-**	**-**					**(9)**	**(1,508)**	**24,559**		

Consolidated Cash Flow Statement

Indirect method

A. Operating activities	30/06/2021	30/06/2020
1. Cash flow from operations	**678,842**	**596,378**
- profit (loss) for the period (+/-)	361,317	105,231
- gains/losses on financial assets held for trading and on other financial assets/liabilities measured at fair value through profit and loss (-/+)	20,911	(68,500)
- capital gains/losses on hedging derivatives (-/+)	(2,087)	8,855
- net credit impairment losses/recoveries (-/+)	249,675	472,622
- net impairment losses/recoveries on property, plant and equipment and intangible assets (+/-)	140,046	141,003
- net provisions for risks and charges and other costs/revenues (+/-)	13,933	8,010
- net premiums not collected (-)		
- other insurance income/expenses not collected (-/+)		
- taxes, duties and tax credits not settled (+/-)	(6,874)	(541)
- net impairment losses/recoveries on discontinued operations net of taxes (-/+)		
- other adjustments (+/-)	(98,079)	(70,302)
2. Cash flow from/used in financial assets	**(3,205,971)**	**(12,817,768)**
- financial assets held for trading	531,813	(1,747,016)
- financial assets designated at fair value	-	-
- other financial assets mandatorily measured at fair value	(23,445)	29,905
- financial assets measured at fair value through other comprehensive income	(4,736,384)	(586,778)
- financial assets at amortised cost	1,681,862	(10,235,845)
- other assets	(659,817)	(278,034)
3. Cash flow from/used in financial liabilities	**14,191,796**	**11,877,493**
- financial liabilities at amortised cost	13,502,733	10,276,143
- financial liabilities held for trading	(1,515,277)	405,140
- financial liabilities designated at fair value	266,152	(74,599)
- other liabilities	1,938,188	1,270,809
Net cash flow from/used in operating activities	**11,664,667**	**(343,897)**
B. Investing activities		
1. Cash flow from:	**4,970**	**2,494**
- sales of interests in associates and joint ventures	-	-
- dividends collected on interests in associates and joint ventures		
- sales of property, plant and equipment	4,970	2,494
- sales of intangible assets	-	-
- sales of subsidiaries and business segments		
2. Cash flow used in:	**(90,953)**	**(117,116)**
- purchases of interests in associates and joint ventures	-	(50,740)
- purchases of property, plant and equipment	(35,026)	(20,055)
- purchases of intangible assets	(55,927)	(46,321)
- purchases of subsidiaries and business segments		
Net cash flow from/used in investing activities	**(85,983)**	**(114,622)**
C. Financing activities		
- issues/purchases of own shares	-	
- issues/purchases of equity instruments	372,040	384,180
- dividend distribution and other allocations	(90,544)	-
- third-party sales/purchases		
Net cash flow from/used in financing activities	**281,496**	**384,180**
Net cash flow from/used during the period	**11,860,180**	**(74,339)**

Reconciliation	**30/06/2021**	**30/06/2020**
- Cash and cash equivalents at the beginning of the period	8,858,079	912,742
- Net cash flow from/used during the period	11,860,180	(74,339)
- Cash and cash equivalents: foreign exchange effect		
Cash and cash equivalents at the end of the period	**20,718,259**	**838,403**

EXPLANATORY NOTES

These "Explanatory Notes" have been prepared with reference to the structure of the notes required by Bank of Italy Circular 262 for the financial statements, albeit with limited information, as these are consolidated condensed interim financial statements. For ease of reading, the numbering provided for in the aforementioned Circular has been maintained, although some parts, sections or tables may be omitted for the reasons explained above.

PART A – ACCOUNTING POLICIES

A.1 – GENERAL PART

General preparation principles

The Consolidated interim financial report (hereinafter also referred to as the "Report"), prepared in accordance with art. 154-ter of Italian Legislative Decree No. 58 of 24 February 1998 (TUF) and subsequent updates, consists of the consolidated condensed interim financial statements and the interim report on operations containing the significant events of the interim period and the outlook for business operations.

The consolidated condensed interim financial statements consist of the balance sheet, the income statement, the statement of comprehensive income, the statement of changes of shareholders' equity, the cash flow statement and the explanatory notes.

The financial statements have been prepared in keeping with the provisions of the Bank of Italy in Circular no. 262 of 22 December 2005 "Bank financial statements: layouts and rules for preparation" and the subsequent updates (most recently, the sixth update published on 30 November 2018). Specifically, this was a Circular issued by the Bank of Italy in exercising its powers established by the above-mentioned Legislative Decree 38/2005 (hereinafter also referred to as "Circular no. 262"). The communication dated 15 December 2020 entitled "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 and amendments to the IAS/IFRS" was also taken into consideration.

The financial statements provide not only the accounting data as at 30 June 2021, but also the comparative balances relating to the same period in the previous year, with the exception of the balance sheet, which is compared with the last financial statements approved as at 31 December 2020.

The Consolidated condensed interim financial statements, approved by the Board of Directors of Banco BPM on 5 August 2021, are subject to a limited audit by independent auditors PricewaterhouseCoopers S.p.A., in application of the engagement assigned to this company with the shareholders' resolutions of Banco Popolare Soc. Coop. and Banca Popolare di Milano S.c. a r.l. of 15 October 2016.

This document has been prepared adopting the euro as its main currency; the amounts are stated, unless otherwise specified, in thousands of euro.

Statement of compliance with the international accounting standards

These consolidated condensed interim financial statements as at 30 June 2021 have been prepared in accordance with IAS/IFRS issued by the International Accounting Standard Board (IASB) and related interpretations of the International Financial Reporting Interpretations Committee (IFRIC), endorsed by the European Union, as established by EU Regulation no. 1606 of 19 July 2002.

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 consolidated condensed interim financial statements are those in force on 30 June 2021 (including the SIC and IFRIC interpretations).
For an overview of the accounting standards and the related interpretations endorsed by the European Commission, whose application is planned for 2021 or future years, please refer to the following paragraph "New accounting standards/interpretations or amendments to existing standards approved by IASB/IFRIC", which also illustrates any impacts for the Group.

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.

The accounting standards used for the preparation of the consolidated condensed interim financial statements are those adopted for the preparation of the consolidated financial statements as at 31 December 2020, to which reference should be made for an explanation of the criteria for the recognition, classification, measurement, derecognition and recognition of income components relating to the items in the financial statements.

With reference to the disclosure provided, please note that the consolidated condensed interim financial statements as at 30 June 2021 were drafted in summary form, in compliance with the provisions of IAS 34 “Interim financial reporting”.

The consolidated condensed interim financial statements as at 30 June 2021 have been prepared on a going concern basis, as the directors, in light of the main economic and financial indicators, have a reasonable expectation that the Group will continue to operate in the foreseeable future.

The consolidated condensed interim financial statements are drawn up clearly and provide a true and fair view of the equity and financial situation and economic result of Banco BPM and its subsidiaries as at 30 June 2021, as illustrated in the paragraph “Scope of consolidation and methods”.

Significant accounting policies and uncertainties regarding the use of estimates in the preparation of consolidated condensed interim financial statements in the context of the Covid-19 pandemic

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 balance sheet and the disclosures made on contingent assets and liabilities.
The assumptions underlying the estimates made take into account all the information available at the date of preparation of the interim financial report as at 30 June 2021, as well as assumptions considered reasonable in light of historical experience.
Due to their nature, it thus cannot be excluded that the assumptions adopted, however reasonable, might not be confirmed by future scenarios in which the Group will operate.
The results, which will be achieved in the future could therefore differ from the estimates made for the purpose of drawing up this report and could consequently make adjustments necessary, which at present cannot be foreseen or estimated with respect to the book value of the assets and liabilities recorded in the financial statements.
In that regard, note that it may be necessary to adjust the estimates as a result of changes in the underlying circumstances, following new information or increased experience.
The accounting policies considered most critical for giving a faithful representation of the Group’s equity, economic and financial situation, both in terms of the materiality of the values recognised in the financial statements affected by such policies and the high level of judgement required for assessments entailing the use of estimates and

assumptions by the management, are illustrated below with reference to the specific sections of the Notes to the financial statements for detailed information on the assessment processes conducted as at 30 June 2021. The following analysis on the most important accounting policies will also include the main aspects of uncertainty relating to the Covid-19 pandemic that are able to influence financial statement valuations, and are the subject of a more in-depth disclosure in the paragraph below entitled "Risks, uncertainties and impacts of the Covid-19 pandemic".

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

With regard to loans for which objective impairment losses have not been identified singularly, namely performing loans, the impairment model, based on expected losses, requires adequate monitoring systems to be implemented to identify the existence or otherwise of significant impairment with respect to the initial date of recognition of the exposure. The IFRS 9 impairment model requires that losses be determined with reference to the time horizon of one year for financial assets that have not suffered a significant deterioration in their credit risk with respect to initial recognition (Stage 1) rather than with reference to the entire life of the financial asset if a significant deterioration is found (Stage 2).

On the basis of the above, it follows that losses on receivables must be recorded with reference not only to the objective evidence of impairment already seen at the reporting date, but also on the basis of expectations of future impairment losses not yet evident, which must be reflected:

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

This means that calculating expected losses is a complex exercise that requires a substantial level of judgement and estimation, which has become even more evident given the uncertainties surrounding the development of the Covid-19 pandemic and the related containment measures. More 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 an 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, primarily addressed to incorporating the effects on credit quality of the Covid-19 pandemic, please refer to the content of the specific paragraph "Measurement of expected loss" contained in "Part E - Information on risks and related hedging policies" of these Notes.

Given the above, it cannot be excluded that alternative monitoring criteria or different methodologies, parameters or assumptions in determining the recoverable value of the Group's credit exposures - influenced, however, also by possible alternative strategies for their recovery approved by the competent corporate bodies as well as by the evolution of the economic and financial context and reference regulations - may result in valuations different from those conducted for the purposes of the preparation of the consolidated condensed interim financial statements as at 30 June 2021.
It is precisely in the current market environment, characterised by unprecedented phenomena, such as the support measures enacted by domestic and supranational governments, in which it is deemed that the estimation models and criteria should be most exposed to a continuous updating process, with a view to factoring in the expected effects of such phenomena.

Lastly, it is necessary to highlight that, as set forth in the Interim Report on Operations, to which reference is made for further details, in the second quarter of 2021 an ECB inspection began on credit and counterparty risk regarding the asset quality review with respect to real estate companies and companies with guarantees represented by commercial real estate ("CRE - Commercial Real Estate" portfolio), the verification of the commercial real estate repossessed by the Group subject to registration "Foreclosed Assets"), the assessment of the correlated processes and supporting management procedures. At the date of this Interim financial report, the above-mentioned inspection is still ongoing; therefore, it is not possible to exclude that new information items unknown at the reporting date may emerge as a result of the audit activities by the Supervisory Body, to be considered for the valuation of CRE credit exposures.

Estimating impairment losses in relation to goodwill, intangible assets with an indefinite useful life and interests in associates and joint ventures
Pursuant to IAS 36, all intangible assets with an indefinite useful life must undergo impairment testing at least once a year to verify the recoverability of their value. In addition, the standard establishes that the results of the annual test may be considered valid for subsequent tests, provided that the probability, which the recoverable value is less than the book value of the intangible assets, is considered remote. This opinion may be based on the analysis of the events, which have occurred, and the circumstances, which have changed subsequent to the most recent annual impairment test.
Based on the provisions of this standard, Banco BPM Group has chosen to carry out an impairment test on intangible assets with an indefinite useful life as at 31 December each year: the results of this test can be considered valid for subsequent interim situations, unless evidence was to emerge that would require an impairment test to be carried out in advance to ascertain the recoverability of the value of these intangible assets with an indefinite useful life.
As at 30 June 2021, the Group's intangible assets with an indefinite useful life amounted to 558.8 million euro and were represented by 51.1 million of goodwill attributable to the "Bancassurance Protection" CGU, 504.3 million of trademarks recognised following the business combination with the former Banca Popolare Italiana Group (222.2 million) and the former BPM Group (282.1 million) and 3.5 million for the provisional allocation of the cost of the business combination relating to the acquisition of control of the company Oaklins Italy S.r.l., finalised in May 2021.
As described in the section "Intangible assets – Item 100" set forth in "Part B – Information on the Consolidated Balance Sheet" of these Notes, to which reference is made for further details, for assets with an indefinite useful life represented by trademarks and goodwill, in line with what is set forth in IAS 36, in the first half of the year an analysis was performed to exclude any existence of impairment indicators, such so as to call into question the recoverability of the relative carrying amounts. For goodwill relating to the Protection CGU, taking into account the approval of the new plans for the years 2021-2023 by the company Vera Assicurazioni, a formal impairment test was conducted, which confirmed the recoverability of the carrying amount of the above-mentioned CGU.

In this regard, it should be noted 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 appreciate any stability of the recoverable amount with respect to alternative assumptions and situations, please refer to the disclosure set forth in the Annual financial report as at 31 December 2020.

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, reference should be made to the contents of these Explanatory Notes, "Part A.4 – Fair value disclosures".

Estimating the recoverability of deferred tax assets

The Group has significant Deferred Tax Assets (DTA) among its significant assets, mainly deriving from temporary differences between the income statement recognition date of given business costs and the date when said costs may be deducted, and also 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 purposes and a “net negative value of production” for IRAP 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 forecast taken from approved strategic plans and projections, also considering that, for IRES purposes, tax regulations permit tax losses to be carried forward without any time limit. This judgement is a complex exercise (“probability test”), particularly if it regards DTAs on tax losses carried forward, the very existence of which could indicate the fact that there will not be sufficient taxable income in the future for their recovery. Based on the provisions of IAS 12 and on the considerations of the ESMA in a document dated 15 July 2019, the above judgement of recoverability requires a careful recognition of all evidence supporting the probability of having sufficient taxable income in the future, also considering the circumstances that generated the tax losses, which must be linked to clearly identified causes, deemed not repeatable in the future on a recurring basis. In order to take into account the uncertainties of the macroeconomic scenario and the potential repercussions on the estimate of taxable cash flows, particularly evident in the context of the Covid-19 crisis, the probability test was carried out, in line with that carried out for the 2020 financial statements, using the "Risk-adjusted profit approach", i.e. discounting the forecasts of future taxable income on the basis of a corrective factor that is expressive of a specific risk, consistent with the risk premium used for the impairment test of intangible assets with an indefinite useful life, which pushes further back the time period of the estimate of taxable income flows. 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, the estimation of future taxable income was conducted on the basis of a multi-scenario approach. In this regard, note that the use of said multi-scenario approach was necessary insofar as Covid-19 rendered the forecasts and the objectives of the Business Plan announced to the market 3 March 2020, no longer current, and that a new edition of the Plan is expected to be issued in the next few months, taking the evolution of the pandemic context into account, which will enable three-year forecasts to be made based on new and updated macroeconomic and sector-based assumptions.

The section "Tax assets – Item 110 and Item 130 of assets", contained in "Part B – Information on the consolidated balance sheet" of these Explanatory Notes, describes the activities carried out to verify the recoverability of deferred tax assets.

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 is 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 "Liabilities provisions – Items 90 and 100" contained in "Part B – Information on the consolidated balance sheet" of these Explanatory Notes, which also provides an illustration of the risks and uncertainties associated with the reporting of customers interested in buying diamonds to the specialist company Intermarket Diamond Business S.p.A., carried out for nearly all of the years from 2003 to 2016.
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 the section “Liabilities provisions - Liability Item 90 and Item 100” contained in “Part B - Information on the Consolidated Balance Sheet” of these Notes.

<u>Determination of the fair value of property</u>
It should be noted that, starting from the 2019 financial statements, the Group has changed the method of valuing property assets from cost to fair value for property held for investment purposes (IAS 40) and restated value for properties for business purposes, or those used for administrative and commercial activities (IAS 16). The update of the values is based on a dedicated appraisal issued by a leading company, 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. For properties used in operations, it is possible to update the fair value 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, or on the distinctive characteristics of certain properties.
In the preparation of this Report, it was considered that the evolution recorded in the property market during the first half of the year was not such as to require an update with respect to previous valuations, except for a limited number of property units, for the most part of significant size, which represent roughly 70% of the total properties held for investment purposes. For this last scope of real estate, it was necessary to review the assumptions underlying the previous estimates in order to reflect: i) the evolution of specific sectors of the real estate market, like the office property sector, also in the wake of Covid-19, ii) the lease status of the property, on the basis of negotiations either completed or under way with the tenant.

For the above-cited perimeter, the fair value is determined by using specific appraisals drawn up by qualified, independent experts. Given the array of possible valuation approaches permitted by the international accounting

[1] Standards set out in the “RICS Valuation – Global Standard 2017” of the Royal Institution of Chartered Surveyors of the United Kingdom (also known as the “Red Book”).

standards IAS/IFRS to determine the fair value, the use of a valuation methodology or the selection of certain estimative parameters may have a significant influence on the determination of the fair value of these assets, also considering the specific nature and distinctive characteristics of the asset to be valued. Margins of subjectivity are also present when identifying the perimeter of property for which the appraisals need to be updated, based on the ability to capture significant changes in value.

Lastly, at present it cannot be excluded that the change in the reference scenarios in the real estate market of interest for the Group, also as a result of the repercussions of the current pandemic, may not have a negative impact on the recoverable value of the Group's properties.
For further details, please refer to the section "Property, plant and equipment – Item 90" contained in "Part B – Information on the consolidated balance sheet" of these Explanatory Notes.

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 valuation 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.

The main actuarial assumptions used by the Group as at 30 June 2021, compared with those used as at 31 December 2020, are given below:

Demographic assumptions	**30/06/2021**	**31/12/2020**
Employee mortality rate	IPS55 with Age-Shifting. Demographic basis for annuity insurance	
Frequency and amount of advances on employee severance pay	0.5%	0.5%
Frequency of turnover	1.50%	1.50%

Financial assumptions	**30/06/2021**	**31/12/2020**
Yearly discounting rate (*):	weighted average of the rates in the Eur Composite AA curve depending on the plan	
	from 0.01% to 1.59%	from -0.04% to 0.72%
Yearly inflation rate (**)	weighted average of the rates in the European *Zero-Coupon Inflation-Indexed Swap* curve as at 30.06.2021:	
	1.60%	1.10%

(*) weighted average of the rates of the Eur Composite AA curve as at 30.06.2021, using as weights the ratio 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 equal to 1.60%, taken as the weighted average of the rates of the European Zero-Coupon-Inflation-Indexed Swap curve as at 30.06.2021, using as weights the ratio 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 the Banco BPM Group).

Risks, uncertainties and impacts of the Covid-19 pandemic

Among the main factors of uncertainty that could affect the future scenarios in which the Group will operate, the negative effects on the global and Italian economy directly or indirectly related to the Coronavirus pandemic (Covid-19) must be considered.
More than one year after the start of the health emergency, the spread of the Covid-19 pandemic and its implications for public health, economic activity and commerce continue to significantly influence the markets in which the Group operates.
Despite the cautious optimism resulting from the ongoing vaccination campaign, although with a few unknowns linked to the development of virus variants, elements of uncertainty remain on how production activities will be able to resume after the events characterising the year 2020 and, to a more limited extent, the current year as well. This resumption, aside from being influenced by the evolution of the pandemic, will also depend on the effectiveness and extension over time of the expansionary measures supporting the income of households and businesses, lending to the economy and market liquidity undertaken by the competent authorities (governments, ECB, European Union) in response to the health crisis, which however will make intercepting the signs of credit deterioration even more complex.

The vision being consolidated at the date on which the Interim financial report was drafted is that the virus containment measures and the various public interventions put into place will be such so as to allow for a gradual recovery of production activities, which are expected to reach pre-crisis levels by the end of 2022. Indeed, after the sharp drop in Italian GDP in 2020, a trend reversal is expected, with a robust recovery for 2021, the estimates of which tend to converge within a narrow range of values; the recovery is also expected to continue in 2022, although at the date on which this Report is being drafted there is a greater range of estimates concerning that recovery, which will depend on developments in expansionary monetary policy which could decline in the event of tensions on the inflationary front and implementations of the National Recovery and Resilience Plan by the government to relaunch the post-pandemic phase. For further details on the macroeconomic projections used for this Interim financial report, please refer to what is described in the paragraph "Methods for measuring IFRS 9 expected losses for financial reporting purposes" contained in the section on credit risk in "Part E - Information on risks and related hedging policies" of these Explanatory Notes.
In light of what is illustrated above, as long as the crisis scenario and national and European interventions do not take on more defined contours, the inclusion of the effects of Covid-19 in budgetary estimates will be a particularly complex exercise, as these effects will depend on a number of variables that cannot be predicted to date, if not with a certain margin of uncertainty.

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

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

Authority/Document Type	Date	Title
International Accounting Standards Board (IASB)		
Statement	27/03/20	IFRS 9 and Covid-19. Accounting for expected credit losses applying IFRS 9 Financial instrument in the light of current uncertainty resulting from the covid-19 pandemic
European Central Bank (ECB)		
Communication	20/03/20	ECB Banking Supervisor provides further flexibility to banks in reaction to coronavirus
ECB letter	01/04/20	IFRS 9 in the context of the coronavirus (Covid-19) pandemic
ECB letter	04/12/20	Identification and measurement of credit risk in the context of the coronavirus (Covid-19) pandemic
European Banking Authority (EBA)		
Statement	25/03/20	Statement on the application of the prudential framework regarding Default, Forbearance and IFRS 9 in the light of Covid-19 measures
Guideline	02/04/20	Guideline on legislative and non-legislative moratoria on loan repayment applied in the light of the Covid-19 crisis (EBA/GL/2020/02)
Guideline	25/06/20	Guidelines amending Guidelines EBA/GL/2020/02 on legislative and non legislative moratoria on loan repayments applied in the light of the Covid-19 crisis (EBA/GL/2020/08)
Guideline	02/12/20	Guidelines amending Guidelines EBA/GL/2020/02 on legislative and non legislative moratoria on loan repayments applied in the light of the Covid-19 crisis (EBA/GL/2020/15)
Guideline	02/06/20	Guidelines on reporting and disclosure of exposures subject to measures applied in response to the Covid-19 crisis (EBA/GL/2020/07)
European Securities and Market Authority (ESMA)		
Recommendation	11/03/20	ESMA recommends action by financial market participant for Covid-19 impact
Statement	25/03/20	Accounting implication of the Covid-19 outbreak on the calculation of expected credit losses in accordance with IFRS 9 (ESMA32-63-951)
Statement	20/05/20	Implication of the Covid-19 outbreak on the half-yearly financial reports (ESMA32-63-972)
Statement	28/10/20	European common enforcement priorities for 2020 annual financial reports (ESMA32-63-1041)
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

Authority/Document Type	Date	Title
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

In this regard, during the first half of 2021 there were no further interventions by the Authorities and standard setters beyond the considerations already formulated in 2020, which still remain valid. As a result, the classifications and measurements were carried out in continuity with the 2020 financial statements, to which reference is made for a more detailed examination of the regulatory interventions and the relative methods of application by the Group, without prejudice to any new elements and refinements introduced by the Group in the first half of 2021, as described below.

Moratoria measures and relative classification

With a view to supporting counterparties impacted by the suspension or limitation of business activities as a result of the Covid-19 crisis, the Group has provided a range of support measures for households and businesses, by virtue of what is set forth in the government interventions as well as on the basis of bilateral initiatives also falling within the scope of the Italian Banking Association agreements, including the suspension of payments and/or extension of maturities on outstanding loans ("moratoria").
Within this context, please note that for the classification of the moratoria granted from March 2020 to November 2020, the Group has relied on the "temporary framework" introduced by the guidelines published by the EBA on 2 April 2020, which calls for an exemption from the assessment of financial difficulty ("forbearance") for those measures linked to "general payment moratoria", as illustrated in the consolidated financial statements as at 31 December 2020, which should be referred to for additional details. In this regard, it should be recalled that although the above-mentioned EBA guidelines were extended to 31 March 2021 - provided the total suspension period granted under the general moratoria does not exceed nine months - the Banco BPM Group prudentially reactivated as of November 2020 the ordinary process to assess the status of financial difficulty, with a view to ascertaining whether the requirements to classify the exposure as forborne were met.
Specifically, the financial difficulty assessment was made necessary for all requests for the extension of moratoria received in the first half of 2021, pursuant to the Sostegni bis Decree, amounting to roughly 4.3 billion. In this regard, please note that on 26 May 2021 Decree Law no. 73 of 25 May 2021 ("Sostegni bis Decree") came into force, which in Art. 16 established the possibility for businesses already admitted to the moratoria - pursuant to Art. 56, paragraph 2 of Decree Law no. 18 of 17 March 2020 ("Cura Italia Decree") - at the date of entry into force of the Sostegni bis Decree, to request an extension until 31 December 2021 from the bank by 15 June 2021. Therefore, the Group took the necessary actions to properly address requests for extensions from customers based on actual requirements. At the same time, a specific framework was introduced to assess financial difficulty (forbearance) according to a risk-based approach, also taking into account the significance of the exposure to be evaluated.
At 30 June 2021, the loans concerned by the Covid-19 support measures (moratoria) not yet expired amounted to 9.7 billion, equal to roughly 9% of the performing loans to customers, and are linked for approximately 98% to forbearance compliant with the EBA guidelines (EBA/GL/2020/02).
Such exposures are around 36% classified under "Stage 2" exposures, also following the application of forbearance rules (representing approximately 69% of the exposures classified in "Stage 2").
Taking into consideration the moratoria expiring in July 2021, the loans concerned by the moratoria still active at 31 July 2021 amounted to 4.9 billion, of which roughly 4.3 billion represented by loans subject to extensions pursuant to the Sostegni bis Decree, as described above.

For further quantitative details on the credit quality of loans subject to the Covid-19 support measures, please refer to the table "4.4a Loans at amortised cost subject to Covid-19 support measures: gross value and total value adjustments" contained in section "Financial assets at amortised cost – Item 40" in Part B - Assets of these Notes.

Measurement of expected losses on credit exposures

For the purposes of measuring expected losses on credit exposures, the various competent authorities (ECB, EBA) and the IASB highlighted the need to incorporate the deterioration in the economic situation caused by the Covid-19 scenario but, at the same time, given the situation of uncertainty, pointed out the need to take advantage of the flexibility margins provided for by IFRS 9. Said margins would allow - where there is no supporting evidence for macroeconomic forecasts - expected losses to be estimated by giving a greater weight to past information on long-term macroeconomic forecasts. In addition, where reasonable estimates are available, the Authorities highlighted the need for expected losses to be able to reflect the positive effects of the support measures granted by the public sector.
In more detail, the IASB in its document of 27 March 2020 did not introduce any amendment to IFRS 9 but stated that, using the elements of judgement allowed by that standard, an entity should adjust the approach used to determine expected losses in accordance with new and different circumstances, without applying the existing methodology mechanically. While being aware of the difficulty of this estimation exercise, the IASB noted that the quantification of expected losses must take into account historical, current and prospective information and accepted the possibility of resorting to post-model overlays or adjustments, if the models are not able to fully reflect the effects of the Covid-19 crisis and related government support measures.
In order to improve comparability between banks and avoid pro-cyclical effects, the ECB also recommended that the macroeconomic projections published on a regular basis by the ECB be considered as a reference point for model calibration. In particular, taking into account the uncertainty of the context and the difficulty of formulating reasonable and demonstrable forward-looking forecasts on the impact of Covid-19, the ECB encouraged banks to give greater weight to long-term forecasting expectations, considering all historical evidence covering one or more entire economic cycles and to use the macroeconomic projections published over time for the inclusion of "forward-looking" factors in the estimation of expected losses, also with a view to promoting consistency amongst banks.
Finally, ESMA specified that sovereign State guarantees, provided in conjunction with moratoria or other support measures, should be taken into account when measuring expected losses. In this regard, it made reference to the "Transitional Resource Group for Impairment" document of December 2015, according to which in order to measure expected losses the exposure guarantee does not need to be explicitly established in the contractual clauses.

This being stated, to calculate expected losses on performing credit exposures as at 30 June 2021, the macroeconomic scenarios were updated on the basis of the information provided by a leading provider, referring to the month of March 2021 and available in May 2021, based on three different scenarios ("baseline", "adverse" and "favourable"), as approved by a specific Scenario Council of Banco BPM, based on the Group policy. Such projections were compared with the most recent scenarios published by the competent institutions/external providers in May and June 2021, including those published by the ECB and the Bank of Italy on 10 and 11 June 2021, respectively, which however could not be punctually reflected in the calculation of expected losses as at 30 June 2021 as the above-mentioned publication timing was deemed incompatible with the closing process for the drafting of this report.
The inclusion of improvement trends recorded by market consensus, particularly with reference to GDP, was however factored in by means of an adjustment in the probability of occurrence of the favourable scenario, with respect to the original estimate, which rose from 20% to 25%. In more detail, the base scenario - to which a greater probability of occurrence was attributed equal to 50% - was placed alongside a favourable scenario and an adverse scenario, each assigned a probability of 25%.

Furthermore, in the first half of 2021, with a view to more accurately reflecting the expected losses resulting from the economic disruption caused by Covid-19 and to avoid any effects of unexpected shocks (known as the "cliff effect"), the process of revising the models and fine tuning the models in use continued, also by post model adjustments, which in part confirm what was already adopted in the assessment of loans as at 31 December 2020.
In this regard, please recall that, as of 30 June 2020, the inclusion of forward-looking economic scenarios - for the estimation of the multi-period probability of default (Lifetime PD) - previously based on "satellite models" developed internally - took place through "satellite models" that are not proprietary (also referred to as "vendor models"), able to link the macroeconomic forecasts to the rates of default related to the Italian banking system, differentiated on the basis of the specific economic sectors in which the Group operates. Recourse to these models was necessary as Covid-19 required the availability of a sufficient level of granularity by economic sector of borrowers ("geo-sectorial" approach) to take into account the significantly different impact of the crisis on the various economic sectors, which proprietary models were not able to guarantee.

In the first half of 2021, new satellite models were developed on the basis of the Banco BPM default rates, differentiated based on the various sectors of economic activity, with a view to being able to have all assessment elements available internally to be used to determine risk parameters. Specifically, these models were introduced for those economic sectors in which it was deemed that there was no significant impact ensuing from the government measures; these are in particular those sectors for which the incidence of moratoria was lower than a conventional established threshold of 15%, determined based on the average incidence of the active moratoria as at 31 March 2021 for the non-financial corporation sector. For the sectors more impacted by the crisis, it was instead deemed appropriate to continue with the vendor model, which was considered more suitable to evaluate the current and forward-looking consequences on the risk parameters of the government's support measures (moratoria and state guarantees).

With reference to staging criteria, for counterparties belonging to the Small Business and Private Customers segment, which showed an improvement in their stages- from Stage 2 to Stage 1- due exclusively to the government's support measures, from a conservative perspective and in line with what was already done in the 2020 financial statements, a managerial correction of the results of the model was made, returning the position to Stage 2 ("backward-looking" approach).
In addition, in the first half of 2021, for automatic classification in Stage 2, a backstop rule was introduced, in order to intercept positions that from the credit origination date to the reporting date have shown an annualised increase in the lifetime PD of at least 3x, with a minimum threshold of derogation on the PD at the reference date corresponding to 0.30% ("threefold increase"). As at 30 June 2021, therefore, all relationships with an increase in the annualised lifetime PD of 3x with respect to that existing at the relationship origination date are classified in Stage 2, with the exception of those relationships which at the reference date have an annualised lifetime PD of lower than 0.30%.
Specific prudential interventions for classification in Stage 2 were also performed for those exposures which requested an extension of the moratoria to 31 December 2021, by virtue of what is set forth in the Sostegni bis Decree, described previously. This intervention is additional to what was already described with reference to the financial difficulty assessment ("forbearance"), which implied classification in "Stage 2", as it was deemed to express a significant increase in credit risk.

Additional interventions carried out in the first half of 2021 also regarded the calculation of risk parameters relating to structured finance transactions (Income Producing Real Estate, Real Estate Development, Project Financing e Leveraged & Acquisition Finance), for which a specific model was developed to best evaluate the specific features, whose losses derive in large part from the business plans underlying the individual transaction.

Lastly, in line with what was done for the 2020 financial statements, the calculation of expected losses as at 30 June 2021 evaluated the credit support actions introduced by the Italian Government towards businesses and households, through the banking system, in favour of which first application guarantees on loans granted to businesses are provided (art. 13 of the Liquidity Decree) rather than subsidiary guarantees on 33% of the suspended instalments (art. 56 of the Heal Italy Decree). In more detail, to calculate expected losses, the cash flows resulting from the enforcement of the above-cited state guarantees were taken into account.

Overall, the interventions described above, along with portfolio movements, entailed an increase in the Group's credit exposures classified in "Stage 2" with respect to the beginning of the year. As highlighted in the Interim report on operations (particularly the section on results), for the portfolio represented by loans to customers, gross exposures classified in "Stage 2" as at 30 June 2021 amount to 11.3 billion (10.67% of total performing exposures), up by 4.1 billion compared to the start of the year (when they totalled 6.82% of all performing exposures).
The total coverage of performing loans came out at 0.44%, substantially aligned with 31 December 2020. In detail, the average coverage of "Stage 2" exposures was 3.01%, compared to 4.32% on 31 December 2020.
In this regard, it is necessary to specify that the above-mentioned coverage could however be significantly influenced by any different developments of the pandemic with respect to that estimated on the reporting date, also with regard to the effectiveness of the government support measures.

For further details on the revisions introduced during the first half of 2021 to the calculation of impairment losses on loans and on the update of macroeconomic forecasts according to a multi-scenario approach, please refer to the paragraph "Methods for measuring IFRS 9 expected losses for financial reporting purposes" contained in the section on credit risk in "Part E - Information on risks and related hedging policies" of these Notes.

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

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The list of valuation processes shown above is included simply to provide readers with a better understanding of the main areas of uncertainty, and it should in no way be considered as implying that, to date, alternative assumptions can prove more appropriate.
In any event, as illustrated above, in order to allow for an appreciation of the effects on the financial statements related to the aforementioned factors of uncertainty, exacerbated by the ongoing Covid-19 pandemic, in these Notes information for some of 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) the disclosure of the main hypotheses and assumptions used in the estimate, as well as a sensitivity analysis with respect to alternative assumptions, is provided in the specific sections.

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 Interim Financial Report as at 30 June 2021 have been prepared on the going concern assumption: the Directors do not believe that risks and uncertainties have emerged, that cast doubt on its ability to continue as a going concern. The Directors have considered that the Group is reasonably expected to continue to operate for the enforceable future; therefore, the consolidated condensed interim 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, which could reasonably have negative repercussions on the company's future results; nevertheless, said impact was not retained sufficient to cast doubt on the going concern, also considering the Group's current and prospective solidity in terms of its capital and financial structure.

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

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

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

IAS/IFRS accounting standards and related SIC/IFRIC interpretations endorsed that must be applied when preparing this Interim Financial Report

<u>Regulation (EU) no. 2097 of 15 December 2020 – "Extension of the Temporary Exemption from Applying IFRS 9" - Amendments to IFRS 4</u>
The Regulation envisages an amendment to IFRS 4 to avoid potential temporary accounting problems resulting from the difference between the effective date of IFRS 9 *Financial Instruments* and the effective date of IFRS 17 *Insurance Contracts*. More specifically, the amendments to IFRS 4 extend the term of the temporary exemption from the application of IFRS 9 to 2023 to align the effective date of IFRS 9 with the new IFRS 17. Direct impacts on the Group are not expected, as it does not carry out insurance activities.

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

The Regulation in question represents the second stage of the Ibor interest rate reform project (Interest Rate Benchmark Reform – *Ibor Reform*), with which several amendments were introduced retained necessary to manage the accounting impacts resulting from the actual replacement of the rates.

As concerns the first phase of the Reform, introduced with Regulation (EU) no. 34 of 15 January 2020 – "Interest Rate Benchmark Reform", please refer to the disclosure provided in the Annual Financial report as at 31 December 2020.

The purpose of the amendments introduced with Phase 2 is to provide practical expedients to minimise the effects of the replacement of the benchmark rates, with specific reference to the accounting treatments of the modifications of contractual flows of financial instruments and of lease agreements and those related to the management of active hedges, with a view to permitting their continuation.

With reference to the first aspect, a practical expedient is proposed based on which if modifications in interest rates are carried out as a direct consequence of the IBOR Reform and on an economically equivalent basis with respect to the previous rates, they must entail a prospective adjustment of the effective interest rate, just like a revision in the variable interest rate.

As concerns hedge accounting, several exceptions were introduced to IAS 39 and IFRS 9 intended to prevent the termination of the hedging relationship as a result of the update in the documentation concerning such relationship - modification of hedged risk, the hedged item, the hedging derivative, the method for evaluating hedge effectiveness - for those modifications considered to be a direct consequence of the IBOR reform and carried out on an economically equivalent basis with respect to the previous rates. The above-mentioned updates must be made by the end of the year during which a modification imposed by the IBOR reform took place.

Lastly, a specific qualitative and quantitative disclosure is also required on the nature and risks to which the entity is exposed deriving from financial instruments connected to the IBOR Reform, the way such risks are managed, as well as the progress of the entity in the transition to the new alternative reference rates.

For modifications correlated with the replacement of IBOR rates which meet the requirements set forth by the regulation in question, no impacts are expected for the Banco BPM Group, considering that the amendments introduced by the regulation in question aim to minimise the accounting effects of the interest rate reform.

For a full review of the IBOR reform phase 2 in terms of:

- project activities undertaken by the Group and quantitative disclosure, please refer to what is specifically described in the section "Project activities and technological investments: IBOR's Transition – Benchmark rate transition" in the Group's Interim report on operations;
- risks correlated with its introduction, please refer to the section "Risks consequent to the reform of benchmark indices" contained in Part E - "Information on risks and related hedging policies".

IAS/IFRS accounting standards and endorsed SIC/IFRIC interpretations, the application of which takes effect after 30 June 2021

The standards or the amendments whose application starts after 30 June 2021, and for which the Group, where envisaged, had not opted for early application, are illustrated below.

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

On 14 May 2020, the IASB approved a number of limited amendments to certain standards (IFRS 3, IAS 16 and IAS 37), as well as the annual improvements cycle of certain standards (IFRS 1, IFRS 9, IAS 41 and the illustrative examples to IFRS 16) aimed at correcting oversights or conflicts between standards.

The amendments to IAS 16 prohibit an entity from deducting from the cost of a tangible asset all income deriving from the sale of the items produced in the period during which that 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 an entity needs to include in determining the "cost of fulfilling" a contract in order to evaluate whether that contract is onerous, or only those directly referring to the contract.

The amendment to IFRS 3, determined in turn by an amendment to the Conceptual Framework, provides an exception to the recognition of liabilities and "contingent" liabilities within IAS 37 and IFRIC 21.

The amendments are applicable from 1 January 2022. Given the content of the amendments in question, in light of assessments under way, no impacts for the Group are envisaged.

IAS/IFRS accounting standards and 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.

IFRS 17 "Insurance Contracts" and Amendments to IFRS 17
On 18 May 2017, the IASB issued the new accounting standard IFRS 17 governing policies issued by insurance companies, which was expected to be applied from 1 January 2021. On 15 November 2018 the IASB itself proposed deferment of the entry into force of the standard to 1 January 2022 with the simultaneous extension until 2022 of the temporary exemption from the application of IFRS 9 granted to insurance companies, so that IFRS 9 and IFRS 17 could be applied at the same moment.
On 25 June 2020, an amendment to IFRS 17 was issued, which did not affect the basic principles but is an aid to its implementation and simplification in the disclosure of financial performance. The amendment also postponed the first-time adoption of IFRS 17 until 1 January 2023. There are no direct impacts for the Group as it does not carry out insurance activities.

Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"
On 23 January 2020, the amendment to IAS 1 "Classification of current and non-current liabilities" was issued by the IASB; on 3 June 2020 the IASB approved the deferral of the amendments to 1 January 2023, initially scheduled for 2022. This amendment clarifies that the classification of liabilities between current and non-current depends on the rights existing at the end of the reporting period.

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

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

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

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

Amendments to IFRS 16 "Covid-19 Related Rent Concessions beyond 30 June 2021"
On 31 March, the IASB published an amendment to IFRS 16 "Covid-19 Related Rent Concessions" in order to extend by one year - from 30 June 2021 to 30 June 2022 - the period of time beyond which the practical expedient set forth in paragraph 46A, intended to facilitate the recognition of rent concessions linked to the Covid-19

pandemic for lessees, is applicable. This amendment is applicable to financial periods beginning on or after 1 April 2021 or may be applied early with retroactive effect.

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

The above-mentioned amendments are not expected to have impacts on the Group's financial position.

Other significant aspects relating to Group accounting policies

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

TLTRO III – Targeted Longer Term Refinancing Operations

Description of main characteristics

TLTRO III "Targeted Longer Term Refinancing Operations" transactions are financing transactions performed by the ECB to maintain favourable bank lending conditions, with a quarterly frequency - there are currently 10 operations planned between September 2019 and December 2021 - and a three-year duration. For the operations conducted up until March 2021, a voluntary repayment option is envisaged, which may be exercised quarterly, once twelve months have passed from the settlement of each operation; for the last three operations (June, September and December 2021), a voluntary repayment option is instead envisaged, that may be exercised quarterly from June 2022.
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 is set at a level equal to the average rate of the Eurosystem's main refinancing operations (MRO), currently 0%, except for the period from 24 June 2020 to 23 June 2022 (special interest rate period), where a rate 50 basis points below this rate will apply.
There is also an incentive mechanism that allows for access to more favourable rate conditions, depending on the achievement of certain benchmarks. In more detail, it will be possible to benefit from the average rate on deposits (Deposit Facility) for the entire duration of the operation, currently equal to -0.5%, to which the further reduction of 50 basis points will be added for the "special interest rate period", with a maximum negative interest limit of -1%. Such interest is settled at the maturity of each operation or on early repayment.
As described in the Annual financial report as at 31 December 2020, which should be referred to for further details, Banco BPM believes that IFRS 9 "Financial instruments" applies to this situation, as the remuneration conditions defined by the ECB are considered based on market conditions, since the ECB defines and implements monetary policy for the Eurozone. More specifically, the rules envisaged by paragraph B5.4.5 of IFRS 9 for financial instruments at floating interest rates are deemed to refer to the TLTRO III loan. This interpretation is also consistent with what was done in previous years to define the accounting treatment of the loans drawn by the Group as part of previous TLTRO programmes.
As regards the application methods, interest is recognised on the basis of the rates applicable over time, for each reference period, based on the likelihood of being able to reach specific objectives (based on current interest rates: -0.5% until 24 June 2020; -1% from 24 June 2020 until 23 June 2022; -0.5% subsequently).
In this regard, note that the estimate of expected interest flows is a complex exercise that requires significant judgement regarding the likelihood of reaching certain benchmark levels of net eligible loans, to be assessed on the basis of the track record of the aforementioned loans, of the time left for the achievement of the target levels with respect to the valuation date, as well as the existence of a structured plan to maintain the target level already achieved.

Uncertainties of accounting treatments

Considering the importance of the topics at European level and the different accounting practices adopted, on 9 February 2021, the ESMA asked the IFRS Interpretations Committee (IFRS IC), namely the committee tasked with providing official interpretations of the international accounting standards, to provide clarification as to what the relevant accounting treatment to apply to TLTRO III operations should be.
In the meetings held on 8-9 June 2021, the above-mentioned Committee published the Tentative Agenda Decision, without however providing binding instructions on the matter, referring the issue to the "Post Implementation Review" (PIR) project relating to IFRS 9 Classification and Measurement.
In light of what is described above, on the date of preparation of this interim report, no official interpretation on the matter has been received; however, it cannot be excluded that, on completion of the analyses under way, different guidelines may emerge with regard to the accounting treatment to be adopted for the recognition of the case in question with respect to that carried out by the Group as at 30 June 2021.

TLTRO III drawdowns by Banco BPM and relative accrued interest

As at 30 June 2021, the TLTRO III loans amounted to 37.5 billion, entirely subscribed by the Parent Company, and refer to six drawdowns made in December 2019 (1.5 billion), March 2020 (2 billion), June 2020 (22 billion), September 2020 (1 billion), December 2020 (1 billion) and March 2021 (10 billion).
The total interest receivable recognised in the income statement for the first half of 2021 amounted to 165.5 million (34.4 million for the first half of 2020), calculated on the basis of the most favourable rate possible of -1%.

In this regard, it should be noted that, as Banco BPM reached the "net lending benchmark" for the period from 1 March 2020 to 31 March 2021, it is entitled to benefit from the more favourable rate on Deposit Facilities for the entire duration of the loans, currently at -0.5%, with a further reduction of -0.5% for the period from 24 June 2020 to 23 June 2021.
The only remaining element of uncertainty in the recognition of interest accrued as at 30 June 2021 is therefore related to the further reduction of -0.5% for the period from 24 June 2021 to 23 June 2022, the recognition of which is linked to the achievement of a "net lending benchmark" for the period from 1 October 2020 to 31 December 2021. With regard to the positive evolution of net lending recognised from 1 October 2020, which is retained can be confirmed as at 31 December 2021, namely the date of measurement of the benchmark, the accruals of these financial statements have taken the more favourable applicable conditions into account, and therefore they have been calculated from 24 June 2021 until 30 June 2021 to take into account the further reduction of -0.5% with respect to the Deposit Facility rate, which is currently -0.5%.

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, converting with amendments Decree Law no. 34 of 19 May 2020 ("Relaunch" Decree) - containing urgent measures on health, support for labour and the economy, as well as social policies linked to the COVID-19 epidemiological emergency - a series of incentivising tax measures were introduced which make it possible to benefit from deductions linked to expenses incurred for specific interventions, for example to increase the level of energy efficiency of existing buildings "ecobonus") or to reduce their seismic risk ("sismabonus"), for up to 110% of the expenses incurred.
Such incentives, applied to households and businesses, are commensurate with a percentage of the expense incurred and are disbursed in the form of tax credits or tax deductions and, in certain cases (for example for the ecobonus and the sismabonus) they make it possible to take advantage of an advance contribution via a discount on the consideration due to the supplier, to which a tax credit will be recognised.
The law therefore introduces the possibility for the taxpayer to opt - in the place of direct use of the deduction - for an advance contribution in the form a discount from suppliers of goods or services ("invoice discount") or, alternatively, for the sale of the credit corresponding to the deduction due to other parties, including credit institutions and other financial intermediaries, with the right to subsequent sales (tax credit).
In this context, if the taxpayer opts for the sale of the deduction to the bank, the tax credit acquired may be used to offset other tax payables of the bank; any unused share cannot be requested as a refund from the tax authorities, but may in turn be sold to third-party purchasers.

The peculiarity of the tax credits described above does not make it possible to associate them with any specific international accounting standard. According to IAS 8, when there is a situation not explicitly dealt with by an IAS/IFRS accounting standard, the company management should define the accounting treatment deemed suitable to guarantee a relevant and reliable disclosure of such transactions.
To this end, taking into account the indications expressed 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 "Cura Italia" and Relaunch" Decree Laws acquired following sale by direct beneficiaries or previous purchasers", Banco BPM defined its own accounting policy by making reference to certain accounting rules set forth in IFRS 9 applying the provisions compatible with the characteristics of the transaction by analogy and considering that the tax credits are essentially equivalent to a financial asset.
In particular, the credits acquired fall under the "Hold to Collect" business model, as the objective is to hold them and use them for future offsetting with the Group's tax payables.
As a result, applying by analogy the provisions set forth in IFRS 9, the credits acquired are initially recognised at fair value, equal to the consideration paid to the customer to purchase the tax credit, and subsequently valued at amortised cost, taking into account their value and offsetting timing. The interest accrued based on the amortised cost is recognised in the income statement in item "10. Interest and similar income".
The amount of tax credits that may be acquired by the Banco BPM Group is commensurate with the annual current and forward-looking capacity of the Group's tax position, with a view to constituting adequate oversight over the risk of acquiring an inconsistent amount of credits with respect to the payables that they can offset. The assessment of such credits must therefore take into account the Tax Capability; to this end, the provisions relating to the calculation of expected losses (ECL) pursuant to IFRS 9 are not applicable, as the transaction entails no counterparty credit risk, since the tax credits are recovered via offsetting directly with tax payables and not through collection from the Italian Revenue Agency.
Furthermore, as specified in the joint document mentioned above, as the tax credits acquired do not represent, pursuant to the international accounting standards, tax assets, public contributions, intangible assets or financial assets, the most appropriate classification for presentation in the financial statements is in the residual item "130. Other Assets" in the balance sheet.

As at 30 June 2021, the book value of the tax credits in question shown in balance sheet item "130. Other assets" at amortised cost is 371.1 million, referring in full to the Parent Company. The corresponding nominal value of the credits usable for offsetting with the Bank's tax payables amounts to 406.2 million.

"Hold to Collect" Business Model - sales

In the first half of 2021, transactions were carried out for the disposal of debt instruments classified in the "Financial assets at amortised cost" portfolio for a value of roughly 2 billion, essentially linked to forward sales of certain Italian government bonds by the Parent Company. Entering into the above transactions, settled in 2022, did not have any economic effect at 30 June 2021, as the above-mentioned effects will be recognised at the settlement date of the forward sales. The cash sales approved in 2021 amount to only 17 million, referring to a limited number of corporate securities; the relative effect recognised in the item "100. Gains (losses) on disposal or repurchase of: a) financial assets at amortised cost" is overall a positive 0.3 million.
As these are exposures classified in the portfolio of "Financial assets at amortised cost", namely in the portfolio held for the purpose of collecting contractual cash flows (the "Hold to Collect" 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 that regard, it is noted that the sales carried out by the Group during the first half of the year occurred in compliance with the materiality and frequency thresholds, outlined in the Group's accounting policies. More specifically, the sales of debt, cash and forward securities, completed by Banco BPM in the first half of 2021 correspond to around 9.3% of the nominal value of securities in issue as at 1 January 2021 and therefore within the materiality threshold of 10% of the nominal value of the securities portfolio at the beginning of the year. The annual frequency threshold, defined in terms of twelve annual transactions, is also respected. For the breakdown of the above-mentioned thresholds, along with the other indicators/limits of eligibility of sales, please refer to the accounting policies illustrated in the Annual financial report as at 31 December 2020.
In addition, in the first half of 2021 the sales ensuing from the execution of forward contracts entered into in 2020 were finalised, for a total of 1,075 million in terms of nominal value. The result of such sales, accounted for in item "100. Gains (losses) on disposal or repurchase of: a) financial assets at amortised cost" is overall a positive 76.6 million.

In this regard, please recall that between September and December 2020, forward sales of Italian government bonds (BTPs maturing in 2024-2027) were carried out for a nominal value of roughly 1,575 million, with maturities broken down in the first three quarters of 2021, in compliance with the annual sale eligibility threshold of 10%. At 30 June 2021, there are therefore forward sales for 500 million remaining which will be settled in September 2021.
Lastly, it should be noted that the management of debt securities classified in the "HTC" and "Hold To Collect and Sale" portfolios continues to be in line with the choices made in previous years; in fact during the half-year, there were therefore 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.

Additional Tier 1 Issue

As indicated in the “Significant events during the period” section of the Interim Report on Operations, on 12 January 2021, Banco BPM issued Additional Tier 1 instruments for an amount of 400 million to institutional investors. These were, specifically, subordinated instruments classified in Additional Tier 1 capital, under the terms of Regulation no. 575 of 2013 (CRR).
The securities are perpetual and may be called by the issuer, in accordance with the regulations in force from 19 January 2026; if not called, the call may be exercised every six months thereafter, at the coupon detachment date.
The six-monthly coupon, non-cumulative, was set at an annual rate of 6.5%. If the option of early redemption envisaged, for 19 January 2026, is not exercised, a new fixed-rate coupon will be determined adding the original spread to the mid-swap rate in euro at five years to be recorded at the moment of the recalculation date. This new coupon will remain fixed for the next five years and until the next recalculation date.
This issue is in addition to those made on 11 April 2019 and 14 January 2020, for 300 million and 400 million, respectively. For both issues, the securities are perpetual and may be called by the issuer from 18 June 2024 and 21 January 2025; if they are not called, the call may be exercised every five years in the first case and every six months for the second issue. The six-monthly coupon, non-cumulative, was set at an annual rate of 8.75% and 6.125%, respectively. If the option of early redemption, envisaged for 18 June 2024 and 21 January 2025, is not exercised, a new fixed-rate coupon will be determined adding the original spread to the mid-swap rate in euro at five years to be recorded at the moment of the recalculation date. This new coupon will remain fixed for the next five years and until the next recalculation date.
For the above issues, in line with the provisions of the CRR for AT1 instruments, the issuer has full discretion in deciding not to pay the coupons, for any reason and for an unlimited period of time. Cancellation is instead obligatory if certain conditions occur, including the occurrence of a trigger event, namely when the Common Equity Tier 1 (CET1) of Banco BPM (or consolidated CET1) is lower than 5.125%. In addition, interest is not cumulative, as any amount that the issuer decides not to pay or would be obliged not to pay will not be accumulated or payable at a later date. It is also envisaged that on the occurrence of a trigger event, the capital would be irrevocably and obligatorily written down by the amount needed to bring the CET1 (of Banco BPM or of the Group) to 5.125%. The capital written down could be reinstated (written up), on fulfilment of certain conditions, and in any event at the issuer’s complete discretion, even in the event that Banco BPM decided to repay the issue early.
Based on the above with respect to the characteristics of the loans, 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 “A.2 - Key financial statement items” of the Annual financial report as at 31 December 2020, to which reference is made.
In the consolidated condensed interim financial statements as at 30 June 2021, the price received from the above-cited issues, after deducting the directly attributable transaction costs, net of the related tax charge (7.2 million), is therefore shown under equity item "140. Equity instruments”, for an amount of 1092.8 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 the first half of 2021, shareholders' equity therefore reduced to 18.4 million, as a result of the payment of the coupon relating to the issue in of 2020 equal to 12.3 million and that relating to 2019 for 13.1 million, net of the relative tax effects (respectively of 3.4 million and 3.6 million).
On the other hand, no accounting entry was made for the January 2021 issue, as the first coupon payment is expected to only take place in July 2021.

Contributions to deposit guarantee schemes 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).
The ordinary contribution to the Single Resolution Fund, charged to the income statement for the first half of 2021, amounted to 87.8 million (the contribution was 85.2 million for the first half of 2020). In that regard, it is noted that for 2021, 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 will be recognised in the income statement for the third quarter of 2021 (79.9 million was the contribution requested for 2020, recognised in the third quarter of 2020).
Lastly, we can note that in June 2021, the Bank of Italy called in additional contributions to the National Resolution Fund for 28.6 million, in relation to the financial requirements connected with the resolution measures carried out prior to the launch of the National Resolution Fund (350 million is the contribution required in 2021 for the entire system). More specifically, these were measures launched in November 2015 by the Bank of Italy, as the national resolution authority - pursuant to Italian Legislative Decree no. 180 of 16 November 2016 - relating to the following four banks: Cassa di risparmio di Ferrara S.p.A., Banca delle Marche S.p.A., Banca popolare dell'Etruria e del Lazio – Società cooperativa e Cassa di risparmio della Provincia di Chieti S.p.A. Those contributions were also fully charged to the income statement in the second quarter of 2021 under "Other administrative expenses" (26.9 million was the additional contribution charged in the same quarter of 2020). Pursuant to the cited IFRIC 21 interpretation, for the contribution in question the payment obligation emerges when the Bank of Italy, having evaluated the financial requirements of the National Resolution Fund, provides a communication thereof, taking into account that prior to the above-mentioned communication there is no commitment, as also specified in the Bank of Italy communication ("*The total amount annually due by the intermediaries is communicated on each occasion by the Bank of Italy and divided among them proportionally to the amount of the annual contributions due by the same parties to the European Single Resolution Fund. The additional contribution in the year in question is only due by intermediaries which have a contribution obligation towards the Single Resolution Fund for the same year. To this end, the classification as bank on the reference date identified each year by the Single resolution committee in the time frame established by the Bank of Italy is important*").

Project Rockets - sales of a portfolio of exposures classified as bad loans

As illustrated in the section entitled "Significant events during the period" of the Group Interim Report on Operations, on 22 June 2021, the sale of a portfolio of exposures classified as bad loans was finalised through a securitisation transaction ("Project Rockets") aimed at obtaining the state guarantee on senior securities (the Guarantee for Securitisation of Bad Loans - GACS), pursuant to Decree of the Ministry of the Economy and Finance of 15 July 2021 published in the Official Gazette of 3 August 2021, which extended until 14 June 2022 the guarantee scheme for transactions of this type.

The transaction which was carried out by Banco BPM with Credito Fondiario as Master and Corporate Servicer and CF Liberty Servicing S.p.A. as Special Servicer of the Portfolio, has as its underlying assets bad loans for a gross amount of roughly 1.5 billion, of which around half not secured (amount referring to the valuation date established in the contract at 31 December 2020).
On 3 June 2021, the disposal agreement was therefore entered into between Banco BPM and the special purpose vehicle "Aurelia SPV S.r.l.".

In order to finance the acquisition of the loans, on 22 June 2021 the special purchase vehicle issued the following three tranches of ABSs:

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

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

Following subscription of the above-cited tranches by third parties, the conditions were fulfilled for derecognition of the bad loan portfolio sold, because the risks and benefits of the aforementioned portfolio have substantially been transferred. The consolidated economic effect, directly and indirectly correlated with the disposal of the portfolio in question, amounts to 134.6 million, represented in the following income statement items:

- "100. a) Gains (losses) on the disposal of financial assets at amortised cost", for a negative 214.4 million, corresponding to the lower consideration of the disposal;
- "10. Interest income" for 6.9 million, ensuing from the positive effect due to the passage of time, recognised until the date of the disposal for the transferred positions;
- "130. a) Net adjustments for credit risk on financial assets at amortised cost" for a positive 72.9 million, equal to the indirect effect ensuing from the release of funds recognised as at 31 December 2020 due to the sale scenario, in order to adjust sale objectives with respect to those remaining at 30 June 2021, after the transfer of the Rockets portfolio.

In light of the above, as at 30 June 2021 the Group held:

- all senior notes classified in the portfolio of "Financial assets at amortised cost: b) Loans to customers", for a book value of 341.8 million;
- 5% of the mezzanine notes and 5% of the junior notes classified in the portfolio of "Other financial assets mandatorily measured at fair value" for a book value of 0.6 million, entirely related to the mezzanine tranche. The measurement at fair value used the price of the recent sale transaction, illustrated above, as a benchmark, which was considered as level 3 in the fair value hierarchy.

Real estate: realignment of mismatches between the tax value and the higher book value (DL 14 August 2020)

Art. 110 of Decree Law no. 104 of 14 August 2020 (known as the "August" Decree) reintroduced the option, for companies that prepare their annual financial statements according to IAS/IFRS accounting standards, to realign mismatches between tax values and book values with regard to property, plant and equipment (excluding merchandise), intangible assets (excluding goodwill) and interests in associates and joint ventures. The above-mentioned article was supplemented by the 2021 Budget Law which, in Art. 1, paragraph 83, provided the possibility of performing the realignment also for goodwill and other intangible assets set forth in the financial statements for the year under way at 31 December 2019.
The above-mentioned regulation establishes that the realignment option may therefore be exercised through the payment of the first instalment of the substitute tax by 30 June 2021. The amount to be realigned must be determined with reference to the individual assets recognised in the 2020 financial statements, within the limits of the misalignments already present on the same assets recognised in the 2019 financial statements.

In June 2021, Banco BPM and several Group companies therefore decided to take advantage of the right to realign the tax value of some properties (entries) with the higher book values recognised in the financial statements as at 31 December 2020, for a total of 991.3 million, attributable for 715.0 million to properties for business use (IAS 16) and for 276.3 million to investment property (IAS 40). The benefit of the realignment amounts to a total of 274.4 million, equal to the difference between the cost for the substitute tax to be paid (29.7 million) - corresponding to 3% of the value to be realigned - and the taxation determined on the basis of the ordinary taxation rates (304.1 million). This benefit refers for 206.7 million to properties for business use and for 67.7 million to investment property.
For the effective achievement of this benefit, a mechanism is therefore established on the basis of which, if the realigned unit is transferred to third parties before 1 January 2024, the calculation of tax gains and losses -

respectively to be taxed and deducted - would be carried out by assuming as a reference the tax value prior to the realignment, reducing the taxes due by the substitute tax already paid.

In accounting terms, this benefit is achieved by means of the reversal of deferred tax liabilities (DTL) on the tax misalignment and the recognition of the tax payable for the substitute tax to be paid.
The above-mentioned effects can be recognised for accounting purposes by crediting the income statement or the equity reserves, based on the nature and methods with which the deferred taxation to be released on the misalignments in question was recognised.
In particular, for investment property, deferred taxation was recognised by charging the income statement; as a result, its release will entail a credit to the income statement. Lacking certain information on the expected sale plan on such properties, it was deemed that the temporary differences generating deferred taxation will be eliminated only at the end of the recapture period, or at 1 January 2024. At the date of this Report, the expected benefit of the properties subject to realignment ensuing from the reversal of deferred taxation is estimated at 67.7 million and will be recognised in 2023 if and to the extent to which such properties will not be sold.
For properties for business use, there are simultaneously net deferred tax liabilities recognised against the income statement, primarily due to the higher book values deriving from the allocation of the price of the business combination (PPA) of the former Banca Popolare di Milano or for off-balance sheet amortisation and depreciation set forth in the EC section of the income tax return, and the shareholders' equity valuation reserves, ensuing from the valuation based on the restated value approach (IAS 16) adopted by the Group as of the financial statements as at 31 December 2019.
The total capital benefit recognised as at 30 June 2021 is 206.7 million, of which 79.2 million against the income statement and 127.4 million against valuation reserves. In particular, considering the mix of DTLs in the income statement and shareholders' equity, it was decided to attribute the realignment amount to the PPA differences and the off-balance sheet amortisation and depreciation in the EC section at the level of the individual real estate unit and, for the difference, to the effect resulting from the revaluation at fair value. For consistency with the accounting representation of the reversal of DTLs, also the expense relating to the payment of substitute tax was recognised as a direct reduction of the benefit, in the income statement or shareholders' equity, according to an approach of allocation proportional with the reversal of taxation.

Lastly, it should be noted that, following the aforesaid realignment, for Banco BPM and the individual companies that have carried out the realignment, it was necessary to recognise a taxability restriction in the event of distribution (known as a tax-suspended reserves) for an amount corresponding to the higher realigned values net of the substitute tax. As concerns the Parent Company, the amount of the reserve to be restricted amounts to 605 million; the placement of the restriction must be subject to specific approval by the Shareholders' Meeting during the first meeting subsequent to the realignment decision made.

Please recall that the realignment in question is additional to that already approved by the Parent Company’s Board of Directors on 26 January 2021 with respect to the realignment of intangible assets represented by trademarks and client relationships recognised in the separate financial statements following the merger by incorporation of the former subsidiary Banca Popolare di Milano. The realigned value at 31 December 2020 of the above-mentioned assets amounts to a total of 426.9 million (represented by trademarks for 263.4 million and client relationships for 163.5 million).
Following the aforesaid realignment, the economic benefits of which were recognised in the Banco BPM financial statements as at 31 December 2020, the Shareholders' Meeting of 15 April 2021 created a restriction on the distribution of the reserves for an amount of 414.1 million, corresponding to the higher realigned values (426.9 million) net of the substitute tax to be paid (12.8 million).

New Definition of Default (“DoD”)

As of 1 January 2021, for regulatory purposes, the application of the New Definition of Default (“DoD”) was made compulsory, deriving from the implementation of the “RTS on the materiality threshold for credit obligations past due under Article 178 of the CRR (EU Delegated Regulation 2018/171)” and the correlated EBA guidelines “EBA Guidelines on the application of the definition of default under Article 178 of the CRR”.
The above-mentioned regulation, while confirming the bases of default in payment delays and in the unlikely to pay status of the borrower, introduces several stricter criteria to identify non-performing positions and their subsequent return to performing. In particular, the New Definition of Default establishes the criteria to identify past due

receivables, the method for the management of indicators to be considered to identify likely default, the specific aspects of retail exposures and the criteria for the return of a position to performing status.
More specifically, the main changes introduced with respect to legislation previously in force regard the following areas:

- new definition of past due:
  - lowering of the "relative" materiality threshold from 5% to 1% (threshold calculated as the ratio of the amount past due and/or overdue to the customer's total exposure, both determined at Banking Group level without offsetting with any margins available on other lines of credit);
  - introduction of an "absolute" relevance threshold differentiated by type of exposure (100 euro for retail and 500 euro for non-retail, to be compared with the total amount past due and/or overdue of the borrower);
  - classification of a debtor in default status (NPE) when both materiality thresholds have been breached for 90 consecutive days;
- introduction of an observation period of at least 3 months before reclassification to performing status for debtors previously classified as defaulting (Non Performing Exposure) who rectifies his position;
- classification of a debtor as defaulted in a harmonious way at Banking Group level, namely on all credit obligations active at Group companies;
- classification of a debtor as defaulted in the event in which the distressed restructuring implies a reduced financial obligation of over 1% compared to the previous one (i.e. Δ NPV > 1%);
- introduction of new rules of propagation/assessment of propagation of the defaulted status of a position on the basis of the link with other positions that have become non-performing;
- impossibility for the bank to offset amounts past due/overdue existing on several credit lines of the borrower with other open credit lines that it has not used ("available margins").

The criteria introduced by supervisory regulations had an impact on the accounting classification of non-performing credit exposures (Stage 3), as supervisory regulations are deemed consistent with the accounting regulations set forth in IFRS 9, in terms of objective evidence of impairment.
At 1 January 2021, the initial application of the criteria set forth in the New Definition of Default entailed the classification under past-due positions of a gross amount of 113.4 million. The relative value adjustments, which amount to a total of 16.2 million, did not have any impact on the income statement as at 1 January 2021, as the valuation effects ensuing from the initial application of the new regulations were already incorporated in the 2020 financial statements, as illustrated in the Annual financial report as at 31 December 2020.

In the first half of 2021, corrective factors were adopted on risk parameters in order to take into account the adoption of regulations on the new definition of default. The main intervention regarded the default rate forecasts, with an impact on the probability of default (PD) parameter, which were estimated by taking into account historical series consistent with the dictates of the new regulation. The loss given default (LGD) parameter was also subject to calibration to take into account interventions on default rates; an additional review of the LGD calculation model is expected for the second half of 2021 in order to comprehensively incorporate the adjustments made to the internal model.

For further details, please refer to Part E dedicated to Non-performing credit exposures.

Scope of consolidation and methods

(A) Subsidiaries

The consolidated condensed interim 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:

- has the power to direct the relevant activities of the entity;
- is exposed to or benefits from variable returns resulting from its involvement with the entity;
- has the ability to use its power to affect the amount of said returns (link between power and returns).

IFRS 10 establishes therefore 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 changes in the results that result 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 30 June 2021, broken down into companies controlled through voting rights and structured entities.

Companies controlled through voting rights

With reference to the Group's situation as at 30 June 2021, companies in which a majority of voting rights in the ordinary shareholders' meeting is held are considered to be exclusively controlled, insofar as there is no evidence that other investors have the practical ability to direct the relevant activities.
As regards companies in which half or a lower amount of voting rights are held, as at 30 June 2021, there are no arrangements, statutory clauses, or situations able to establish that the Group has the practical ability to unilaterally direct the relevant activities.

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 consolidated condensed interim financial statements as at 30 June 2021 is necessary, are represented by the several SPEs for securitisation transactions originated by the Group. For those SPEs, the elements deemed significant for identifying control and the resulting consolidation are:

- the purpose of said SPEs;
- exposure to the outcome of the transaction;
- the ability to structure transactions and to direct the relevant activities and take critical decisions through servicing contracts;
- the ability to arrange for their liquidation.

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

- it has the power to direct the relevant activities when:
  - it acts as fund manager and there are no investors with substantial removal rights; or
  - it has a substantial right to remove the fund manager (external to the Group) without just cause or due to the performance of the funds; or
  - the governance of the fund is such that the Group substantially governs the relevant assets;
- it has significant exposure to the variable returns of the fund, as it directly holds a share retained significant, in addition to any other form of exposure related to the fund's economic results;

- it is able to influence said returns through exercising its powers, when:
  - it is the fund manager;
  - it has a substantial right to remove the fund manager (external to the Group);
  - it has a right to participate in the Committees of the fund, to the extent that the Group has the legal and/or practical ability to control the activities performed by the manager.

As at 30 June 2021, the analyses conducted on the investments held by the Group in mutual investment funds and similar, resulted in the exclusion of the existence of control over the same; therefore no fund is included in the scope of consolidation.

Line-by-line consolidation method

Controlled entities are consolidated from the date on which the Group acquires control, according to the purchase method, and cease to be consolidated from the moment in which a situation of control no longer exists; for details, please refer to the Annual Financial Report as at 31 December 2020, section "A.2 - Key financial statement items" paragraph "16 - Business combinations, goodwill and changes in interest holdings".

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 in the Annual Financial report as at 31 December 2020, contained in part "A.2. Key financial statement items", paragraph "16 - Other information, Securitisations - derecognition from financial statements of financial assets transferred".

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

The assets, liabilities, off-balance sheet transactions, income and expenses relating to transactions between consolidated companies are eliminated in full.

The balance sheet and income statement results of the consolidated companies whose operating currency is different from the euro are translated based on the following rules:
- the balance sheet assets and liabilities are converted at the exchange rate in effect at the end of the period;
- the revenues and costs on the income statement are converted at the average exchange rate for the period.

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

In order to prepare the consolidated condensed interim financial statements as at 30 June 2021, all of the exclusively controlled companies have prepared a balance sheet and income statement in accordance with the Group's accounting principles.

Interests in associates and joint ventures held for sale are recorded in compliance with the reference international accounting standard IFRS 5, which regulates the recording of non-current assets held for sale. In this case, the assets and liabilities held for sale are included in the balance sheet items "120. Non-current assets and disposal groups held for sale" and "70. Liabilities associated with assets classified as held for sale".
If the disposal of the interest in associates and joint ventures is classified as discontinued operations (under the terms of IFRS 5), the relative income and expenses are recognised in the income statement, net of taxes, under item "320. Profit (loss) after tax from discontinued operations". Otherwise, the contribution of the investee is shown in the income statement "line by line". For further details please refer to the content of paragraph "8 - Non-current assets and disposal groups held for sale" contained in section "A.2 - Key financial statement items" of the Annual financial report as at 31 December 2020.
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 recognised according to the equity method. For a description of the classification, recognition, measurement and derecognition criteria, refer to part "A.2 - Key financial statement items" in section "5. Interests in associates and joint ventures" of the Annual Financial Report as at 31 December 2020.

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 the Interests in associates and joint ventures section of these Explanatory Notes.

	Company name	Operational headquarters	Registered office	Type of relationship (1)	Investment relationship		Available % of votes (2)
					Holder	% held	
	Banco BPM S.p.A.	**Verona**	**Milan**	**Parent Company**			
1.	Agriurbe S.r.l. in liquidation Share capital € 10,000.00	Milan	Milan	1	Banco BPM	100.000%	100.000%
2.	Aletti & C. Banca di Investimento Mobiliare S.p.A. Share capital € 121,163,538.96	Milan	Milan	1	Banco BPM	100.000%	100.000%
3.	Aletti Fiduciaria S.p.A. Share capital € 1,040,000.00	Milan	Milan	1	Banca Aletti & C.	100.000%	100.000%
4.	Banca Akros S.p.A. Share capital € 39,433,803.00	Milan	Milan	1	Banco BPM	100.000%	100.000%
5.	Banca Aletti & C. (Suisse) S.A. Share capital CHF 35,000,000	CH - Lugano	CH - Lugano	1	Banca Aletti & C.	100.000%	100.000%
6.	Bipielle Bank (Suisse) S.A. in liquidation Share capital CHF 25,000,000	CH - Lugano	CH - Lugano	1	Banco BPM	100.000%	100.000%
7.	Bipielle Real Estate S.p.A. Share capital € 298,418,385.78	Lodi	Lodi	1	Banco BPM	100.000%	100.000%

Company name	Operational headquarters	Registered office	Type of relationship (1)	Investment relationship		Available % of votes (2)
				Holder	% held	
8. BPM Covered Bond S.r.l. Share capital € 10,000.00	Rome	Rome	1	Banco BPM	80.000%	80.000%
9. BPM Covered Bond 2 S.r.l. Share capital € 10,000.00	Rome	Rome	1	Banco BPM	80.000%	80.000%
10. BRF Property S.p.A. Share capital € 2,000,000.00	Parma	Parma	1	Banco BPM	65.428%	65.428%
11. BP Covered Bond S.r.l. Share capital € 10,000.00	Milan	Milan	1	Banco BPM	60.000%	60.000%
12. BP Trading Immobiliare S.r.l. Share capital € 4,070,000.00	Lodi	Lodi	1	Bipielle Real Estate	100.000%	100.000%
13. Consorzio AT01 Share capital € 100,000.00	Lodi	Lodi	1	Bipielle Real Estate	95.000%	95.000%
14. FIN.E.R.T. S.p.A. in liquidation (**) Share capital € 103,280.00	Rome	Rome	1	Banco BPM	80.000%	80.000%
15. Ge.Se.So. S.r.l. Share capital € 10,329.00	Milan	Milan	1	Banco BPM	100.000%	100.000%
16. Immobiliare Marinai d'Italia S.r.l. in liquidation (*) Share capital € 258,024.00	Lodi	Lodi	1	Banco BPM	100.000%	100.000%
17. Lido dei Coralli S.r.l. Share capital € 10,000.00	Sassari	Sassari	1	Bipielle Real Estate	100.000%	100.000%
18. Meleti S.r.l. (*) Share capital € 20,000.00	Lodi	Lodi	1	Perca	100.000%	100.000%
19. Milano Leasing S.p.A. in liquidation Share capital € 1,541,808.00	Milan	Milan	1	Banco BPM	99.999%	99.999%
20. Oaklins Italy S.r.l. Share capital € 350,000.00	Milan	Milan	1	Banca Akros	100.000%	100.000%
21. Partecipazioni Italiane S.p.A. in liquidation Share capital € 350,000.00	Milan	Milan	1	Banco BPM	99.966%	100.000%
22. Perca S.r.l. (*) Share capital € 50,000.00	Lodi	Lodi	1	Immobiliare Marinai d'Italia	100.000%	100.000%
23. P.M.G. S.r.l. in liquidation Share capital € 52,000.00	Milan	Milan	1	Banco BPM	84.000%	84.000%
24. ProFamily S.p.A. Share capital € 43,000,000.00	Milan	Milan	1	Banco BPM	100.000%	100.000%
25. Release S.p.A. Share capital € 595,829,901.44	Milan	Milan	1	Banco BPM	99.907%	99.907%
26. Sagim S.r.l. Società Agricola Share capital € 7,746,853.00	Asciano (SI)	Asciano (SI)	1	Agriurbe	100.000%	100.000%
27. Sirio Immobiliare S.r.l. Share capital € 10,000.00	Lodi	Lodi	1	Bipielle Real Estate	100.000%	100.000%
28. Tecmarket Servizi S.p.A. Share capital € 983,880.00	Verona	Verona	1	Banco BPM	100.000%	100.000%
29. Terme Ioniche S.r.l. Share capital € 1,157,190.00	Cosenza	Lodi	1	Bipielle Real Estate	100.000%	100.000%
30. Terme Ioniche Società Agricola S.r.l. Share capital € 100,000.00	Cosenza	Cosenza	1	Bipielle Real Estate	100.000%	100.000%
31. BP Mortgages S.r.l. (***) Share capital € 10,000.00	Milan	Milan	4	-	0.000%	
32. BPL Mortgages S.r.l. (***) Share capital € 12,000.00	Conegliano V. (TV)	Conegliano V. (TV)	4	-	0.000%	
33. Italfinance Securitisation Vehicle S.r.l. (***) Share capital € 10,000.00	Conegliano V. (TV)	Conegliano V. (TV)	4	Banco BPM	9.900%	9.900%

Company name	Operational headquarters	Registered office	Type of relationship (1)	Investment relationship		Available % of votes (2)
				Holder	% held	
34. ProFamily SPV S.r.l. (***) Share capital € 10,000.00	Conegliano V. (TV)	Conegliano V. (TV)	4	-	0.000%	

(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 held for sale pursuant to IFRS 5.
(**) Company struck off from the Companies' Register on 1 July 2021.
(***) Special Purpose Entity for securitisation transactions originated by the Group.

Changes in the consolidation scope

In the first half of the year, the only change in the consolidation scope related to the acquisition through the subsidiary Banca Akros of 100% of the share capital of the company Oaklins Italy S.r.l. which, as of the accounting close as at 30 June 2021, was consolidated line-by-line.
For further details please refer to the section dedicated to significant events taking place during the period in the Interim report on operations and Part G–Business combinations regarding companies or divisions in these Explanatory notes.

Please also note that as of this interim report, the subsidiaries Immobiliare Marinai d'Italia S.r.l. in liquidation, Perca S.r.l. and Meleti S.r.l. are classified as held for sale pursuant to IFRS 5 based on agreements entered into in relation to their disposal.
For further details, please refer to the subsequent section relating to events after the end of the interim period.

Significant events after the end of the interim period

Illustrated below are the most significant events occurred from the reporting date of the interim report (30 June 2021) to the date of its approval by the Board of Directors (5 August 2021), fully attributable to the category of "non-adjusting events" pursuant to accounting standard IAS 10, i.e. events that do not entail any adjustments to the financial statement balances, as they express situations arising subsequent to the reporting date of the interim report.

First Social Bond issue successfully completed

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

The bond, issued within the sphere of the Green, Social and Sustainability Bond Framework under the 25 billion EMTN programme, is intended to finance a selected portfolio of SMEs that have been granted disbursements covered by the public guarantee envisaged by the Liquidity Decree to address the Covid-19 emergency.
For the entire duration of the bond, Banco BPM will publish an annual report to ensure transparency on the allocation of the proceeds of the issue and the social benefits for the purpose of safeguarding the jobs of SMEs affected by the health emergency.
The security will be listed on the Luxembourg Stock Exchange, has a five-year duration and an annual coupon of 0.875%. The issue was subscribed by institutional investors, primarily banks and Italian funds.

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

Merger of subsidiaries

Consistent with the initiatives to streamline the Group's corporate and operational structure, simplify the structure, optimise and enhance the value of resources, and reduce costs, on 19 July, the merger by incorporation of the subsidiary ProFamily S.p.A. into the Parent Company was finalised.

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

Furthermore, on 20 July 2021, the Banco BPM and Release Boards of Directors approved the plan for the merger by incorporation of the subsidiary Release into the Parent Company.
This transaction will also be carried out according to the simplified forms established for wholly-owned companies as, in January 2021, Banco BPM acquired full control over the investee Release, by acquiring 39,923,532 ordinary shares of the investee from BPER Banca S.p.A.
The merger, subject to ECB authorisation, is expected to be finalised by the end of the year/start of 2022.

The transactions described will have no impacts on the capital ratios or the Group's financial position.

Sale of interests in subsidiaries

On 15 July, Banco BPM entered into the deed for the sale of 100% of the share capital of the company Immobiliare Marinai d'Italia S.r.l. in liquidation, which in turn controls 100% of the companies Perca S.r.l. and Meleti S.r.l., to the company "Arcidiacona Consulenza & Servizi Immobiliari di Arcidiacona Toni Maurizio", for consideration of 100 thousand euro.
The deed of sale of the share capital was registered with the competent Companies' Register on 22 July 2021.

This transaction will not have any impact on the balance sheet or the income statement of the Group.

Liquidation of subsidiaries

In early July, the liquidation procedure of the subsidiary FIN.E.R.T. S.p.A. was concluded, with no allotment between the shareholders. The company was then struck off from the Companies' Register and removed from the Banking Group.
The above transaction had no effects on the accounting position at 30 June.

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

A.2 - Key financial statement items

For accounting standards with regard to the classification, recognition, measurement and derecognition of financial statements items, as well as the procedures for recognising revenues and costs, reference should be made to the Banco BPM Group's Annual Financial Report as at 31 December 2020 ("Part A.2 - Key financial statement items").

A.3 - Disclosure on transfers between portfolios of financial assets

During the period there were no transfers between portfolios of financial assets.
In this regard, it should be noted that, during the period, 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

Methodologies for determining the fair value of financial assets and liabilities measured in the financial statements at fair value

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 company; 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 established 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.

In particular:

- debt securities are valued according to the discounted cash flow method, appropriately adjusted to take account of issuer risk;

- loans that do not pass the SPPI test are valued on the basis of the discounting of expected cash flows determined using models that vary according to the status of the counterparty at an interest rate considered representative from the perspective of the potential buyer;
- unlisted equity instruments 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, are measured on the basis of the NAV made available by the fund administrator or by the management company. These investments typically include private equity, private debt and similar funds, property funds and hedge funds;
- Bond Repo contracts are valued by discounting the forward contractual flows expected, determined based on the characteristics of the contract, based on the interest rate curve differentiated according to the issuer of the security underlying the contract (government securities and corporate securities);
- OTC derivative contracts 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 the purpose of discounting future cash flows, Banco BPM Group uses the OIS ("Overnight Indexed Swap") curve as a reference, considered to be the expression of a risk-free rate. The values thus obtained are then adjusted to take account of all factors considered relevant by market participants, with the aim of best reflecting the realisable price of a potential market transaction (model risk, liquidity risk, counterparty risk). With regard to the counterparty risk of performing derivatives, referring both to the credit risk of the counterparty "Credit Valuation Adjustment" (CVA) and the risk of failure to fulfil its contractual obligations "Debt Valuation Adjustment" (DVA), the corresponding correction factor is determined for each individual legal entity of the Group according to the expected future exposure generated by the contracts, the probability of default of the parties and the related losses. In particular, the expected future exposure is variously configured in consideration of the existence or non-existence of netting and collateral agreements capable of mitigating counterparty risk, while the probability of default is estimated using Default Swap Credit quotations, where available, in priority over internal parameters. The model for the quantification of CVA/DVA correctives provides that, for each derivative, counterparty risk is equal to the sum of the components:
  - *"Bilateral CVA"*: this is the possible loss if the future exposure is positive for the Group, adjusted to take account of the possibility that the Group may fail before the counterparty;
  - *"Bilateral DVA"*: aimed at appreciating the benefit in the event of breach of contractual obligations, if the expected exposure is negative for the Group. This benefit is then mitigated to take into account the probability that, in the course of the transaction, the counterparty may fail before the Group.

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:

- OTC financial derivatives whose fair value is obtained through pricing models, which may use both observable and non-observable inputs. However, the latter parameters are judged to be insignificant in calculating the overall fair value;
- 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;
- hedge funds featuring significant transparency and liquidity, measured based on the NAV provided by the management company/fund administrator;
- Bond Repo contracts 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 determination of fair value.

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

- hedge funds characterised by significant levels of illiquidity, and for which the process to evaluate the assets of the fund requires a considerable amount of assumptions and estimates. The fair value measurement is made on the basis of the NAV. Said NAV may be appropriately corrected to take the poor liquidability of the investment into account, namely the period of time between the repayment request date and the effective repayment date, as well as to take any exit commissions of the investment into account;
- real estate funds measured on the basis of the last available NAV;
- private equity, private debt and similar funds, measured on the basis of the last available NAV, possibly adjusted to take into account events not included in the valuation of the price or to reflect a different valuation of the assets underlying the fund in question;
- illiquid shares for which no recent or comparable transactions are observable, usually measured on the basis of the equity model;
- debt securities characterised by complex financial structures for which sources that are not publicly available are usually used. These are non-binding prices and are also not corroborated by market data;
- debt securities issued by parties in financial difficulty, for which the management has to use its own judgement to establish the "recovery rate", as no significant prices can be observed on the market;
- OTC financial 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 further details on the methods used to measure the fair value of financial assets and liabilities, on the techniques and inputs used, on how to complete the transfer tables between levels, please refer to the Annual Financial Report as at 31 December 2020 ("Part A - Accounting policies", "A4 - Fair value disclosure").

Fair value hierarchy of financial assets and liabilities measured at fair value in the financial statements

Given the above, the table below provides a breakdown of the financial 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.

Financial assets/liabilities measured at fair value	30/06/2021			31/12/2020		
	L1	L2	L3	L1	L2	L3
1. Financial assets at fair value through profit and loss	4,694,231	2,957,181	861,343	3,491,133	4,705,654	846,738
a) Financial assets held for trading	4,013,009	2,633,097	4,240	2,833,138	4,413,483	1,727
b) Financial assets designated at fair value	-	-	-	-	-	-
c) Other financial assets mandatorily measured at fair value	681,222	324,084	857,103	657,995	292,171	845,011
2. Financial assets measured at fair value through other comprehensive income	15,153,391	113,525	180,002	10,408,048	115,435	187,313
3. Hedging derivatives	-	73,656	-	-	75,046	-
Total	**19,847,622**	**3,144,362**	**1,041,345**	**13,899,181**	**4,896,135**	**1,034,051**
1. Financial liabilities held for trading	861,118	10,310,844	305	2,052,688	10,634,315	541
2. Financial liabilities designated at fair value	-	1,220,442	-	-	955,781	-
3. Hedging derivatives	-	504,648	-	-	585,680	-
Total	**861,118**	**12,035,934**	**305**	**2,052,688**	**12,175,776**	**541**

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

Financial assets measured at fair value on a recurring basis

As at 30 June 2021, 82.3% of financial instruments measured significantly on the basis of non-observable parameters (Level 3) were represented by instruments classified in the portfolio of "Other financial assets mandatorily measured at

fair value" in the category of "Financial assets at fair value through profit and loss", and 17.3% by instruments classified in the category 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 1,041.3 million and are represented by the following types of investment:

- unlisted equity instruments of 213.0 million euro, mostly valued on the basis of internal equity models and transaction prices, which do not meet the requirements to be assigned to level 2;
- UCIT units of 462.3 million, represented by private equity, private debt and similar funds (409.2 million), property funds (49.2 million) and hedge funds (3.9 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;
- loans to customers amounting to 312.1 million, measured at fair value, for failure to pass the SPPI test, as the related cash flows do not exclusively represent the payment of interest and principal;
- debt securities amounting to 52.2 million, of which structured credit securities of 45.8 million;
- Over the Counter (OTC) derivatives amounting to 1.7 million, mainly represented by valuations that are significantly affected by the use of non-observable input parameters.

With regard to derivative financial instruments held for trading and hedging, excluding the share of level 3 illustrated above, the same are classified as level 1 and level 2 in the fair value hierarchy. Specifically:

- level 1 includes listed derivatives (futures and options), measured on the basis of the prices provided by the Clearing Houses, for a total of 242.8 million;
- level 2 includes Over The Counter (OTC) derivatives measured on the basis of models that use observable market parameters to a significant extent, or on the basis of prices originating from independent sources, for 1,627.8 million.

Financial liabilities measured at fair value on a recurring basis

Level 1 financial liabilities refer to listed trading derivatives for 192.7 million and to technical overdrafts listed in active markets for 668.4 million.
The remaining financial liabilities are almost entirely classified at level 2 of the fair value hierarchy.

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 first half of the year, the transfers in question involved a limited number of securities transferred from level 2 to level 1 in the amount of 1.5 million (value at the start of the year), classified in the "Financial assets held for trading" portfolio.

Period changes in financial assets designated 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
	Total	of which: a) financial assets held for trading	of which: b) financial assets designated at fair value	of which: c) other financial assets mandatorily measured at fair value		
1. Opening balance	**846,738**	**1,727**	**-**	**845,011**	**187,313**	**-**
2. Increases	**103,471**	**3,522**	**-**	**99,949**	**10,040**	**-**
2.1. Purchases	37,278	498	-	36,780	2,603	-
2.2. Profits charged to:	28,211	34	-	28,177	5,527	-
2.2.1. Income statement	28,211	34	-	28,177	2	-
- of which capital gains	22,401	13	-	22,388	-	-
2.2.2. Shareholders' equity	-	X	X	X	5,525	-
2.3. Transfers from other levels	13,148	2,810	-	10,338	1,910	-
2.4. Other increases	24,834	180	-	24,654	-	-
3. Decreases	(88,866)	(1,009)	-	(87,857)	(17,351)	-
3.1. Sales	(32,395)	(909)	-	(31,486)	(152)	-
3.2. Redemptions	(15,594)	0	-	(15,594)	(1,290)	-
3.3. Losses charged to:	(26,605)	(48)	-	(26,557)	(15,909)	-
3.3.1. Income statement	(26,605)	(48)	-	(26,557)	-	-
- of which capital losses	(26,604)	(48)	-	(26,556)	-	-
3.3.2. Shareholders' equity	-	X	X	X	(15,909)	-
3.4. Transfers to other levels	(1,618)	-	-	(1,618)	-	-
3.5. Other decreases	(12,654)	(52)	-	(12,602)	-	-
4. Closing balance	**861,343**	**4,240**	**-**	**857,103**	**180,002**	**-**

Period changes in liabilities designated at fair value on a recurring basis (level 3)

	Financial liabilities held for trading	Financial liabilities designated at fair value	Hedging derivatives
1. Opening balance	**541**	**-**	**-**
2. Increases	**-**	**-**	**-**
2.1. Issues	-	-	-
2.2. Losses charged to:	-	-	-
2.2.1. Income statement	-	-	-
- of which capital losses	-	-	-
2.2.2. Shareholders' equity	X	-	-
2.3. Transfers from other levels	-	-	-
2.4. Other increases	-	-	-
3. Decreases	**(236)**	**-**	**-**
3.1. Redemptions	-	-	-
3.2. Buy-backs	-	-	-
3.3. Profits charged to:	(236)	-	-
3.3.1. Income statement	(236)	-	-
- of which capital gains	(236)	-	-
3.3.2. Shareholders' equity	X	-	-
3.4. Transfers to other levels	-	-	-
3.5. Other decreases	-	-	-
4. Closing balance	**305**	**-**	**-**

Fair value disclosure on financial assets and liabilities valuated at cost

With reference to the fair value disclosure, required by IFRS 7, paragraphs 25 and 26, referred to by standard IAS 34, regarding the fair value of financial assets and liabilities recognised in the financial statements at amortised cost, please refer to the relevant tables showing the breakdown of financial assets and liabilities valued at amortised cost in "Part B – Information on the consolidated balance sheet" (for assets item 40 and liabilities item 10).
For an illustration of the method used to determine fair value, which is relevant for information purposes only, reference should be made to the Annual Financial Report as at 31 December 2020.

A.5 Disclosure of "day one profit/loss"

In accordance with IFRS 7 paragraph 28, in the context of the Group's financial instruments, it should be noted that in the period there were no transactions that led to the recognition of "day one profit/loss" and therefore as at 30 June 2021, as at 31 December 2020, there were no suspended costs or revenues related to the effect.

Disclosure on structured credit products

As at 30 June 2021, the Group's exposure to structured credit instruments amounted to 2,700.6 million and consisted of 2,536.9 million in asset backed securities (ABS) arising from securitisation transactions and 163.8 million in units in mutual funds held as a result of multi-originator sales of impaired loan portfolios in previous years.
The composition of ABSs is as follows:

- 342.4 million relating to securities issued by the Aurelia SPV, which the Group holds following the GACS securitisation of bad loans, called "Project Rockets", completed in May 2021 (senior tranche of 341.8 million; mezzanine tranche of 0.6 million);
- 83.0 million relating to securities issued by the Tiberina SPV, which the Group holds following the securitisation of UTP and bad loans, called "Project Django", completed in December 2020 (senior tranche of 81.2 million; B1 mezzanine tranche of 0.9 million; B2 mezzanine tranche of 0.5 million and junior tranche of 0.5 million);

- 32.8 million relating to securities issued by the Titan SPV, which the Group holds following the securitisation of bad loans, called “Project Titan”, completed in December 2020 (senior tranche of 32.3 million; mezzanine tranche of 0.3 million and junior tranche of 0.2 million);
- 1,011.0 million relating to securities issued by the Leviticus SPV, which the Group holds following the GACS securitisation of bad loans, called “ACE Project”, completed in February 2019 (senior tranche of 1,006.5 million; mezzanine tranche of 4.5 million);
- 1001.0 million relating to securities issued by the Red Sea SPV, which the Group holds following the GACS securitisation of bad loans, called “Project Exodus”, completed in June 2018 (senior tranche of 998.1 million; mezzanine tranche of 2.9 million);
- 66.7 million for securities relating to third-party securitisations (junior tranche for 28.7 million; senior tranche for 32.8 million; mezzanine tranche for 5.2 million). It should be noted that the junior tranche is attributable to the security issued by the SPE BNT Portfolio SPV established in 2014 to complete the securitisation of agricultural loans of Banca della Nuova Terra, financed by the issue of a single tranche of securities.

For an examination of mutual funds resulting from multi-originator sales transactions, reference should be made to the "Part E - Section 2 - D. Sale transactions - Financial assets sold and fully derecognised" of the Annual Financial Report as at 31 December 2020.

PART B – INFORMATION ON THE CONSOLIDATED BALANCE SHEET

ASSETS

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

2.1 Financial assets held for trading: breakdown by product

Items/Amounts	Total 30/06/2021			Total 31/12/2020		
	L1	L2	L3	L1	L2	L3
A. On-balance sheet assets						
1. Debt securities	2,542,497	505	2,394	2,033,591	4,905	-
1.1 Structured securities	32,047	-	-	88,342	4,337	-
1.2 Other debt securities	2,510,450	505	2,394	1,945,249	568	-
2. Equity instruments	1,223,268	-	18	695,179	-	18
3. UCIT units	4,462	-	134	4,692	-	144
4. Loans	-	1,078,441	-	-	1,923,234	-
4.1 Repurchase agreements	-	1,078,441	-	-	1,923,234	-
4.2 Other	-	-	-	-	-	-
Total (A)	**3,770,227**	**1,078,946**	**2,546**	**2,733,462**	**1,928,139**	**162**
B. Derivative instruments	-	-	-	-	-	-
1. Financial derivatives	242,782	1,553,809	1,694	99,676	2,485,033	1,565
1.1 held for trading	242,782	1,524,862	1,694	99,676	2,479,944	1,565
1.2 connected with the fair value	-	28,809	-	-	5,086	-
1.3 other	-	138	-	-	3	-
2. Credit derivatives	-	342	-	-	311	-
2.1 held for trading	-	342	-	-	311	-
2.2 connected with the fair value	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total (B)	**242,782**	**1,554,151**	**1,694**	**99,676**	**2,485,344**	**1,565**
Total (A+B)	**4,013,009**	**2,633,097**	**4,240**	**2,833,138**	**4,413,483**	**1,727**

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

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

Items/Amounts	Total 30/06/2021			Total 31/12/2020		
	L1	L2	L3	L1	L2	L3
1. Debt securities	40,502	-	49,739	40,407	-	49,348
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	40,502	-	49,739	40,407	-	49,348
2. Equity instruments	47,304	324,084	33,028	41,686	292,171	32,377
3. UCIT units	593,416	-	462,202	575,902	-	434,639
4. Loans	-	-	312,134	-	-	328,647
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	312,134	-	-	328,647
Total	**681,222**	**324,084**	**857,103**	**657,995**	**292,171**	**845,011**

L1 = Level 1
L2 = Level 2
L3 = Level 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 30/06/2021			Total 31/12/2020		
	L1	L2	L3	L1	L2	L3
1. Debt securities	15,121,237	-	14	10,383,882	-	1,302
1.1 Structured securities	6,664	-	14	6,531	-	1,302
1.2 Other debt securities	15,114,573	-	-	10,377,351	-	-
2. Equity instruments	32,154	113,525	179,988	24,166	115,435	186,011
3. Loans	-	-	-	-	-	-
Total	**15,153,391**	**113,525**	**180,002**	**10,408,048**	**115,435**	**187,313**

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

Banco BPM holds, among level 2 equity instruments, 4,541 stakes in the Bank of Italy’s share capital, corresponding 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 unit. Note that these shares derive from the capital increase operation carried out by Bank of Italy in 2013 as an effect of Italian Decree Law 133 of 30 November 2013, converted with Italian Law 5 of 29 January 2014, leading to the issuing of new shares, with a value of 25,000 per unit.

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 30/06/2021						Total 31/12/2020					
	Book value			Fair value			Book value			Fair value		
	Stage 1 and Stage 2	Stage 3	of which: originated or acquired impaired	L1	L2	L3	Stage 1 and Stage 2	Stage 3	of which: originated or acquired impaired	L1	L2	L3
A. Loans to Central Banks	**5,782,869**	**-**	**-**	**-**	**-**	**5,782,869**	**7,826,884**	**-**	**-**	**-**	**-**	**7,826,884**
1. Fixed-term deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Minimum reserve	5,773,799	-	-	X	X	X	7,816,232	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	9,070	-	-	X	X	X	10,652	-	-	X	X	X
B. Loans to banks	**3,663,423**	**54**	**-**	**765,284**	**134,329**	**2,759,090**	**4,147,915**	**23**	**-**	**699,298**	**183,155**	**3,315,955**
1. Loans	2,791,278	54	-	-	-	2,759,090	3,293,774	23	-	-	-	3,315,955
1.1 Bank accounts and demand deposits	539,261	54	-	X	X	X	552,585	23	-	X	X	X
1.2. Fixed-term deposits	407,170	-	-	X	X	X	75,366	-	-	X	X	X
1.3. Other loans:	1,844,847	-	-	X	X	X	2,665,823	-	-	X	X	X
- Reverse repurchase agreements	296,071	-	-	X	X	X	854,645	-	-	X	X	X
- Loans for leases	811	-	-	X	X	X	1,311	-	-	X	X	X
- Other	1,547,965	-	-	X	X	X	1,809,867	-	-	X	X	X
2. Debt securities	872,145	-	-	765,284	134,329	-	854,141	-	-	699,298	183,155	-
2.1 Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt securities	872,145	-	-	765,284	134,329	-	854,141	-	-	699,298	183,155	-
Total	**9,446,292**	**54**	**-**	**765,284**	**134,329**	**8,541,959**	**11,974,799**	**23**	**-**	**699,298**	**183,155**	**11,142,839**

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

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

Transaction type/Amounts	Total 30/06/2021						Total 31/12/2020					
	Book value			Fair value			Book value			Fair value		
	Stage 1 and Stage 2	Stage 3	of which: originated or acquired impaired	L1	L2	L3	Stage 1 and Stage 2	Stage 3	of which: originated or acquired impaired	L1	L2	L3
1. Loans	**103,197,778**	**3,716,569**	**244,518**	**-**	**-**	**112,867,387**	**102,725,809**	**4,292,674**	**341,499**	**-**	**-**	**113,698,693**
1.1. Bank accounts	8,341,272	389,169	103,480	X	X	X	8,015,334	523,059	126,433	X	X	X
1.2. Reverse repurchase agreements	2,549,745	-	-	X	X	X	3,482,261	-	-	X	X	X
1.3. Mortgage loans	76,320,325	2,132,058	95,891	X	X	X	74,011,269	2,381,922	164,059	X	X	X
1.4. Credit cards, personal loans and salary-backed loans	1,735,993	22,010	50	X	X	X	1,879,094	11,643	59	X	X	X
1.5. Loans for leases	804,137	606,322	5,156	X	X	X	863,992	627,585	5,110	X	X	X
1.6. Factoring	61,324	7,517	-	X	X	X	58,316	56	-	X	X	X
1.7. Other loans	13,384,982	559,493	39,941	X	X	X	14,415,543	748,409	45,838	X	X	X
2. Debt securities	**23,509,963**	**-**	**-**	**21,348,077**	**206,550**	**2,559,512**	**22,808,626**	**-**	**-**	**21,048,136**	**204,343**	**2,403,132**
2.1. Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2. Other debt securities	23,509,963	-	-	21,348,077	206,550	2,559,512	22,808,626	-	-	21,048,136	204,343	2,403,132
Total	**126,707,741**	**3,716,569**	**244,518**	**21,348,077**	**206,550**	**115,426,899**	**125,534,435**	**4,292,674**	**341,499**	**21,048,136**	**204,343**	**116,101,825**

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

Non-performing loans (third stage) amounted to 3,716.6 million, a further decrease compared to last year (4,292.7 million).

4.4 a Loans at amortised cost subject to Covid-19 support measures: 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	Stage 1	Stage 2	Stage 3	
1. Loans subject to forbearance measures in line with the GL	5,960,400	-	3,414,492	147,635	(12,859)	(118,318)	(44,630)	-
2. Loans subject to other forbearance measures	43,455	-	95,267	18,727	(196)	(1,116)	(7,120)	-
3. New loans	13,933,231	-	897,858	30,617	(3,489)	(2,954)	(7,919)	-
Total 30/06/2021	19,937,086	-	4,407,617	196,979	(16,544)	(122,388)	(59,669)	-
Total 31/12/2020	20,254,420	-	2,364,362	74,959	(31,955)	(100,059)	(22,373)	-

The table shows the loans for which moratoria have been granted or other forbearance measures not yet expired as at 30 June 2021, as well as the loans disbursed through public guarantee mechanisms ("New loans"). In this regard, note that the sub-item "Loans subject to forbearance measures in line with the GL" refers to those support measures that are compliant with the guidelines published by the EBA in April 2020 (EBA/GL/2020/02).

For the main new factors relating to the moratorium and the relative classifications made in the course of the half-year please refer to the "Risks, uncertainties and impacts of the Covid-19 pandemic" section in "Part A - Accounting policies" of these Explanatory notes, as well as what is specified in the Interim report on operations in the "Significant events during the period" and "Results" sections.

As at 30 June 2021, the breakdown into risk stages of loans to customers is provided in the table below:

Exposure types/risk stages	Stage 1	Stage 2	Stage 3	Total
Bad loans	-	-	946,981	**946,981**
Unlikely to pay	-	-	2,673,630	**2,673,630**
Non-performing past-due exposures	-	-	95,958	**95,958**
Non-performing loans	**-**	**-**	**3,716,569**	**3,716,569**
Performing exposures	**92,216,495**	**10,981,283**	**-**	**103,197,778**
Total loans to customers	**92,216,495**	**10,981,283**	**3,716,569**	**106,914,347**

For further details on the credit risk of loans to customers, please refer to the "Results" section of the Interim Report on Operations.

Interests in associates and joint ventures – Item 70

Interest in associates and joint ventures as at 30 June 2021 amounted to 1,688.5 million, compared with 1,664.8 million as at 31 December 2020.

The increase of 23.7 million recorded during the half-year refers to the effects deriving from the valuation of investments in associated companies using the equity method, which in detail include the share of the results recorded by the investees during the period (+98.1 million euro), the effects of the reductions of capital of Agos Ducato (-47.6 million), Anima Holding (-15.7 million), Vera Assicurazioni (-3.9 million), Bipiemme Vita (-3.1 million) and Etica SGR (-1.1 million) following the distribution of dividends, as well as changes attributable to the Group in the valuation reserves and other reserves of the above-mentioned companies (-3.0 million).

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 % votes
				Holder	% held	
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	19.385%	19.385%
4. Aosta Factor S.p.A. Share capital € 14,993,000.00	Aosta	Aosta	1	Banco BPM	20.690%	20.690%
5. Arcene Immobili S.r.l. in liquidation Share capital € 12,000.00	Lodi	Lodi	1	Banco BPM	50.000%	50.000%
6. Arcene Infra S.r.l. in liquidation Share capital € 12,000.00	Lodi	Lodi	1	Banco BPM	50.000%	50.000%
7. Bipiemme Vita S.p.A. (*) Share capital € 179,125,000.00	Milan	Milan	1	Banco BPM	19.000%	19.000%
8. Bussentina S.c.a.r.l. in liquidation Share capital € 25,500.00	Rome	Rome	1	Bipielle Real Estate	20.000%	20.000%
9. Calliope Finance S.r.l. in liquidation Share capital € 600,000.00	Milan	Milan	1	Banco BPM	50.000%	50.000%
10. CF Liberty Servicing S.p.A. Share capital € 150,000.00	Rome	Rome	1	Banco BPM	30.000%	30.000%
11. Etica SGR S.p.A. (*) Share capital € 4,500,000.00	Milan	Milan	1	Banco BPM	19.444%	19.444%

Company name	Registered office	Operational headquarters	Type of relationship (a)	Investment relationship		Available % votes
				Holder	% held	
12. Factorit S.p.A. Share capital € 85,000,002.00	Milan	Milan	1	Banco BPM	39.500%	39.500%
13. 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%
14. HI-MTF SIM S.p.A. Share capital € 5,000,000.00	Milan	Milan	1	Banca Akros	25.000%	25.000%
15. SelmaBipiemme Leasing S.p.A. Share capital € 41,305,000.00	Milan	Milan	1	Banco BPM	40.000%	40.000%
16. 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%
17. Vera Assicurazioni S.p.A. Share capital € 63,500,000.00	Verona	Verona	1	Banco BPM	35.000%	35.000%
18. Vera Vita S.p.A. Share capital € 219,600,005.00	Verona	Verona	1	Banco BPM	35.000%	35.000%

(a) Type of relationship:
1 = investment in share capital
(*)Companies 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.	631,077	-	47,580
Alba Leasing S.p.A.	159,903	-	-
Anima Holding S.p.A.	223,282	299,487	15,721
Vera Vita S.p.A.	257,205	-	-
Total	**1,271,467**	**299,487**	**63,301**

The "Fair value" column shows the value relating to the stock market listing as at 30 June 2021 of the associate Anima Holding, which is the only listed company.
Also note that dividends received during the half-year were recognised as decreasing the book value of the interest in associates and joint ventures, in that the profits, which gave rise to them, were already indicated in the financial statements as at 31 December 2020, as a result of measuring the investment using the equity method.

Commitments relating to interests in jointly controlled companies and 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, 100%-owned by Banco BPM, which retained the name ProFamily.

On 18 December 2020, an Amendment Agreement between the parties was formally 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 shareholding 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 shareholdings - to be calculated to the half-year prior to the exercise of the option. The following will be added to this value: (i) a fixed component of 60 million, of which 26 million against the waiver by Cattolica to extend the distribution agreement to the Branches currently served by another insurance partner, and (ii) a possible component of 50 million to be paid on a deferred basis, exclusively if for a period of 4 years there are no events that have an effect on the control of Cattolica by the current first shareholder or other parties also in concert with each other. 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.

Commitments deriving from bancassurance agreements with Covéa

On 25 June 2021, Banco BPM signed agreements with the Covéa Group which involve changes to the partnership in the bancassurance sector in place since 2011 between the former Banca Popolare di Milano (now Banco BPM) and Covéa relating to JV Bipiemme Vita, a company operating in the life insurance business and 81% owned by Covéa Coopérations and 19% by Banco BPM, and Bipiemme Assicurazioni, operating in the non-life insurance business and wholly-owned by Bipiemme Vita.

The amendments made to the pre-existing agreements, which made provision for an exit 'window' through the exercise of a call option in favour of Banco BPM, limited to the period from 8 September 2021 to 23 October 2021, regulate the methods of continuation and conclusion of the partnership up until, at most, the end of 2028.

In particular, the amended agreements provide for the recognition, in favour of Banco BPM, of an unconditional option to purchase 81% of the Company, which can be exercised at any time in the period between 8 September 2021 and 31 December 2023. Where said option is not exercised, the partnership can continue until the end of 2028, except where the put and call options recognised respectively to Covéa and the Bank are exercised in given time windows.

These agreements, which amend those already in place, also redefine the terms and conditions of the parties' partnership exit rights. In summary, the following is expected:

- right for Banco BPM to exercise a call option at any time by 31 December 2023 at a price equal to the value of the Unrestricted T1 ("UT1") of Bipiemme Vita as at 30 June 2021, plus a component of the remuneration of absorbed capital for Covéa (conventionally equal to 140% of the Solvency Capital Requirement of Bipiemme Vita at the date of 30 June 2021) and any capital increases minus any dividends paid;
- if Banco BPM (i) does not exercise the call option and (ii) in any event sends a cancellation of the agreements at their expiry in 2023, Covéa may exercise a First Put Option in the period between 1 January 2024 and 14 February 2024, at a price equal to the UT1 as at 31 December 2023 multiplied by a multiple of 1.5;
- if Banco BPM does not cancel the agreements and does not exercise the call option by the expiry in 2023, the partnership will be automatically renewed for another five years until 31 December 2028. At the renewal date, Covéa would have the right to a Second Put Option exercisable between 1 January 2024 and 14 February 2024, on an interest in BPM Vita equal to 30%, at a price equal to the UT1 as at 31 December 2023. At the expiry date, Covéa would have the right to a Third Put Option exercisable between 2 October 2028 and 16 November 2028, on a residual interest in BPM Vita, at a price equal to the UT1 as at 30 September 2028. In a reciprocal manner, Banco BPM would have the right to a new call option at the same price and exercise period as the Third Put Option.

The agreements also establish that as of 31 October 2021, all delegated management activities of BPM Vita will be transferred to Anima SGR, as set forth in the 2018 agreements between Banco BPM and Anima. Banco BPM undertakes to compensate BPM Vita for the higher costs incurred.

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:

(i) the sale to Anima Holding of Aletti Gestielle SGR;
(ii) the long-term partnership in the asset management sector between Banco BPM Group and Anima Group;
(iii) 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 the 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.

For the provisions for risks and charges to cover commitments arising from the sale of interests in associates and joint ventures and any related partnership agreements, reference should be made to the contents of the following section "Liabilities provisions - Items 90 and 100".

Property, plant and equipment – Item 90

Property, plant and equipment totalled 3,434.8 million as at 30 June 2021, compared with the amount of 3,552.5 million of the previous year. In detail, the aforementioned assets are represented by:

- property, plant and equipment used in operations valued at cost of 847.3 million, mainly concerning rights of use relating to property rental contracts;
- property used in operations and valuable works of art measured on the basis of the restatement of values of 1,430.4 million;
- property held for investment purposes valued at fair value of 1,157.1 million.

For further details on the composition of property, plant and equipment, please refer to the following tables.

As at 30 June 2021 there were no commitments for the purchase of property or other property, plant and equipment of a significant amount.

9.1 Property, plant and equipment used in operations: breakdown of assets at cost

Asset/Amounts	Total 30/06/2021	Total 31/12/2020
1. Owned assets	**98,434**	**100,866**
a) land	-	-
b) buildings	-	-
c) furniture	19,507	21,728
d) electronic systems	59,608	55,554
e) other	19,319	23,584
2. Rights of use acquired through leases	**748,853**	**793,793**
a) land	-	-
b) buildings	737,453	781,132
c) furniture	9,810	10,605
d) electronic systems	-	-
e) other	1,590	2,056
Total	**847,287**	**894,659**
of which: obtained through the enforcement of guarantees received	-	-

The change observed during the half-year mainly refers to the normal depreciation process.

9.2 Property, plant and equipment held for investment purposes: breakdown of assets at cost

At 30 June 2021, like at last 31 December, the Group does not hold property, plant and equipment for investment purposes valued at cost. Therefore, the related table is omitted.

9.3 Property, plant and equipment used in operations: breakdown of revalued assets

Asset/Amounts	Total 30/06/2021			Total 31/12/2020		
	L1	L2	L3	L1	L2	L3
1. Owned assets	**-**	**-**	**1,430,437**	**-**	**-**	**1,497,783**
a) land	-	-	1,048,886	-	-	1,101,844
b) buildings	-	-	331,451	-	-	345,839
c) furniture	-	-	-	-	-	-
d) electronic systems	-	-	-	-	-	-
e) other	-	-	50,100	-	-	50,100
2. Rights of use acquired through leases	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-
c) furniture	-	-	-	-	-	-
d) electronic systems	-	-	-	-	-	-
e) other	-	-	-	-	-	-
Total	**-**	**-**	**1,430,437**	**-**	**-**	**1,497,783**
of which: obtained through the enforcement of guarantees received	-	-	52,734	-	-	54,741

The changes that occurred during the first half of the year, aside from the normal deterioration process for 8.2 million, include the following:

- transfers of certain buildings to assets held for investment purposes and assets held for sale, for a book value of 47.4 million and 20.2 million, respectively;
- net changes in fair value for a total positive amount of 1.7 million. Said effects are reported in the statement of comprehensive income for a positive 3.3 million and in the item "260. Profits (losses) from the fair value designation of property, plant and equipment and intangible assets" for a negative 1.6 million.

9.4 Property, plant and equipment held for investment purposes: breakdown of assets measured at fair value

Asset/Amounts	Total 30/06/2021			Total 31/12/2020		
	L1	L2	L3	L1	L2	L3
1. Owned assets	**-**	**-**	**1,157,081**	**-**	**-**	**1,160,040**
a) land	-	-	819,654	-	-	829,624
b) buildings	-	-	337,427	-	-	330,416
2. Rights of use acquired through leases	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-
Total	**-**	**-**	**1,157,081**	**-**	**-**	**1,160,040**
of which: obtained through the enforcement of guarantees received	-	-	626,486	-	-	644,449

The changes that occurred during the first half of the year include the following:

- transfers of several properties from assets for business use for a book value of 47.4 million;
- transfers of certain buildings, with a book value of 18.9 million, to assets held for sale;
- net changes in fair value for a total negative amount of 33.9 million euro recognised under item "260. Fair value gains (losses) on property, plant and equipment and intangible assets".

The remaining changes refer to purchases and sales transactions of insignificant amounts.

For the activities carried out in the first half of the year for the fair value measurement of real estate assets, please refer to what is described in the "Significant accounting policies and uncertainties regarding the use of estimates in the preparation of consolidated condensed interim financial statements in the context of the Covid-19 pandemic" section in "Part A - Accounting policies".

Intangible assets – Item 100

10.1 Intangible assets: breakdown by type of asset

Asset/Amounts	Total 30/06/2021		Total 31/12/2020	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	**X**	**54,558**	**X**	**51,100**
A.1.1 attributable to the Group	X	54,558	X	51,100
A.1.2 attributable to non-controlling interests	X	-	X	-
A.2 Other intangible assets	**662,178**	**504,272**	**663,260**	**504,272**
A.2.1 Assets at cost:	662,178	504,272	663,260	504,272
a) Internally generated intangible assets	-	-	-	-
b) Other assets	662,178	504,272	663,260	504,272
A.2.2 Assets at fair value:	-	-	-	-
a) Internally generated intangible assets	-	-	-	-
b) Other assets	-	-	-	-
Total	**662,178**	**558,830**	**663,260**	**555,372**

Intangible assets with an indefinite life: impairment testing to determine whether there has been a permanent loss in value

As at 30 June 2021, the Group's intangible assets with an indefinite useful life amounted to 558.8 million and were represented by goodwill of 54.6 million and trademarks of 504.3 million.
Goodwill is attributable to the "Bancassurance Protection" CGU for 51.1 million; the residual amount of 3.5 million refers to the provisional allocation of the cost of the business combination relating to the acquisition of control of the company Oaklins Italy S.r.l., finalised during the first six months of the year. For further details, please refer to Part G – Business combinations regarding companies or divisions in these Explanatory notes.

Trademarks are instead allocated for 485.7 million to the Retail CGU and for 18.6 million to the Banca Akros CGU.

The trademarks allocated to the Retail CGU refer to the business combinations carried out in previous years by Banco BPM and were measured, for the purposes of the annual impairment test performed as at 31 December 2020, using the Dividend Discount Model method.
The trademark relating to Banca Akros (recognised in the course of the Purchase Price Allocation process carried out following the merger between Banco Popolare and BPM) was measured as at 31 December 2020 on the basis of the royalties method.

During the period, there was no change in the CGUs indicated which therefore express values aligned with the residual values as at 31 December 2020.

For this Consolidated interim financial report, a dedicated analysis was performed to identify any impairment indicators on the basis of which, for the Retail and Banca Akros CGUs, no evidence emerged deemed such so as to require the early performance of a new impairment test. As a result, no update was performed on the estimated recoverable amount of the intangible assets with an indefinite useful life associated with them.

As regards the Bancassurance Protection CGU, on 15 April 2021 the board of directors of Vera Assicurazioni approved an update to the Three-Year Rolling Plan (2021-2023) in order to align it with the objectives outlined in the new agreements with Cattolica also entered into on 15 April 2021. This made it necessary to perform an extraordinary impairment test in addition to the regular yearly test, as described below.

A. Method for calculating the reference value for the test

For the *Bancassurance Protection* CGUs, corresponding to the legal entity Vera Assicurazioni, the reference value was specifically identified as the sum of the pro rata book values of the balance sheet assets and liabilities of the cited entity and the goodwill allocated to the same.

The following table shows the reference book value of the CGU, as determined above, including goodwill to be tested for impairment.

CGU	Reference value	of which: goodwill
Bancassurance Protection	159	51

The above-mentioned reference value is consistent with the methods for determining the respective recoverable amount.

B. Criteria used to determine the recoverable value

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*, after 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 Bancassurance Protection CGU, the impairment test was conducted using the Value in Use, obtained through the application of the Dividend Discount Model (DDM), as a reference.
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:

$$W = \sum_{t=0}^{n} \frac{D_t}{(1+Ke)^t} + TV + SA$$

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:

$$TV = \frac{Dn+1}{Ke-g}(1+Ke)^{-n}$$

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 convert toward a growth rate equal to that of the economy as a whole
Ke = Cost of equity.

B.1 - Estimates of cash flows

For the Bancassurance Protection CGU, the projections were developed over a five-year time horizon based on the Three-Year Rolling Plan (2021-2023) approved by the insurance company in April 2021. For the purposes of estimating distributable dividends, the maintenance of a target Solvency Capital Ratio (SCR) of 130% was considered as a constraint.

B.2 - Cash flow discount rates
To discount the dividends distributable to shareholders, a Cost of capital of 7.23% was used.
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 (R_f) 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 (R_f) component, which in any case encompasses the so-called "Country risk" is determined, using the same methodological approach followed for the financial statements as at 31 December 2020, by using the 1-year average yield on 10-year Italian government BTPs as a reference.
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 - an indicator relating to a comparable sample of companies active in the insurance sector reported by Bloomberg on a weekly basis, over a 5-year time horizon, was used.

Lastly, the risk premium requested from the market (MRP - Market Risk Premium) was determined based on the use of sources in line with measurement practices.

In order to determine the Terminal Value, a long-term growth rate ("g" rate) of 2% was used, equal to the target inflation level of the European Central Bank.

C. Summary of results

Based on the guidelines illustrated, the impairment test as at 30 June 2021 showed no need to recognise the impairment of intangible assets with an indefinite useful life referring to the Bancassurance Protection CGU.
In this regard, it should be noted that the parameters and assumptions underlying the determination of the value in use could be significantly influenced by the macroeconomic framework assumed.

D. Sensitivity Analysis

In compliance with the dictates of IAS 36, 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 table shows 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%.

The table below shows that an increase in the cost of capital to a value of 8.10% combined with a decrease in the growth rate of the terminal value "g" to 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 value in use)					
			(Ke)		
		7.23%		8.10%	
(g)	1.50%	14	8.2%	-7	-4.4%
	2.00%	24	13.3%	0	0.0%
	2.50%	37	18.7%	9	5.1%

In addition, a sensitivity analysis was performed with respect to the cost of capital and the constraint on dividend distribution equal to the Solvency Capital Ratio ("SCR") target. 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 hypothesis of an increase or decrease in the Solvency Ratio and/or the cost of capital with respect to the data effectively used. Specifically, the table shows the level that the Solvency Ratio should take on in order to decrease to zero the positive delta between the recoverable value and the book value, if the cost of capital "ke" is kept constant at 7.23%.

In particular, the table below shows that an increase in the target SCR to a value of 227% combined with an increase in the cost of capital to 7.70% 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 value in use)					
			SCR		
		130%		227%	
Ke	6.98%	33	17.1%	8	4.9%
	7.23%	24	13.3%	0	0.0%
	7.70%	10	6.2%	-13	-9.2%

E. External signs of impairment

The assessment of the existence or otherwise of actual indicators of impairment, especially within the current economic and market scenario, is a particularly complicated task which requires a high degree of judgement and recourse to estimates and assumptions which may need to be modified in the future in light of the information made available or evolutions that cannot be foreseen at the reporting date. In the second half of the year, the Group will continuously monitor in order to identify any facts and circumstances which could call into question the recoverability of the book values; in any event, formal impairment testing will be performed when the financial statements as at 31 December 2021 are drafted.

Tax assets - Item 110 and Item 130 of assets

Deferred tax assets

A.Deferred tax assets – breakdown

As at 30 June 2021, total DTAs amounted to 4,440.3 million euro (4,467.2 million euro as at 31 December 2020), of which 4,398.9 million euro had an impact on the income statement, while 41.4 million euro 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 30 June 2021, 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 2,551.0 million (2,576.3 million as at 31 December 2020). 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 30 June 2021, 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 1,871.9 million (1,895.0 million as at 31 December 2020);
- temporary deductible differences relative to goodwill and other intangible assets recognised in previous years for 679.1 million (681.3 million as at 31 December 2020).

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 2021 amounts to 26.6 million.

Please also note the recent regulatory updates which provide the option to convert into tax credit the DTAs, even if they are not recorded in the financial statements, referring to tax losses not yet calculated as a decrease in the IRES taxable income, as well as the portion of benefits deriving from the Aid to Economic Growth (ACE) regulations not yet used.
Specifically, the provisions set forth in Art. 44 bis of Decree Law no. 34 of 30 April 2019 as amended most recently by Decree Law no. 73 of 25 May 2021 (the "Sostegni-bis" Decree) subject the conversion of the DTAs in question to the completion of assignments for valuable consideration by 31 December 2021 of financial receivables due from debtors in default.
For the purpose of converting the DTAs, it is possible to use the losses and ACE surplus within the limit of 20% of the nominal value of the loans assigned, with a maximum annual limit of 2 billion in value referring to the total assignments of all the Group companies connected with each other through control relationships. To avail of the conversion option it is necessary to pay the annual fee set out in Decree Law no. 59 of 2016 to convert eligible DTAs, as illustrated above.
By virtue of the above regulations, considering the operations finalised in the first half of 2021, the Group has converted DTAs into tax credits for a total amount of 91.6 million.

As at 30 June 2021, residual deferred tax assets (non-transformable DTAs) amounted to 1,889.2 million (1,890.8 million as at 31 December 2020), of which 951.3 million deriving from IRES tax losses, which can be carried forward (1042.0 million as at 31 December 2020) and 938.0 million deriving from costs and value adjustments deductible in years subsequent to those of recognition in the financial statements (848.8 million as at 31 December 2020).
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 30 June 2021 came to 54.0 million, of which 14.6 million of IRES DTAs and 39.4 million of IRAP DTAs.

B.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 transformed into tax credits, equal to 2,551.0 million - corresponding to 57.5% of the total DTAs posted in the financial statements as at 30 June 2021 - 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 1,889.2 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 or 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;
- estimates of future taxable income have been made using a multi-scenario approach, taking as a reference the Banco BPM Group's or Banco BPM's income flow projections for the period 2021 - 2023 and an annual growth rate of 2% for "normalised" income in the last year of the forecast;
- 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 (DTL) 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.

<u>B.1 Estimated future taxable income</u>

The future taxable income was estimated starting with the income projections of Banco BPM and the Group for the years 2021-2023, drawn up in line with the 2021 budget figures and, for the years 2022-2023, with the strategies approved by the Board of Directors in April 2021 in preparation for the revision of the 2021-2023 Strategic Plan. In that regard, as illustrated in the Interim report on operations, the 2020-2023 Strategic Plan, announced to the market on 3 March 2020, is no longer deemed current, as it was drawn up based on hypotheses and assumptions formulated prior to the spread of Covid-19 and, thus, based on macroeconomic forecasts different from those that are gradually taking shape.
Given 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.
For long-term profitability, starting from 2024, we took as reference the expected income in 2023, determined by weighting the three aforementioned scenarios, appropriately normalised to take account of a number of components considered non-recurring. This income has been projected, from 2025 onwards, at an annual growth rate (g) of 2%, i.e. the expected nominal growth rate of the economy, in line with the ECB's long-term monetary stability policy inflation target.

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 5.89% has been introduced (slightly down on the 6.19% used as reference for the financial statements as at 31 December 2020). This factor has been defined as a function of the risk premium required by the market (MRP - Market Risk Premium), equal to 5.1%, multiplied by the Beta coefficient (ß), equal to 1.16%, 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 5.89%, applied according to the compound capitalisation formula, from 2024 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.

It should be noted that the estimates of income flows, the growth rate (g) and the parameters for factoring in forecasting uncertainty (MRP and ß) are consistent with those considered in order to exclude the need to perform impairment testing on the intangible assets with an indefinite useful life relating to the Retail CGU, lacking objective evidence of a loss.

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 2020 and estimated to be existing as at 30 June 2021, which can be recovered through the income generated by all the companies participating in the tax consolidation, amount to 1,594.5 million. Full recovery of those DTAs is expected by the end of 2037 (17 years). It must also be noted that over 80% of the DTAs can be recovered by 2033 (13 years). 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 quicker, finishing in 2033 (13 years).
The IRES DTAs recognised based on the additional tax rate of 3.5% as at 31 December 2020 and estimated to be existing as at 30 June 2021, which can be recovered through the income generated in the separate financial statements of Banco BPM, amount to 226.9 million. Recovery of over 90% of those DTAs is expected by the end of 2040 (20 years). 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 2035 (15 years).
Lastly, referring to the IRAP DTAs of Banco BPM as at 31 December 2020 and estimated to be existing as at 30 June 2021, which can be recovered through income generated individually by Banco BPM, of 68.8 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%

Considering that 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% (1,594.5 million, equal to more than 80% of the total non-convertible IRES DTAs) a sensitivity analysis of the main assumptions and hypotheses with respect to the recovery time horizon was carried out. 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 (7.39% and 4.39% respectively) would result respectively in an extension of the time horizon by 2 years or a reduction of the time horizon by two years;
- long-term income growth rate (g): a reduction of 0.5% (from 2% to 1.5%) would not have significant impacts on the time horizon for recovery, which would be confirmed as by the end of 2037;
- a "normalised" taxable income expected from 2024 onwards: a 10% reduction in that income would lengthen the expected return of the DTAs by two years.

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 2033 (13 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 30 June 2021 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 30/06/2021	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%)	
31/12/2025 (5 years)	22.5%	22.5%	22.5%	22.5%	22.5%	22.5%
31/12/2030 (10 years)	59.8%	57.2%	62.7%	59.1%	55.6%	73.0%
31/12/2033 (13 years)	80.3%	74.8%	86.4%	78.6%	73.3%	100.0%
31/12/2034 (14 years)	86.5%	80.0%	93.8%	84.5%	78.7%	
31/12/2035 (15 years)	92.5%	84.9%	100.0%	90.1%	83.8%	
31/12/2036 (16 years)	98.2%	89.5%		95.4%	88.7%	
31/12/2037 (17 years)	100.0%	93.8%		100.0%	93.4%	
31/12/2038 (18 years)		97.9%			97.9%	
31/12/2039 (19 years)		100.0%			100.0%	

B.4 Considerations on DTAs relating to IRES tax losses that can be carried forward

Note that as at 30 June 2021, the DTAs deriving from IRES tax losses that can be carried forward amount to 951.3 million, compared to 1,042.0 million as at 31 December 2020.
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 in the previous years 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.
The loss recorded during 2020 also derives from extraordinary circumstances, as it is rooted in the scenario created by the Covid-19 pandemic and the resulting extraordinary actions implemented as a reaction to that situation.

11.1 Deferred tax assets: breakdown

	IRES	IRAP	Other taxes	30/06/2021	31/12/2020
A) As balancing entry in the Income Statement					
A.1) Transformable DTAs pursuant to Italian Law 214/2011	**2,267,736**	**283,275**	**-**	**2,551,011**	**2,576,352**
Write-downs of loans deductible in subsequent years	1,709,490	162,373	-	1,871,863	1,895,009
Costs deductible in subsequent years deriving from the tax relief on goodwill and other intangible assets	558,246	120,902	-	679,148	681,343
A.2) DTAs - Other types	**1,771,934**	**75,946**	**-**	**1,847,880**	**1,870,547**
Tax losses that can be carried forward	951,270	-	-	951,270	1,042,031
ECL adjustments of FTAs pursuant to IFRS 9 on loans to customers deductible in the subsequent years	273,023	53,318	-	326,341	348,098
Provisions and value adjustments deductible in subsequent years	126,350	976	-	127,326	138,403
Personnel expenses and provisions for employee severance pay deductible in subsequent years	158,584	1,124	-	159,708	173,910
Value adjustments to real estate deductible in subsequent years	225,594	16,019	-	241,613	125,166
Book values lower than the recognised tax values resulting from value adjustments to goodwill and other intangible assets	21,740	4,437	-	26,177	26,960
Book values lower than the recognised tax values resulting from fair value measurement of financial assets	1,163	48	-	1,211	1,232
Other cases of misalignment between book and tax values	14,210	24	-	14,234	14,747
Total A	**4,039,670**	**359,221**	**-**	**4,398,891**	**4,446,899**
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	19,872	5,584	-	25,456	3,520
Other cases of misalignment between book and tax values	14,160	1,742	-	15,902	16,784
Total B	**34,032**	**7,326**	**-**	**41,358**	**20,304**
Total (A+B)	**4,073,702**	**366,547**	**-**	**4,440,249**	**4,467,203**

Other assets: receivables due from tax authorities

Item 130 "Other assets" as at 30 June 2021 includes receivables due from tax authorities of 1,503.1 million (1,149.1 million as at 31 December 2020), mainly represented by:

- receivables for applications for refund of direct taxes for a total of 300.9 million, of which 208.0 million relating to 2018, requested for refund in 2019. The item also includes the IRPEG/ILOR receivables relative to 1995 for the former Banca Popolare di Novara of 92.9 million, repayment of which was denied by the Tax Authorities - Novara Provincial Office. In the context of the dispute begun by the former Banco Popolare, both the Provincial Tax Commission and the Regional Tax Commission accepted the appeals presented, ordering the Italian Revenue Agency to also pay legal expenses. The Italian Revenue Agency's appeal to the Supreme Court is pending;
- receivables for applications for VAT refund for a total of 186.1 million, of which 177.0 million relating to 1998, 1999 and 2000 of the former Banca Italease S.p.A. As part of the dispute initiated against the silent refusal of the Tax Authority, both the Provincial and Regional Tax Commissions accepted the appeals submitted by the Bank. On 21 March 2019, following the appeal of the Tax Authority, the Supreme Court decided to transfer to another section of the Regional Tax Commission the verification of the actual existence of the unpaid taxes highlighted by the Authority in justification of the refusal of refund. The lawsuit was discussed with resumption of the proceedings before the Regional Tax Commission of Milan on 9 November 2020. Given that the above tax charges have been paid off, the Bank is confident that it will fully recover the credits in question. The residual amount, equal to 9.1 million, comprises 7.5 million referring to the dispute of the former Mercantile Leasing S.p.A. relating to the partial refusal of the refund of VAT for the first and second quarters of 2007. An appeal has been presented to the Provincial Tax Commission. An additional amount of 1.6 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;
- receivables recorded as balancing entries to the provisional payments made pending the final judgment of the pending tax disputes, for a total of 210.2 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;

- residual receivables deriving from the application for refund of the IRAP deductible from IRES referring to labour costs for the tax periods 2005 to 2011 following the issue of Decree Law no. 185/2008 for a total of 83.3 million euro;
- receivables deriving from excess advance stamp duty payments, substitute taxes applied to customers during the year and which will be recovered through offsetting during 2021 totalling 277.5 million;
- tax receivables connected with the interest accrued on loans disbursed to customers resident in areas hit by earthquakes for 63.9 million;
- tax credits connected with the payment of Group VAT for 0.6 million;
- Ecobonus credits of 371.1 million;
- municipal tax (IMU) credits of 0.3 million;
- 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 for 0.5 million.

With reference to the Ecobonus credits mentioned above, which explain the change taking place in receivables from the tax authorities classified under "Other assets", refer to the paragraph entitled "Other significant aspects relating to Group accounting policies" contained in Part A - "Accounting Policies".

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 30/06/2021	Total 31/12/2020
A. Assets held for sale		
A.1 Financial assets	6,732	11,374
A.2 Interests in associates and joint ventures	-	-
A.3 Property, plant and equipment	92,885	61,449
of which: obtained through the enforcement of guarantees received	21,486	21,527
A.4 Intangible assets	-	-
A.5 Other non-current assets	414	-
Total A	**100,031**	**72,823**
of which at cost	7,653	11,374
of which at fair value level 1	-	-
of which at fair value level 2	-	-
of which at fair value level 3	92,378	61,449
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	-	-
C.2 Securities	-	-
C.3 Other liabilities	(2,437)	-
Total C	**(2,437)**	**-**
of which at cost	(2,437)	-
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 30 June 2021 (similarly to 31 December 2020), assets held for sale included the following types:

- owned properties for which sales negotiations in progress as at 30 June 2021 render probable the completion of the sales during the next year (indicated under item A.3 "Property, plant and equipment");
- receivables for which the process of finalising the assignment will result in a sale in 2021 (shown in item A.1 "Financial assets");
- other assets and liabilities relate to the real estate company Marinai d'Italia and its subsidiaries Perca and Meleti, the sale of which has been approved.

LIABILITIES

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 30/06/2021				Total 31/12/2020			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Due to central banks	**37,206,263**	X	X	X	**27,820,559**	X	X	X
2. Due to banks	**7,069,860**	X	X	X	**6,124,039**	X	X	X
2.1 Bank accounts and demand deposits	890,569	X	X	X	521,475	X	X	X
2.2 Fixed-term deposits	170,191	X	X	X	152,328	X	X	X
2.3 Loans	5,724,877	X	X	X	5,215,642	X	X	X
2.3.1 Repurchase agreements	5,260,541	X	X	X	4,619,012	X	X	X
2.3.2 Other	464,336	X	X	X	596,630	X	X	X
2.4 Payables for commitment to repurchase own capital instruments	-	X	X	X	-	X	X	X
2.5 Lease payables	6,812	X	X	X	7,075	X	X	X
2.6 Other payables	277,411	X	X	X	227,519	X	X	X
Total	**44,276,123**	**-**	**-**	**44,276,123**	**33,944,598**	**-**	**-**	**33,944,596**

BV = Book value
L1 = Level 1
L2 = Level 2
L3 = Level 3

1.2 Financial liabilities at amortised cost: breakdown by product for amounts due to customers

Transaction type/Amounts	Total 30/06/2021				Total 31/12/2020			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Bank accounts and demand deposits	103,004,657	X	X	X	98,490,060	X	X	X
2. Fixed-term deposits	1,161,774	X	X	X	1,474,004	X	X	X
3. Loans	1,796,741	X	X	X	1,169,988	X	X	X
3.1 Repurchase agreements	1,165,402	X	X	X	495,505	X	X	X
3.2 Other	631,339	X	X	X	674,483	X	X	X
4. Payables for commitment to repurchase own capital instruments	-	X	X	X	-	X	X	X
5. Lease payables	715,294	X	X	X	753,205	X	X	X
6. Other payables	920,128	X	X	X	1,028,409	X	X	X
Total	**107,598,594**	**-**	**-**	**107,598,594**	**102,915,666**	**-**	**-**	**102,915,666**

BV = Book value
L1 = Level 1
L2 = Level 2
L3 = Level 3

1.3 Financial liabilities at amortised cost: breakdown by product for debt securities in issue

Security type/Amounts	Total 30/06/2021				Total 31/12/2020			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. Bonds	13,009,799	11,783,409	1,679,729	-	14,491,141	13,059,867	1,871,203	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	13,009,799	11,783,409	1,679,729	-	14,491,141	13,059,867	1,871,203	-
2. Other securities	39,111	-	-	39,111	69,489	-	-	69,489
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	39,111	-	-	39,111	69,489	-	-	69,489
Total	**13,048,910**	**11,783,409**	**1,679,729**	**39,111**	**14,560,630**	**13,059,867**	**1,871,203**	**69,489**

BV = Book value
L1 = Level 1
L2 = Level 2
L3 = Level 3

Debt securities in issue as at 30 June 2021 amounted to 13.0 billion (14.6 billion as at 31 December 2020).

As specified in the section "Significant events during the period" in the Interim report on operations, in June, the placement of a 300 million 10-year Tier 2 subordinated bond issue for institutional investors was concluded, which is included within the Group's Euro Medium Term Notes Programme. The bond, primarily subscribed by foreign investors, provides for a fixed coupon of 2.875% for the first five years.

During the half-year, bonds amounting to approximately 1.8 billion matured or were repaid in advance.

Financial liabilities held for trading – Item 20

2.1 Financial liabilities held for trading: breakdown by product

Transaction type/Amounts	Total 30/06/2021					Total 31/12/2020				
	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	526,744	581,120	-	-	581,120	1,693	2,715	-	-	2,715
2. Due to customers	5,576,105	87,269	5,776,515	-	5,863,784	6,275,407	1,937,630	4,809,615	-	6,747,245
3. Debt securities	2,579,247	-	2,614,633	-	2,555,200	2,968,222	-	2,957,698	-	2,908,690
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	2,579,247	-	2,614,633	-	2,555,200	2,968,222	-	2,957,698	-	2,908,690
3.2.1 Structured	2,579,247	-	2,614,633	-	X	2,968,222	-	2,957,698	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total A	**8,682,096**	**668,389**	**8,391,148**	**-**	**9,000,104**	**9,245,322**	**1,940,345**	**7,767,313**	**-**	**9,658,650**
B. Derivative instruments										
1. Financial derivatives	-	192,729	1,917,226	305	-	-	112,343	2,865,897	541	-
1.1 Held for trading	X	192,729	1,881,320	305	X	X	112,343	2,836,179	541	X
1.2 Connected with the fair value option	X	-	35,812	-	X	X	-	29,478	-	X
1.3 Other	X	-	94	-	X	X	-	240	-	X
2. Credit derivatives	-	-	2,470	-	-	-	-	1,105	-	-
2.1 Held for trading	X	-	2,470	-	X	X	-	1,105	-	X
2.2 Connected with the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	**X**	**192,729**	**1,919,696**	**305**	**X**	**X**	**112,343**	**2,867,002**	**541**	**X**
Total (A+B)	**X**	**861,118**	**10,310,844**	**305**	**X**	**X**	**2,052,688**	**10,634,315**	**541**	**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*

Financial liabilities designated at fair value – Item 30

3.1 Financial liabilities designated at fair value: breakdown by product

Transaction type/Amounts	Total 30/06/2021					Total 31/12/2020				
	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	X
- financial guarantees given	-	X	X	X	X	X	X	X	X	X
2. Due to customers	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Structured	-	-	-	-	X	-	-	-	-	X
2.2 Other	-	-	-	-	X	-	-	-	-	X
of which:										
- commitments to disburse funds	-	X	X	X	X	X	X	X	X	X
- financial guarantees given	-	X	X	X	X	X	X	X	X	X
3. Debt securities	**1,204,222**	**-**	**1,220,442**	**-**	**1,198,621**	**949,433**	**-**	**955,781**	**-**	**943,781**
3.1 Structured	994,222	-	1,006,297	-	X	739,433	-	742,203	-	X
3.2 Other	210,000	-	214,145	-	X	210,000	-	213,578	-	X
Total	**1,204,222**	**-**	**1,220,442**	**-**	**1,198,621**	**949,433**	**-**	**955,781**	**-**	**943,781**

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

Structured debt securities refer to capital guaranteed certificates.
The use of the fair value option is due to the characteristic of a complex contract containing one or more embedded derivatives capable of significantly modifying the cash flows of said contract.

The remaining positions refer to certain bond issues, carried out in previous years and hedged using derivatives, for which recourse to the fair value option was used to eliminate or significantly reduce an accounting asymmetry with respect to the valuation criteria of management hedging derivatives, as an alternative to the accounting treatment of hedge accounting.

During the half-year, there were no repayments of significant amounts.

Liability provisions – Items 90 and 100

As at 30 June 2020, liability provisions amount to 1,276.8 million (1,415.5 million as at 31 December 2020) and include the provisions for employee severance pay of 343.3 million (369.5 million at the end of last year), retirement plans of 129.0 million (133.7 million as at 31 December 2020), risk provisions for commitments and guarantees given of 133.4 million (127.4 million as at 31 December 2020) and other provisions of 671.1 million (784.9 million at the end of 2020).

The latter include:
- provisions for legal and tax disputes amounting to 102.0 million;
- provisions for personnel expenses of 407.4 million, primarily attributable to allocations due to recourse to the extraordinary benefits of the sector Solidarity Fund relating to agreements for voluntary Group personnel retirement plans;

- other provisions amounting to 161.7 million, which include inter alia foreseeable charges connected with certain transactions linked with operations with customers and possible developments in the interpretation of certain regulations governing banking activities.

Considering that a precise indication of the allocations could seriously prejudice the position of the company in the management of disputes connected with potential liabilities subject to valuation, as permitted by paragraph 92 of the international accounting standard of reference (IAS 37), for some cases no analytical indication has been provided regarding the amount of the allocations existing within the provisions for risks and charges and the allocations charged to the income statement.

10.1: Provisions for risks and charges: breakdown

Items/Components	Total 30/06/2021	Total 31/12/2020
1. Provisions for credit risk relating to commitments and financial guarantees given	48,558	56,024
2. Provisions for other commitments and guarantees given	84,793	71,418
3. Company pension funds	129,027	133,654
4. Other provisions	671,107	784,879
4.1 legal and tax disputes	101,970	109,493
4.2 personnel expenses	407,410	450,722
4.3 other	161,727	224,664
Total	**933,485**	**1,045,975**

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.

As regards relationships with the "Tax Authorities", Banco BPM, the companies whose merger gave rise to the Group, the incorporated subsidiaries and the subsidiaries have been subject to various audits, both in 2021 and in previous years. 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 a number of 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 which will generate 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 to generate 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 will be required to be used to generate economic benefits to fulfil 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 not probably but just possible liabilities, it has not allocated any provisions.

For the liabilities deemed probable, the disclosure on the amount of the allocation 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. As indicated in the paragraph "Significant accounting policies and uncertainties regarding the use of estimates in the preparation of consolidated condensed interim financial statements in the context of the Covid-19 pandemic", to which reference is made, the complexity of the situations and corporate transactions that form the basis of the disputes entail significant elements of judgment 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 enforcement actions, total 102.0 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 main legal disputes pending as at 30 June 2021, whose settlement is deemed could entail a probably 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 bank accounts and securities portfolios. With judgement of 31 December 2020 the Court of Milan rejected all of the opponents' claims. The sentence was appealed by the counterparties who at the same time reduced the claims to approximately 11.8 million.
- 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. The lawsuit is pending in the initial stage before the Court of Milan following the declaration of the lack of geographical jurisdiction of the Court of Latina where the counterparty initially initiated the lawsuit.
- 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 lawsuit is pending before the Court of Rome.
- On 15 December 2020, BM 124 S.r.l. (assignee of a receivable by Fallimento Barbero Metalli S.p.A.) summoned Banco BPM before the court, along with additional parties (including seven banks), for the purpose of ordering all the defendants to jointly pay 37.5 million (equal to the greater losses recorded) or, alternatively, 22.9 million (equal to the total prejudicial operations, of which 9.2 million referring to Banco BPM) as compensation for the damages allegedly caused by the unlawful granting of credit. The lawsuit is pending in the initial stage before the Court of Florence.
- 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. At the hearing on 19 April 2021, the Judge scheduled the hearing for closing arguments for 10 May 2022.

- 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 subsidiary's appeal against the provincial order, while the proceedings are still pending before the Council of State, 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.
  Irrespective of possible future developments of the disputes in question, in relation to the obligation deriving from the afore-mentioned judgement of the Lombardy Regional Administrative Court, it is likely that the subsidiary may be called to use financial resources to take on the burden of the interventions of reclamation and securing the site. Based on a technical report by the technical expert assigned by the subsidiary (Golder), considering the continuing uncertainty of the works to be carried out on the area (which could be defined only after a characterisation plan has been drawn up and the related administrative proceedings for approval of any reclamation plan have concluded), it is not possible to reliably quantify any reclamation costs, even within a range of a certain size. Therefore, no allocations of provisions for risks and charges have been made in the subsidiary's financial statements in relation to the potential liability described and, as a result, none have been made in these consolidated condensed interim financial statements.

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 427.7 million.
Claims classified as probable amount to a total of 269.2 million, against which 62.8 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 main legal disputes pending as at 30 June 2021, whose settlement is deemed could entail a probably or possible use of financial resources.

- Tecnogas S.p.A. - The proceedings are requesting the return of amounts of 11.2 million. The bankruptcy clawback proceedings in first instance were favourable to the Bank, a judgement opposed by the receivership. After initially admitting the court-appointed expert's report, the Court of Appeal of Ancona suspended the assignment following the Bank's formal petition regarding the burden of argument and proof in clawbacks of remittances in bank accounts. The proceedings concluded with a ruling in favour of the Bank on 11 May 2021 and the full rejection of the counterparty's claims. The ruling was not appealed and became definitive on 16 July 2021.
- 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 bank 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 first hearing for filing an appearance, scheduled for 30 December 2020, was postponed to 21 April 2021. At the last hearing, the Judge further deferred the hearing for the discussion of the case to 11 October 2021.

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 provisions allocated against the claims classified as probable amount to a total of 5.3 million.

Please also note that the Group is involved a series of additional disputes concerning debt collection activities, against which a total of 15.6 million in provisions have been recognised.

Tax disputes

The total claims made by the Tax Authorities as part of the tax disputes initiated involving Banco BPM and its subsidiaries amount to 222.7 million as at 30 June 2021[1].

There were no changes during the first half of the year.

Details of pending disputes as at 30 June 2021

The main tax disputes pending as at 30 June 2021 (with claims equal to or exceeding 1 million euro) 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 imposed are not due. The Regional Tax Commission confirmed the first instance judgment, also cancelling the tax demand relating to the additional IRAP referring to the Tuscany Region. The appeal submitted to the Supreme Court is pending. It is deemed that the settlement of the dispute may entail the actual use of economic resources of 5.6 million. That amount was charged to the income statement in the previous years, while the difference is classified as a potential liability in relation to which no provisions have been recognised in the financial statements.
- 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. 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 judgment 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

[1] Note that that 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.

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 aforementioned 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 Authorities 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 30 June 2021.

Audits under way as at 30 June 2021

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. Based on the results of the reports of the audit, which is still under way, no findings have been stated.

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.

10.6.2 Other provisions - personnel expenses

These amounted to 407.4 million and include the amount of 257.0 million allocated for the charges expected for the use of the extraordinary benefits of the Solidarity Fund and for voluntary redundancy 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 1,500 resources. In the first half of the year, again in agreement with the Trade Union Organisations, the agreed number of employees concerned was increased from 1,500 to 1,607, in any case not requiring the recognition of additional provisions in the Income Statement.
This item also includes the residual charges to be paid to finance the Solidarity Fund for early retirement incentive plans for personnel begun in years prior to 2020 and the estimate of charges deriving from the foreseeable payment of variable compensation in compliance with that established under the Group's incentive systems.

10.6.3 Other provisions - other

This residual category of provisions amounts to a total of 161.7 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 (94.0 million);
b) estimated liabilities against probable reimbursements of fees consequent to the possible early termination by customers of insurance policies (20.7 million);

c) risks associated with guarantees granted and/or commitments undertaken as part of partnership agreements against the disposal of interests or other assets or groups of assets (12.5 million);
d) risks associated with guarantees given for the sale of loans, attributable to the Exodus, ACE, Titan, Django and Rockets projects (3.3 million).

Category a) includes the provision made against 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.
To that end, note that the in April 2017 the Antitrust Authority (AGCM) extended the proceedings initiated against IDB to the reporting banks, including Banco BPM, and on 30 October 2017, by finding an allegedly incorrect commercial practice under the Consumer Code, imposed an administrative fine on IDB and the reporting banks (amounting, in the case of Banco BPM, to 3.35 million). The Bank challenged the Antitrust Authority's measure first before the Regional Administrative Court, which rejected the Bank's appeal, and then before the Council of State, which with a ruling dated 28 January 2021, in confirming the structure of the Regional Administrative Court's ruling, accepted in part the criticisms in the Bank's appeal, reducing the penalty imposed by the Antitrust Authority by 30%, since it was deemed disproportionate with that of the company IDB.
In relation to those operations, criminal proceedings are also pending before the Public Prosecutor's Office of Milan. As part of these, on 19 February 2019 the Public Prosecutor's Office of Milan served to the Bank (i) a pre-judgement attachment 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. In the notice of closing of the preliminary investigations, 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. The preliminary hearing began on 19 July and will continue on 20 September 2021 (without prejudice to additional further deferrals).
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 that regard, also with a view to being close to customers, in the last few years the Group has implemented a large-scale customer care initiative. This entails a case-by-case analysis of the aspects reported by customers in their complaints, for the purpose, if necessary, of finalising settlements that envisage the customer retaining ownership of the gem along with the provision of an economic compensation by the Group banks involved. Moreover, following the bankruptcy of IDB, declared in January 2019, the Group further strengthened its oversight of customer care, setting up a free service for assistance to customers in submitting requests for return of the gems to the bankruptcy receiver and, lastly, for return of diamonds still in custody at the vaults managed by the IDB bankruptcy to customers that have already received their authorisations from the Presiding Judge. As at 19 July 2021 (the date nearest to the date of approval of the Financial Report), more than 24,000 complaints and disputes had been received for a total remedy sought of approximately 713 million, of which approximately 1,460 million gave rise to civil proceedings in which the Bank was a defendant, for a total remedy sought of approximately 77 million.
At the same date, due to the previously illustrated management and customer care activities, complaints and disputes were settled for a total remedy sought exceeding 560 million. Against the complaints and disputes, both those not yet defined and therefore still pending and those potentially estimated, the sub-item in question includes the specific provision recognised against the above disputes with customers amounting to 91.7 million.
As permitted by paragraph 92 of the reference international accounting standard (IAS 37), the disclosure set out above does not include the information whose provision could harm the position of the Group banks involved (Banco BPM and Banca Aletti) in the actions to protect their third party position in the situation and in the pending disputes.

Item a) also includes 2.3 million for the residual amount relating to the completion of the work to be carried out as a result of the Bank's decision to recalculate the conditions applied to customers relative to investigation fees and the granting of credit availability relative to previous years, based on metrics recently defined under more severe regulations and interpretation notes issued by the supervisory bodies.

Point 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.

Point c) represents the provision allocated against risks associated with certain guarantees granted to the buyer at the time of disposals of interests in associates and joint ventures, asset and groups of assets which have already been completed and/or commitments made with respect to the partnership agreements 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 interest 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 agreement 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 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;
- the sale finalised in 2011 of a share of 81% of the interest held in Bipiemme Vita to Covéa. In this regard, please recall that during the half-year, the Parent Company redefined its partnership agreements with Covéa; please refer to the "Interests in associates and joint ventures - Item 70" section of these Notes for information in this regard.

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 the half 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 concerning 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) 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 38.5 million recognised in the 2020 financial statements should continue to be maintained in the financial statements as at 30 June 2021.
Moreover, taking into account the fact that the sum of 26 million linked to the failure to transfer 65% of the share capital of BPM Vita to Cattolica constitutes a certain liability, when preparing the accounting statement as at 30 June 2021, a "payable" to Cattolica was recognised, reclassifying the amount of the expected expense already recognised in the 2020 financial statements to provisions for risks and charges; the amount of 12.5 million representing the estimated penalty due for failure to achieve the distribution targets set forth in the previous agreements was maintained as implicitly included in the exercise price of the new options.

As concerns commitments relating to the new sales targets set forth in the new agreements, at 30 June 2021 the objectives were deemed reachable and as a result the use of financial resources for the payment of penalties/indemnities is not expected.

Lastly, point d) refers to the amount allocated to cover probable future financial disbursements for guarantees granted as part of assignments by means of the securitisation of loans taking place in 2021 and previous years.

Group Equity – Items 120, 130, 140, 150, 160, 170 and 180

13.1 "Share capital" and "Own shares": breakdown

As at 30 June 2021, share capital was 7,100 million, consisting of 1,515,182,126 ordinary shares subscribed and fully paid up.

The "own shares" item is represented by 3,640,077 shares of the Parent Company, fully held by the same, for a book value of 8.3 million.

13.2 Share capital – Number of shares of the Parent Company: annual changes

	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 (-)	(6,125,659)	-
A.2 Shares in issue: opening balances	**1,509,056,467**	**-**
B. Increases	**2,485,582**	**-**
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	2,485,582	-
B.3 Other changes	-	-
C. Decreases	**-**	**-**
C.1 Cancellation	-	-
C.2 Purchase of own shares	-	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	-
D. Shares in issue: closing balances	**1,511,542,049**	**-**
D.1 Own shares (+)	3,640,077	-
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 includes shares assigned during the period to employees, implementing remuneration and incentive policies as detailed in Part L of the Explanatory Notes.

Information relating to issues and purchases/sales of shares issued by the Bank

During the half-year, there were no changes in the breakdown of the share capital.

Information relating to issues and purchases/sales of convertible bonds issued by the Bank

As at 30 June 2021, no convertible bond instruments issued by the bank were in circulation.

Equity instruments: breakdown

Equity instruments outstanding as at 30 June 2021 amounted to 1,092.8 million (695.4 million at the end of the previous year) and consisted entirely of three issues of Additional Tier 1 securities, the first in 2019 for a nominal amount of 300 million, the second, completed in January 2020, for a nominal amount of 400 million and the third, in January 2021, for a nominal amount of 400 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 30 June 2021 the shareholders' equity decreased by 18.4 million, as a result of the payment of the coupons net of the related tax effect. For further details, please refer to the prior "Part A - Accounting Policies".

Valuation reserves: breakdown

The following table shows the breakdown of valuation reserves.

(thousands of euro)	30/06/2021	31/12/2020
Financial assets measured at fair value through other comprehensive income	66,427	139,259
Property, plant and equipment	377,263	246,926
Foreign investment hedges	513	199
Cash flow hedges	(10,887)	(4,287)
Exchange rate differences	11,079	11,860
Financial liabilities designated at fair value through profit and loss (changes to its own credit risk)	(15,540)	(8,608)
Actuarial gains/(losses) on defined benefit pension plans	(95,039)	(95,176)
Share of valuation reserves related to interests in associates and joint ventures carried at equity	14,164	17,925
Special revaluation laws	2,314	2,314
Total	**350,294**	**310,412**

The change in the valuation reserve relating to property, plant and equipment of 130.3 million refers for 127.4 million to the effect of the tax realignment of property for business use as illustrated in the "Other significant aspects relating to Group accounting policies" section in "Part A - Accounting policies" in these Notes.

PART C – INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

Interest – Items 10 and 20

1.1 Interest and similar income: breakdown

Items/Technical forms	Debt securities	Loans	Other transactions	Total I half 2021	Total I half 2020
1. Financial assets at fair value through profit and loss:	11,054	1,755	1,818	14,627	20,237
1.1 Financial assets held for trading	9,041	-	1,818	10,859	12,104
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value	2,013	1,755	-	3,768	8,133
2. Financial assets measured at fair value through other comprehensive income	74,459	-	X	74,459	78,287
3. Financial assets at amortised cost:	125,081	879,750	X	1,004,831	1,075,602
3.1 Loans to banks	5,301	17,146	X	22,447	25,197
3.2 Loans to customers	119,780	862,604	X	982,384	1,050,405
4. Hedging derivatives	X	X	(70,823)	(70,823)	(53,730)
5. Other assets	X	X	5,741	5,741	2,428
6. Financial liabilities	X	X	X	183,734	58,533
Total	**210,594**	**881,505**	**(63,264)**	**1,212,569**	**1,181,357**
of which: interest income on impaired financial assets	198	49,509	-	49,707	67,810
of which: interest income on finance leases	-	9,420	-	9,420	11,907

Item "6. Financial liabilities" refers for 165.5 million to interest accrued relating to the TLTRO III financing transactions with the ECB (34.4 million as at 30 June 2020); for the relative accounting treatment, refer to the paragraph entitled "Other significant aspects relating to Group accounting policies" contained in Part A - "Accounting Part A - Accounting Policies" of these Notes.

1.3 Interest and similar expense: breakdown

Items/Technical forms	Payables	Securities	Other transactions	Total I half 2021	Total I half 2020
1. Financial liabilities at amortised cost	(49,901)	(127,529)	X	(177,430)	(241,258)
1.1 Due to central banks	-	X	X	-	-
1.2 Due to banks	(19,960)	X	X	(19,960)	(44,913)
1.3 Due to customers	(29,941)	X	X	(29,941)	(34,756)
1.4 Debt securities in issue	X	(127,529)	X	(127,529)	(161,589)
2. Financial liabilities held for trading	(7,021)	-	-	(7,021)	(3,137)
3. Financial liabilities designated at fair value	-	(1,664)	-	(1,664)	(2,150)
4. Other liabilities and provisions	X	X	(96)	(96)	(111)
5. Hedging derivatives	X	X	23,301	23,301	22,632
6. Financial assets	X	X	X	(43,803)	(13,477)
Total	**(56,922)**	**(129,193)**	**23,205**	**(206,713)**	**(237,501)**
of which: interest expense relating to lease payables	(3,794)	-	-	(3,794)	(4,909)

Fees and commissions – Items 40 and 50

2.1 Fee and commission income: breakdown

Service type/Amounts	Total I half 2021	Total I half 2020
a) guarantees given	39,786	36,647
b) credit derivatives	-	-
c) management, brokerage and advisory services	502,270	399,600
1. financial instrument trading	15,274	16,571
2. foreign currency trading	1,964	1,854
3. portfolio management	13,617	11,813
3.1. individual	13,617	11,813
3.2 collective	-	-
4. securities custody and administration	5,353	4,702
5. custodian bank	750	717
6. placement of securities	11,631	30,009
7. receipt and transmission of orders	22,953	22,746
8. advisory activities	7,122	2,573
8.1 concerning investments	4,075	1,796
8.2 concerning financial structure	3,047	777
9. distribution of third party services	423,606	308,615
9.1. portfolio management	316,222	229,229
9.1.1. individual	906	1,070
9.1.2. collective	315,316	228,159
9.2. insurance products	67,444	50,474
9.3. other products	39,940	28,912
d) collection and payment services	85,987	76,517
e) servicing for securitisation transactions	-	-
f) services for factoring transactions	-	-
g) tax and lottery collection	-	-
h) management of multilateral trading facilities	-	-
i) keeping and management of bank accounts	126,607	99,756
j) other services	253,804	252,973
Total	**1,008,454**	**865,493**

2.2 Fee and commission expense: breakdown

Services/Amounts	Total I half 2021	Total I half 2020
a) guarantees received	(5,757)	(4,744)
b) credit derivatives	-	-
c) management and brokerage services:	(19,241)	(21,996)
1. financial instrument trading	(5,486)	(5,685)
2. foreign currency trading	(4)	(4)
3. portfolio management:	-	-
3.1 own	-	-
3.2 delegated to third parties	-	-
4. securities custody and administration	(5,924)	(4,721)
5. placement of financial instruments	(3,687)	(7,961)
6. off-site offer of financial instruments, products and services	(4,140)	(3,625)
d) collection and payment services	(4,328)	(5,011)
e) other services	(32,827)	(29,149)
Total	**(62,153)**	**(60,900)**

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 liabilities held for trading	**79,888**	**74,610**	**(34,228)**	**(46,884)**	**73,386**
1.1 Debt securities	12,297	40,665	(8,403)	(22,460)	22,099
1.2 Equity instruments	67,361	32,868	(25,480)	(24,400)	50,349
1.3 UCIT units	220	217	(11)	(3)	423
1.4 Loans	10	-	(334)	-	(324)
1.5 Other	-	860	-	(21)	839
2. Financial liabilities held for trading	**7,097**	**18,189**	**(59,192)**	**(29,759)**	**(63,665)**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	2,335	17,414	(1,429)	(3,287)	15,033
2.3 Other	4,762	775	(57,763)	(26,472)	(78,698)
Financial assets and liabilities: exchange rate differences	**X**	**X**	**X**	**X**	**993**
3. Derivative instruments	**907,892**	**992,430**	**(967,646)**	**(939,430)**	**12,005**
3.1 Financial derivatives:	907,618	991,391	(966,038)	(938,584)	13,146
- On debt securities and interest rates	537,426	716,931	(562,590)	(672,580)	19,187
- On equity instruments and share indices	342,206	194,918	(375,598)	(186,340)	(24,814)
- On currencies and gold	X	X	X	X	18,759
- Other	27,986	79,542	(27,850)	(79,664)	14
3.2 Credit derivatives	274	1,039	(1,608)	(846)	(1,141)
of which: natural hedges connected with the fair value option	X	X	X	X	-
Total	**994,877**	**1,085,229**	**(1,061,066)**	**(1,016,073)**	**22,719**

Fair value gains/losses on hedging derivatives – Item 90

5.1 Fair value gains/losses on hedging derivatives: breakdown

Income components/Amounts	Total I half 2021	Total I half 2020
A. Income relating to:		
A.1 Fair value hedging derivatives	250,120	107,820
A.2 Hedged financial assets (fair value)	109,221	336,076
A.3 Hedged financial liabilities (fair value)	107,870	476,120
A.4 Cash flow hedging derivatives	191	-
A.5 Assets and liabilities in foreign currency	195	683
Total gains on hedging derivatives (A)	**467,597**	**920,699**
B. Charges relating to:		
B.1 Fair value hedging derivatives	(120,721)	(187,699)
B.2 Hedged financial assets (fair value)	(338,099)	(189,819)
B.3 Hedged financial liabilities (fair value)	(6,026)	(551,855)
B.4 Cash flow hedging derivatives	-	-
B.5 Assets and liabilities in foreign currency	(664)	(181)
Total losses on hedging derivatives (B)	**(465,510)**	**(929,554)**
C. Fair value gains/losses on hedging derivatives (A - B)	**2,087**	**(8,855)**
of which: gains/losses of hedging on net positions	-	-

Gains (losses) on disposal/repurchase - Item 100

6.1 Gains (losses) on disposal/repurchase: breakdown

Items/Income components	Total I half 2021			Total I half 2020		
	Gains	Losses	Net result	Gains	Losses	Net result
Financial assets						
1. Financial assets at amortised cost	265,348	(410,206)	(144,858)	36,729	(32,553)	4,176
1.1 Loans to banks	-	-	-	-	-	-
1.2 Loans to customers	265,348	(410,206)	(144,858)	36,729	(32,553)	4,176
2. Financial assets measured at fair value through other comprehensive income	19,656	(6,272)	13,384	39,499	(4,802)	34,697
2.1 Debt securities	19,656	(6,272)	13,384	39,499	(4,802)	34,697
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**285,004**	**(416,478)**	**(131,474)**	**76,228**	**(37,355)**	**38,873**
Financial liabilities at amortised cost	**-**	**-**	**-**	**-**	**-**	**-**
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Debt securities in issue	9,467	(10,197)	(730)	42,817	(42,698)	119
Total liabilities (B)	**9,467**	**(10,197)**	**(730)**	**42,817**	**(42,698)**	**119**

The result shown alongside item "1.2 Loans to customers" includes profits of 76.6 million deriving from the sale of HTC debt instruments.
Net of this component, the net loss of that item is 221.5 million, attributable for 214.4 million to the disposal of the "Rockets" portfolio of non-performing loans.
For further details on the above-mentioned transactions, refer to the paragraph entitled "Other significant aspects relating to Group accounting policies" contained in Part A - "Accounting Policies" of these Notes.

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	**7,759**	**-**	**(6,268)**	**-**	**1,491**
2.1 Debt securities in issue	7,759	-	(6,268)	-	1,491
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	**7,759**	**-**	**(6,268)**	**-**	**1,491**

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	**71,851**	**4,072**	**(28,064)**	**(467)**	**47,392**
1.1 Debt securities	1,989	1,963	(669)	(5)	3,278
1.2 Equity instruments	46,998	437	(1,788)	(462)	45,185
1.3 UCIT units	17,219	1,581	(12,251)	-	6,549
1.4 Loans	5,645	91	(13,356)	-	(7,620)
2. Financial assets in foreign currency: exchange rate differences	**X**	**X**	**X**	**X**	**3,958**
Total	**71,851**	**4,072**	**(28,064)**	**(467)**	**51,350**

Net credit impairment losses/recoveries – Item 130

8.1 Net credit impairment losses related to financial assets at amortised cost: breakdown

Transactions/Income components	Impairment losses			Recoveries		Total I half 2021	Total I half 2020
	Stage 1 and Stage 2	Stage 3		Stage 1 and Stage 2	Stage 3		
		Write-offs	Other				
A. Loans to banks	**(1,005)**	**-**	**(126)**	**88**	**-**	**(1,043)**	**(1,307)**
- loans	(699)	-	(126)	15	-	(810)	(1,343)
- debt securities	(306)	-	-	73	-	(233)	36
of which: originated or acquired impaired loans	-	-	-	-	-	-	-
B. Loans to customers	**(6,757)**	**(23,013)**	**(623,416)**	**8,949**	**398,089**	**(246,148)**	**(468,983)**
- loans	(6,313)	(23,013)	(623,416)	6,672	398,089	(247,981)	(463,238)
- debt securities	(444)	-	-	2,277	-	1,833	(5,745)
of which: originated or acquired impaired loans	-	-	-	-	-	-	-
Total	**(7,762)**	**(23,013)**	**(623,542)**	**9,037**	**398,089**	**(247,191)**	**(470,290)**

8.1a Net credit impairment losses related to loans at amortised cost subject to Covid-19 support measures: breakdown

Transactions/Income components	Net impairment losses			Total I half 2021
	Stage 1 and 2	Stage 3		
		Write-offs	Other	
1. Loans subject to forbearance measures in line with the GL	(39,230)	-	(23,628)	**(62,858)**
2. Loans subject to other forbearance measures	(686)	-	25	**(661)**
3. New loans	3,453	-	(6,346)	**(2,893)**
Total	**(36,463)**	**-**	**(29,949)**	**(66,412)**

8.2 Net credit impairment losses related to financial assets measured at fair value through other comprehensive income: breakdown

Transactions/Income components	Impairment losses			Recoveries		Total I half 2021	Total I half 2020
	Stage 1 and Stage 2	Stage 3		Stage 1 and Stage 2	Stage 3		
		Write-offs	Other				
A. Debt securities	(1,001)	-	-	739	-	**(262)**	**(1,331)**
B. Loans	-	-	-	-	-	-	-
- To customers	-	-	-	-	-	-	-
- To banks	-	-	-	-	-	-	-
of which: originated or acquired impaired financial assets	-	-	-	-	-	-	-
Total	**(1,001)**	**-**	-	**739**	-	**(262)**	**(1,331)**

Other operating expenses/income – Item 230

16.1 Other operating expenses: breakdown

	Total I half 2021	Total I half 2020
Expenses on leased assets	(13,152)	(12,105)
Other remuneration	(21,773)	(18,396)
Total	**(34,925)**	**(30,501)**

16.2 Other operating income: breakdown

	Total I half 2021	Total I half 2020
Income on bank accounts and loans	2,757	6,473
Tax recoveries	135,771	119,806
Expense recoveries	11,217	5,957
Rental income on real estate	19,236	19,899
Other remuneration	52,850	35,728
Total	**221,831**	**187,863**

Gains (losses) on disposal of investments – Item 280

As in the corresponding period of the previous year, no appreciable gains (losses) on the disposal of investments were recorded during the half-year.

Earnings per Share

	30/06/2021		30/06/2020	
	Basic EPS	**Diluted EPS**	**Basic EPS**	**Diluted EPS**
Weighted average of ordinary shares (number)	1,509,575,680	1,509,575,680	1,509,807,137	1,509,807,137
Attributable profit (loss) (thousands of euro)	361,317	361,317	105,231	105,231
EPS (euro)	**0.239**	**0.239**	**0.070**	**0.070**
Attributable annualised profit (loss) (*) (thousands of euro)	722,634	722,634	210,462	210,462
EPS (euro)	**0.479**	**0.479**	**0.139**	**0.139**

(*) The annualised result does not represent a forecast of profits for the year.

Please note that, as at 30 June 2021, the Basic EPS matched the Diluted EPS given that there were no financial instruments with potential dilution effects.

PART E – INFORMATION ON RISKS AND RELATED HEDGING POLICIES

Introduction

The Banco BPM Group implements the process for managing risks originated by banking and financial activities to pursue stable and sustainable growth objectives over time, in line with the general policies established by the Board of Directors.

Risk profile and risk management and measurement systems

In the first quarter of 2021 - in March - the Board of Directors of the Parent Company Banco BPM approved the new Risk Appetite Framework ("RAF") at both consolidated level and at the level of the relevant Legal Entity for RAF purposes.
Through the Risk Appetite Framework, the Body with Strategic Supervision Functions approves the level of risk that the Group is willing to assume in pursuing its strategic objectives.
The 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).

The RAF is a tool that makes it possible to establish, formalise, communicate, approve and monitor the risk objectives that the Group and the individual relevant Legal Entities for RAF purposes intend to take on, in a unitary manner. 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.
Specifically, for 2021 the Risk Function has further strengthened the overall Framework structure, introducing several new elements:

- defined a long-term Trigger, in line with the Business Plan objectives, for a sub-set of indicators, making it possible to take into due account the indications received from the Corporate bodies with respect to the group's positioning from a long-term perspective;
- improved the "cascading down", or the tree structure of the RAF, allowing for a more pervasive breakdown of the risk appetite;
- introduced "horizontal cascading", or the definition - when appropriate - of thresholds not only at Legal Entity level but also for the Business Lines (BLs)[1], to guarantee a greater alignment of the objectives with what has been defined at Group 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;

[1] The 2021 RAF was also outlined at BL level: Corporate, Retail, Institutional, Finance and when possible also for the Regional Divisions and Corporate Markets.

- 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 Body.

The RAF's set of indicators takes into account the results of the Risk Identification process as well as recent legislative provisions relating to Risk Governance. All major risks identified at the end of this process are considered in the phase of defining the Risk Appetite Framework, identifying the following main risk areas: Pillar 1 and Pillar 2 Capital Adequacy, Liquidity/Funding Adequacy & IRRBB, Credit quality, Profitability, Operational/Conduct and Other significant matters.
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, management indicators, in order to integrate and anticipate the dynamics - where possible - of the strategic indicators, and Early Warning indicators (hereinafter also EWI), which cover, allowing for anticipation of the dynamics of the indicators belonging to the Strategic and Operational RAF. 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 makes it possible to integrate and detail the Strategic indicators and anticipate developments in the risk profile. These metrics, which see the definition of only the Trigger threshold, allow specific aspects of the main business processes to be captured and can normally be monitored more frequently to fulfil the role of anticipating any 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 allow specific aspects of the main business processes to be captured and can normally be monitored more frequently to comply with the role of anticipating any 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: is the threshold, for Early Warning indicators 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.

The surpassing of the risk limits results in the prompt activation of dedicated escalation processes; for Early Warning indicators, the surpassing of the Alert threshold 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 stress 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 Significant Transactions (relating to credit, finance, disposal of loans, etc.) and the leveraged transactions, 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 more detail, the scope of application of the Most Significant Transactions in the credit area is in the progressive extension phase, which will be defined in the second half of 2021.

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. Particular mention should be made of certain initiatives, addressed to all Group personnel, carried out through specific courses (in the classroom and online) concerning, for example, operational risks, compliance, safety, the banks' administrative responsibilities, the MiFID regulation, anti-money laundering, health and safety at work and work-related stress.

In the first half of the year, the Group was involved in the 2021 EU-wide Stress Test conducted by the European Banking Authority (EBA) in collaboration with the European Central Bank (ECB), the European Systemic Risk Board (ESRB) and the European Commission, intended to test the business model and the resilience of banks on the basis of 2 scenarios, baseline and adverse, developed by the Regulator. The results of the banks which participated in this test under the guidance of the EBA were published by the banking authority on 30 July 2021; the results concerning Banco BPM were described in the Interim report on operations.

As concerns ESG, also in order to come into line with the indications of the Supervisory Authority on climate and environmental risks, in the first half of 2021 the Banco BPM Group initiated seven specific areas of activity with a view to concretely integrating Sustainability within its overall business operations.
Within these areas, 32 distinct projects were defined which will be carried out thanks to the involvement of 15 different Bank units and with the contribution of more than 50 dedicated resources.
As regards Governance, the role of the Internal Control and Risk Committee was also strengthened, which provides increasingly greater strategic support on ESG activities. Particularly with reference to environmental issues, the Group aims to reach its carbon neutrality target by 2023. With respect to customers, the Bank’s efforts instead translated into offering energy efficiency products linked to the 110% superbonus, allocating 5 billion to be dedicated to Sustainable Investments in 2020-2023 and launching a specific Green Mortgages commercial offering. Lastly, the Group recently successfully completed the first Social Bond issue intended to finance the SMEs struck by the pandemic emergency.

Monitoring and reporting activities

Risk monitoring and control activities carried out by the Risk Function have the task of ensuring, at the Group and individual company levels, unitary oversight over the applicable risks, guaranteeing appropriate and timely information to the Corporate Bodies and the Organisational Units involved in risk management, ensuring the development and continuous improvement of risk measurement methodologies and models.

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. Furthermore, 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 provide the Corporate Bodies of the Parent Company and top management with a quarterly update on the Group's positioning with respect to the Italian and European bank systems with regard to the main risk areas; the analyses are conducted adopting the Regulator's perspective, making use of the main findings and the risk metrics reported in the EBA Risk Dashboard and in the information contained in the Market Disclosure documents (Pillar 3), 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 quarterly to the Committees and Corporate Bodies.

First and second pillar 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 quarterly to the Corporate Bodies and included annually in the ICAAP (Internal Capital Adequacy Assessment Process) report submitted to the Supervisory Authorities alongside the ICAAP package.

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 self-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, on a quarterly 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 Body is performed on a continuous basis. The main results emerging from this specific monitoring exercise are periodically 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 the Pillar I and Pillar II risk estimates used for the purposes of calculating capital requirements.
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.

Credit risk

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 2020/07 Guidelines regarding exposures subject to the 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, published on a quarterly basis by the Group.

Impacts resulting from the Covid-19 pandemic

The global health emergency that exploded at the beginning of 2020 had an impact on the calculation of impairment. More specifically, the highly asymmetrical nature of the macroeconomic shock that occurred and the consequent mitigating measures implemented by the different Competent Authorities have required a continuous revision of the models used and ad-hoc fine tuning to enable the real risk level of the Group's portfolio to be correctly measured, in light of the specific characteristics deriving from the reference macroeconomic scenario and the support measures adopted.
These model revision and fine tuning processes, which entailed estimating expected losses and the stage assignment criterion, led Banco BPM to adopt, from June 2020, a method based on the future rates of default provided by an external provider and differentiated by sector, which consider the mitigation measures and, in particular, the different liquidity decrees issued by the Italian Government. In the first half of 2021, this method was modified by introducing the use of new sector satellite models developed by the Group for specific sectors of economic activity impacted to a lesser extent by the support measures cited above (particularly with reference to the moratoria). In the other sectors, the use of the default rates described above has been maintained.
Please refer to the paragraph below “Changes due to Covid-19” in section “Methods for measuring IFRS 9 expected losses for financial reporting purposes” for more details.
It should also be noted that, within the context of the Covid-19 health emergency, Banco BPM Group, also in line with the provisions of the Government initiatives, has provided numerous customer support measures, including moratoria pursuant to law, disbursements of new loans set forth in the "Liquidity” Decree Law and measures established internally by the Group (e.g. bilateral suspension agreements), implementing new actions to prioritise the measures for 2021, whilst waiting for the Government to implement the budget law, which will envisages greater room for manoeuvre on this (particularly with the support of SACE). In relation to the treatment of the support measures, the Group has continued to manage the loan granting and relative classification process in an ordinary fashion. At the same time, in accordance with the EBA Guidelines, starting in March 2020, the Bank has availed itself of the possibility of applying the EBA temporary framework (which permits an exemption relating to Forborne flag use) to new liquidity measures and to moratoria measures that respect the requirements defined by the Regulator. Even though the latter has been extended to 31 March 2021, from November 2020, all restructuring and new moratoria applications have entailed the prior analysis of the financial difficulty of the borrowers. In more detail, all requests for extension pursuant to the Sostegni bis Decree Law were subject to the financial difficulty assessment.
In relation to the identification of the counterparties characterised by signs of deterioration as such to portend the possible move to Stage 2 or potential unlikely-to-pay situations, the assessment of the credit risk of counterparties was bolstered through the release of a new platform for identifying and managing anomalous counterparties and the development of a new performance scoring model. More specifically, the new performance scoring model has

evolved features in terms of data model and estimation techniques which, by introducing the transfer to Stage 2 as an aspect of primary attention, provide an early warning of default. At the same time, the monitoring application has incorporated the new rules relating to overdue exposures, set forth in the EBA guidelines on the definition of default, making provision, from the first few days in which the overdue event materialises, for the processing of homogeneous and differentiated positions by counterparty type and level of risk exposure, according to a management approach which is as business-oriented as possible for preventing deterioration in the credit risk, necessary for restoring the ordinary management of the relationship. More specifically, the process currently in place provides for the daily identification of positions and the subsequent management of the new positions identified according to a structured procedure and with predefined timescales, based on the clustering of the portfolio with anomalies and the subsequent prioritisation of initiatives.
In order to carry out accurate monitoring of the overall support measures relating both to the EBA temporary framework and the granting of new loans, in addition to the reinforcement measures illustrated above, Banco BPM Group has implemented specific interaction initiatives with the customers who benefit from said measures. The checks have been conducted applying risk-based criteria, which consider specific qualitative and quantitative information to best assess creditworthiness and the correct classification of exposures, highlighting borrowers identified as having potential financial difficulties. With regard to the counterparties selected using said risk criteria, the Group has launched a programme for customer relations through specific contact campaigns (also called "early engagement" campaigns) with the counterparties to whom the Government or system moratoria have been granted; following these engagement activities by the sale structure, feedbacks and accurate qualitative information on customers was collected, made available to the structure reporting to the Chief Lending Officer (CLO), envisaging the consequent activation of the Monitoring and Prevention structure for the necessary assessments.
With regard to these assessments, the structures reporting to the CLO, with a view to develop a better process to manage non-performing exposures, and after consultation with the Risk Function, started to work on several activities, which integrate that already envisaged by the Group's internal processes, including: (i) the definition, from the end of December 2020, of a specific checklist to be submitted to all managers of Unlikely to Pay exposures, with a view to collecting additional information on the counterparties affected by the worsening of the economic scenario due to the Covid pandemic and (ii) interaction with the above-mentioned counterparties to gather more updated information on their current economic and financial situation (due to the impact of the pandemic) and their expected future situation (economic forecasts for 2021) and to check, where envisaged, compliance with contractual covenants.

Lastly, with regard to the changes made to the systems supporting the assessment of customer staging, note that starting in 2020, the staging models were reviewed ("forward-looking approach"), in order to incorporate in the systems the heavily asymmetric nature of the macroeconomic shock on the different production sectors, generated as a result of the pandemic crisis and the containment measures promoted by the competent authorities. The new macroeconomic projections have incorporated the intrinsic risk of the economic sector on a more prudential basis, also considering the risk of any cliff effects that Banco BPM must face when the Government support measures come to an end (in particular, the moratoria). This intervention has certainly increased the percentage of identification of counterparties characterised by SICR (stage 2), increasing the impact in terms of Expected Credit Loss on the Group's credit portfolio. In addition, based on a conservative approach to the potential accounting impacts resulting from the positive effects of the Government measures implemented to tackle Covid-19, the Group carried out a specific analysis of counterparties belonging to the Small Businesses and Private Customers segment, who starting in the second half of 2020, showed an improvement in staging (from stage 2 to stage 1), due exclusively to the above-cited support measures, removing the positive effects of the same ("backward-looking approach"). These interventions were also re-proposed for the first half of 2021, while within the staging framework, the threefold increase approach was also introduced, which makes it possible to intercept positions that at the credit origination date have shown an annualised increase in the Probability of Default of 300%, moving them to Stage 2, with a minimum threshold of derogation on the annualised PD at the reference date corresponding to 0.30%.

Credit quality

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).

The methodologies underlying the risk parameters PD (Probability of Default), LGD (Loss Given Default) and EAD (Exposure at Default), is 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 losses valued analytically by the manager are periodically reviewed.
The situation of the Group's non-performing loans as at 30 June 2021 has already been illustrated in the Interim report on operations, in the section commenting on the results for the period.
Portfolio risk monitoring 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 "Methods for measuring credit risk for prudential purposes".
For other exposures - other than performing loans with ordinary and financial resident customers - risk is controlled through the use of supervisory regulatory metrics (Standard).

Methods for measuring credit risk for prudential purposes

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 30 June 2021, 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 0.48% 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) amounted to 3.10% 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, cited at the beginning of the "Impacts resulting from the Covid-19 pandemic" section, concepts which are taken up again in the "Changes due to Covid-19" section, were accordingly incorporated within the methodological framework of operational measures through the portfolio model.

Outcomes of internal validation activities

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 and of LGD for Corporate and Private Customer portfolios. Also with reference to the EAD parameter, the use of values estimated internally on the entire loan portfolio is planned, particularly for the Corporate segment as of the first quarter of this year.
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 Corporate segment, the latest backtesting showed a good discriminatory range of models, both in terms of single modules and final integrating ratings, 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 was better than 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 corporate models.

Testing was conducted in relation to retail CCF. Internal Validation did not detect significant problems with the estimates generated for the retail model.

In general, the models were fine tuned, mainly with a view to making the model more compliant with legislative requirements.

Methods for measuring IFRS 9 expected losses for financial reporting purposes

Changes due to Covid-19

In this section, the main changes to the assessment and measurement models for financial instruments related to the pandemic crisis, with specific reference to the aspects relating to the application of IFRS 9.
The crisis triggered by the Covid-19 pandemic did not affect all production sectors in the same way: some sectors were impacted to a greater extent by the measures adopted to contain the virus and by the resulting financial uncertainty. The old satellite models only represented the overall impact of an adverse scenario on the Bank's portfolio, exclusively using macroeconomic variables that were not differentiated by production activity. Consequently, the Bank decided to adopt a methodology based on forward-looking rates of default differentiated for the various productive sectors of the Italian economic system. These projections make it possible to leverage the support actions introduced by the Italian government to support lending (for example by granting moratoria), as well as to guarantee the necessary levels of liquidity.
Furthermore, in June 2021, the Bank decided to adopt a mixed approach to estimate forward-looking parameters. In particular, this methodology requires the use of forward-looking default rates across all economic sectors characterised by a percentage of moratoria granted exceeding 15% (average of the Group's non-financial corporations portfolio at the start of 2021), while on the remaining economic sectors new satellite models were developed. The use of the new satellite models has only involved the estimate of the PD risk parameter, while the LGD has not been impacted by said model change and fine tuning.
In December 2020, in accordance with the internal process, the risk parameters were also updated to incorporate the matrix relating to the last available year (September 2019 - September 2020) in their estimates. These updates represent the point of departure for the calculation of the ECL in the first half of 2021.
In subsequent paragraphs, additional amendments are illustrated regarding the SICR generated by the current context characterised by the pandemic.

<u>Assessment of the significant increase in credit risk (SICR)</u>

With reference to the performing portfolio, Banco BPM Group, in order to determine the Significant Increase in Credit Risk (SICR) and the subsequent classification of receivables to the different risk classes of the performing portfolio (stage 1 and stage 2), consistently with the provisions of IFRS 9, adopted a stage assignment framework.
More specifically, to identify the SICR, the Group adopted an approach based on statistical models (known as staging models) which identify the presence of significant increases in the current and forward-looking risk of individual transactions. In particular, consistent with the change already made to the PD, specific satellite models were incorporated which make it possible to estimate the expected evolution of the risk of the individual counterparties belonging to the different sectors of economic activity, based on the macroeconomic scenarios

identified and the relative likelihood of occurrence. The framework envisages the definition of specific thresholds of increase in the Lifetime PD, corresponding to migrations of Rating classes observed between the origination and reporting dates. When these thresholds are exceeded, the individual position is classified as stage 2.
To include the effects of the Covid-19 pandemic, the SICR thresholds were made, starting from the end of 2020, more prudential through new macroeconomic forecasts underlying the use of sector-based forward-looking default rates used for the PD parameter.
This intervention, adjusted to the new framework in force as of June 2021 which requires the use of internal satellite models and sector forward-looking default rates, as already mentioned in the paragraph entitled "Impacts resulting from the Covid-19 pandemic" of this section dedicated to Credit Risk, has increased the interception percentage of counterparties characterised by SICR (Stage 2), increasing the impact in terms of ECL on the Group's credit portfolio[1].
In addition, again as at 30 June 2021, in continuity with what was already done in December 2020, the Credit Risk structure carried out a post model adjustment activity on the SICR to intercept the retail accounts which, due to the granting of new financing, had experienced an improvement in their rating on the reference date (through the improvement of the internal performance score), which in turn, had led to a lower number of counterparties intercepted and classified as Stage 2. The purpose of this manoeuvre, illustrated in the paragraph entitled "Impacts resulting from the Covid-19 pandemic" of this section dedicated to Credit Risk as a "backward-looking approach", was to neutralise the positive effect (transfer from Stage 2 to Stage 1) due exclusively to the impact of the government support measures, and not the actual improvement of the counterparty, with a consequent reduction of provisions not related to the real economic conditions of the counterparty.
An additional manual adjustment linked to the SICR was performed to intercept the SFT ("Structured Finance Transactions") counterparties with a high operational rating, deriving from an ad hoc methodology (higher than 8), with a derogation threshold (the "grace" threshold) of 6 months (in accordance with the current Group staging framework) with respect to the account origination date. As will be seen below, aside from the staging, for the Structured Finance Transactions in June 2021, ad hoc PD and LGD values were introduced deriving from the pertinent modelling (currently used merely for operational purposes).

Measurement of expected loss

The basic method for calculating expected losses on performing loans, both with reference to the functioning of the "Stage Assignment Framework" and as concerns the calculation model based on "PD, LGD, EAD" risk parameters, has been revised with refinements and corrections introduced to reflect the necessary updating of the estimation parameters as well as in a more precise manner, the effects of the Covid-19 crisis, also through "post model adjustment", in line with the interpretations provided by the various Authorities illustrated in "Part A - Accounting policies" of these Explanatory notes. These interventions were necessary in order to include the so-called forward-looking factors and to reflect the effects of the State guarantee measures, as explained below.

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 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.

[1] With regard to the staging allocation model, starting from the financial statements for the end of 2020, confirming the approach for the subsequent quarters, other conservative expert interventions were made with a view to highlighting, when assessing the credit risk of the borrowing counterparties, deterioration phenomena identified before the activation of government support which, otherwise, would have resulted in a stock of loans characterised by unrecognised SICR.

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 loss.

Framework stage assignment

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 the Annual financial report as at 31 December 2020.

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).
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;
- economic sector.

Thus, the change in credit risk is measured by comparing the "Lifetime PD Ratio – LPDR" of individual exposures, as defined above, and the specific estimated internal thresholds. Exceeding these thresholds represents a significant increase in credit risk and the consequent transfer of the individual line of credit 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 operational model, after calculating the LPDR thresholds representing an SICR based on the lifetime PD, the Group verified whether said thresholds were consistent, in terms of the discrimination between Stage 1 and Stage 2, with those calculated using as reference the LPDR parameter calculated among 12-month PD.[2]
That move is justified by the opportunity, in operational terms, to coordinate the stage allocation model with the internal rating model adopted for the purpose of credit management and monitoring. In that regard, it is noted that the internal rating system classifies exposures in 11 rating classes, which, for the purpose of the credit disbursement processes, are grouped into 5 homogeneous risk bands ("Low", "Medium-low", "Medium", "Medium-high" and "High").
The use of the risk bands indicated above thus guarantees the integration and consistency of the process of measuring performing credit exposures with the other internal credit management processes (disbursement, pricing, monitoring and classification).
That being established, the quantitative stage allocation model entails the grouping of the exposures with homogeneous risk into five risk bands. More specifically:

[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) 451/2021.
[2] Based on the intersections considered significant for the model adopted, the threshold values permitted are all those contained in a range starting from the LPDR of the highest rating class belonging to the risk band with the highest risk among those that do not generate an SICR to the LPDR of the lowest rating class belonging to the risk band with the lowest risk among those that generate an SICR.

- for the exposures classified in the "Low" risk band at the origination date, an increase in credit risk is considered significant when, at the reference date, the migration of the exposure to a "Medium-High" or "High" risk band is observed (migration of at least three risk bands);
- for the exposures classified in the "Medium-Low" risk band at the origination date, an increase in credit risk is considered significant when, at the reference date, the migration to a "Medium-High" or "High" risk band is observed (migration of at least two risk bands);
- for the exposures classified in the "Medium" risk band at the origination date, an increase in credit risk is considered significant when, at the reference date, the migration to the "High" risk band is observed (migration of at least two risk bands);
- for the exposures classified in the "Medium-High" risk band at the origination date, an increase in credit risk is considered significant when, at the reference date, the migration to the "High" risk band is observed (migration of one risk band);
- for exposures which were already classified in the "High" risk band at the origination date, it is not possible to recognise any significant increases in credit risk, based on the quantitative model, as the only worsening possible is effectively a change to default status. In that regard, for all customer segments, exclusively exposures that belong to rating classes 10 and 11 are classified in the "High" band.

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.
For debt securities for which the Low Credit Risk Exemption is not used, the methodology developed by the Group is also based on the calculation of the LPDR[1], but different to loans, it does not use risk bands.
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 regard to exposures due to banks, the methodology developed is also based on the calculation of the LPDR, but different to loans, it does not use the risk bands.

In addition to the quantitative criteria illustrated above, the stage allocation model adopted by the Group is also founded on qualitative criteria. In greater detail, the following entails classification in Stage 2:

- the presence of a consecutive number of days past due (at counterparty level) exceeding the threshold of 30 days, without prejudice to the application of the materiality thresholds set out in the supervisory provisions, save for exceptional cases attributable to specific types of counterparties, such as the Public Administration;
- 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;
- 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 rating classes 10 or 11, i.e. in the "High" risk band, illustrated above, 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, as illustrated above.

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 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

[1] Data from the CreditEdge platform of the Moody's rating agency.

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 loss at one year is made in accordance with the probation period, in line with the time frames set out in the supervisory provisions.

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 parameters 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;
- 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.

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 to the transaction was therefore eliminated on said share and a "Stato Italia" (Italian State) 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.

Furthermore, in June 2021, the Bank introduced (via a manual adjustment) within the ECL calculation the effects of the new specialised modelling for the assessment of the creditworthiness of Structured Finance Transactions (SFT models). In particular, additional write-downs were calculated on those counterparties proportionate with the new PD

and LGD parameters developed specifically for that portfolio. Please note that the new models for Real Estate Development, Income Producing Real Estate, Project Finance and Leverage and Acquisition Finance transactions were only introduced for operational purposes (for example, disbursement and IFRS 9), as they have not yet been authorised for regulatory purposes.
As concerns the AIRB parameters, which are changed under IFRS 9, please note that starting 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, which moreover 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), were also introduced in the framework for the calculation of the IFRS 9 ECL.

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.

Estimating the PD parameter
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 conditioned, from a forward-looking perspective, by macroeconomic projections, through the use of forward-looking default rates at economic sector level, as well as via the application of the satellite models recently developed by the Group for those sectors for which moratoria were granted to an extent of less than 15%, as already explained earlier in this section. 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 AIRB 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 matrices conditioned on the basis of macroeconomic scenarios, through the application of shocks resulting from forward-looking sector-based rates of default. The latter are able to express the sensitivity of the PD levels with respect to changes in the main income statement items and consider the mitigation measures and, in particular, the various liquidity decrees issued by the Italian Government;
- 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.

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 and the component associated with the adverse economic cycle (the downturn component), as well as to reflect the most current recovery rates (PiT) 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. In particular, the forward-looking effects are conveyed to the LGD estimates through the application of specific satellite models for the

main components of the LGD model (Psoff and LGNP) which put the change in macro factors that were most significant in the estimate in relation to the residual amounts of the estimates of the two above-mentioned parameters over the historical horizon.

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.

Inclusion of forward-looking factors

In accordance with IFRS 9, when estimating expected losses it is necessary to take forward-looking information into account, conditioning the risk parameters according to the different macroeconomic scenarios in which it is expected to operate.
As already noted, the PD values inferred from the transition matrixes are conditioned, from a forward-looking perspective, by macroeconomic projections, through the use of forward-looking default rates provided by an external provider, at economic sector level, as well as via the application of the satellite models recently developed by the Group for those sectors for which moratoria were granted to an extent of less than 15% (topic already introduced earlier in this section).
Furthermore, in continuity with what was done in December 2020, to include the effects of the Covid-19 pandemic crisis, the SICR thresholds were made more prudential through new macroeconomic forecasts underlying the use of sector-based forward-looking default rates used for the PD parameter. This intervention increased the interception percentage of counterparties characterised by SICR (Stage 2), increasing the impact in terms of ECL on the Group's credit portfolio.

In line with the methodology used for the 2020 financial statements, the Group's calculation model provides for the development of alternative macroeconomic scenarios; in addition to the baseline scenario (hereinafter also referred to as "Baseline"), which is considered more likely, two alternative scenarios should be produced, namely an adverse scenario (hereinafter also "Severe but plausible") and another favourable scenario (hereinafter referred to as "Favourable").

With regard to macroeconomic scenarios, note that the forward-looking measurements shown below for the estimates of expected losses as at 30 June 2021 have been made on the basis of the information provided by leading providers and available in March 2021, based on three different scenarios ("baseline", "adverse" and "favourable") approved by a specific Scenario Council of Banco BPM, based on policies in place.
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 specific 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 use of the information cited above for the forward-looking assessments was necessary, as already mentioned in Part A "Accounting Policies" as the timing for the publication of the macroeconomic scenarios of the ECB and the Bank of Italy expected respectively on 10 and 11 June 2021, would have created delays in the process of preparation of the financial statements.
The projections used by the Bank were compared during the Scenario Council meeting with the most recent scenarios published by the competent external institutions between March and May 2021.

For the purposes of the percentages of probability to be attributed to the scenarios, the decision was made to confirm those implicit in the construction of the scenarios adopted. The considerable improvement in the consensus on 2021 GDP (Bloomberg average) however suggested raising the probability of the Best scenario from 20% to 25%, in detail:

- Baseline 50%
- Severe but plausible 25%
- Best 25%.

The following table shows the values (in percentage) of the main macroeconomic indicators for the period 2021-2024 for each of the three scenarios assumed:

Scenario	Macroeconomic indicators	2021	2022	2023	2024
favourable	GDP Italy	5.86	6.32	2.55	1.45
baseline	GDP Italy	4.71	4.20	2.44	1.46
adverse	GDP Italy	3.21	2.96	2.39	1.53
favourable	Unemployment rate	10.47	9.87	8.45	6.94
baseline	Unemployment rate	10.71	11.16	10.84	10.12
adverse	Unemployment rate	10.98	12.56	13.06	12.86
favourable	Index of residential property prices	-0.04	2.41	2.91	2.75
baseline	Index of residential property prices	-0.25	1.18	1.57	1.69
adverse	Index of residential property prices	-0.71	-0.48	0.06	0.75
favourable	Household consumption	4.76	7.39	3.77	2.48
baseline	Household consumption	4.02	5.05	2.58	2.23
adverse	Household consumption	3.24	3.68	1.85	2.03
favourable	Construction investments	16.28	14.24	6.09	4.00
baseline	Construction investments	12.83	6.85	3.97	3.73
adverse	Construction investments	8.25	1.41	2.25	3.27
favourable	3-month Euribor	-0.51	-0.45	-0.25	0.13
baseline	3-month Euribor	-0.53	-0.49	-0.39	-0.15
adverse	3-month Euribor	-0.53	-0.51	-0.40	-0.17
favourable	ECB rate	0.00	0.00	0.06	0.50
baseline	ECB rate	0.00	0.00	0.00	0.25
adverse	ECB rate	0.00	0.00	0.00	0.25
favourable	Return on Italian 10-year government bonds	0.66	0.50	0.87	1.26
baseline	Return on Italian 10-year government bonds	0.68	0.77	1.07	1.39
adverse	Return on Italian 10-year government bonds	0.75	1.25	1.65	1.97
favourable	BTP/Bund Spread	0.90	0.44	0.23	0.26
baseline	BTP/Bund Spread	1.03	0.96	0.91	0.88
adverse	BTP/Bund Spread	1.14	1.54	1.61	1.57
favourable	Italian consumer price index	1.38	1.28	1.64	1.88
baseline	Italian consumer price index	1.28	1.01	1.47	1.72
adverse	Italian consumer price index	1.15	0.80	1.28	1.55
favourable	Imports	15.6	20.1	10.2	6.2
baseline	Imports	13.1	12.1	6.3	5.6
adverse	Imports	10.6	7.2	4.4	5.2
favourable	Exports	13.0	12.6	5.3	3.0
baseline	Exports	10.5	8.5	5.1	3.0
adverse	Exports	7.8	6.6	5.7	3.3
favourable	Public administration expenditure	3.77	-0.66	0.01	-0.24
baseline	Public administration expenditure	3.77	-0.67	-0.01	-0.25
adverse	Public administration expenditure	3.69	-0.76	-0.02	-0.26

Subsequent to the 2020 global recession, economic growth is resuming at rather diversified paces between the various geographical areas, with an acceleration focusing on industrialised countries as well as China.

The "Baseline" scenario envisages that the maintenance of partial restrictions will also impact sequential growth in the initial months of 2021, essentially penalising the service sectors subject to social distancing rules, while the share of manufacturing and construction should be little impacted in this third wave.

The year 2021 remains strongly influenced by the extension of the income and lending support measures which continue to make trends in certain figures such as bank loans, non-performing loans and unemployment anomalous and in certain manners contradictory. It is assumed that the economic effects of the pandemic will dissolve by the end of 2021.

The availability of vaccines, immunisation process timing and the emergence of new variants are influencing the evolution of the scenario, which projects the following:

- Italian GDP recovering only gradually starting from the second quarter, held back by the third wave of infection, with an acceleration as of the second half of the year, which makes it possible to achieve progress of +4.7% during the year; The rebound in economic activity makes it possible to return to pre-crisis levels by the end of 2022;
- the unemployment rate rises to 10.7% in 2021 and to 11.2% in 2022, the peak year;
- inflation remains below 2%, validating policy interest rates which will not rise prior to 2024;
- Italian government bond yields up at the end of the period to 1.4% in 2024, with a BTP-Bund spread that is limited on average, around 100 bps, also thanks to the actions of the ECB.

As concerns the "Adverse" scenario, a slow exit from the pandemic is assumed: (i) herd immunity reached only in the autumn, with limitations on social interaction in the summer as well, due to the re-emergence of widespread outbreaks; (ii) ineffective economic policy measures which hold back the recovery and are accompanied by business closures, bankruptcies and increasing unemployment (also due to the lifting of the block on dismissals); (iii) slow recovery: industries linked to tech products suffer from supply bottlenecks and increasing costs, holding back growth throughout the sector; (iv) the Draghi government encounters difficulties in initiating investment plans financed with NGEU funds; (v) expectations of households and businesses held down by a disappointing recovery.
In detail the following is expected:

- GDP recovering in a more limited and uniform manner over the years, reaching 3.2% in 2021;
- substantial increase in the rate of unemployment in 2022 and also in 2023 (12.6% and 13.1% respectively);
- Italian 10-year government bond yield rising constantly until reaching 2% in 2024 as a result of disappointing growth which defers the improvement in public debt fundamentals.

Lastly the "Favourable" scenario assumes a faster end to the pandemic crisis with substantial growth in Italy and Europe already in 2021, due to a strong recovery of consumption and investment at only one year from the start of the pandemic. Specifically:

- GDP up by 5.9% in 2021, accelerating further in 2022 to 6.3%;
- unemployment rate down already in 2022 to 9.9% with a significant improvement over the subsequent two years;
- Italian 10-year government bond yield rising only in 2023 as a result of a consistent decline in the BTP-Bund spread, which returns to levels seen prior to the sovereign crisis, also thanks to economic growth rates such so as to favour a recovery of public debt with respect to GDP.

Inclusion of State guarantees

Starting from mid-2020, the calculation of expected credit losses under IFRS 9 has been refined in order to enhance the value of the credit support actions introduced by the Italian Government towards businesses and households, through the banking system, in favour of which first and foremost first application guarantees on new loans granted to businesses are provided (art. 13 of the Liquidity Decree).

Sensitivity analysis of expected losses

As illustrated in the paragraph "Risks, uncertainties and impacts of the Covid-19 pandemic", contained in "Part A – Accounting policies", the calculation of expected losses on performing loans entails significant judgements, with specific reference to the model used to measure losses and the related risk parameters, the triggers deemed expressive of significant loan impairment, and the selection of macroeconomic scenarios.
More specifically, the inclusion of forward-looking factors 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, as illustrated in the previous paragraph.
To assess how forward-looking factors can influence expected losses, it was retained reasonable to conduct a sensitivity analysis in the context of different scenarios based on forecasts that are consistent with the evolution of the various macroeconomic factors. In fact, the countless interrelations between the separate macroeconomic factors make a sensitivity analysis of expected losses based on a single macroeconomic factor poorly significant.

To that end, for performing exposures (Stage 1 and Stage 2) relating to loans granted to customers, evidence is provided below of the impacts of an extreme change in the probability of occurrence of the three reference scenarios with respect to the official framework used in the interim financial statements (probability of occurrence of 25% for the "Severe but plausible" scenario, 50% for the "Baseline" scenario and 25% for the "Favourable" scenario) with the details laid out below:

- percentage changes in the ECL that would be recorded assuming a 100% probability of occurrence for the "Severe but plausible" scenario;
- percentage changes in the ECL that would be recorded assuming a 100% probability of occurrence for the "Favourable" scenario:

% Change in the value adjustments with respect to the official probability of occurrence framework (BEST 25% - BASE 50% - WORST 25%) assuming:	
100% severe but plausible scenario	+19.5%
100% favourable scenario	-17.5%

Based on changes in ECL observed as the probability of occurrence attributed to the three scenarios used changes, and of Italy's GDP associated to each scenario, it is estimated that a change of 1bp of GDP corresponds to a change in ECL of around 260 thousand euro of the opposite sign.

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" in Part "A.2 - Key financial statement items" of the Annual financial report as at 31 December 2020.

As stated in the paragraph "Significant accounting policies and uncertainties regarding the use of estimates in the preparation of consolidated condensed interim financial statements in the context of the Covid-19 pandemic", contained in "Part A – Accounting policies", the determination of the expected losses on non-performing loans entails significant judgments, 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 "lump-sum" 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 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 correlated with the uncertainty of the international spread of the coronavirus, may result in the recognition of additional, even significant, losses, in relation to those considered based on the conditions existing at the reporting date.

Counterparty Risk

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 said transaction (EU Regulation no. 575/2013), for management purposes and to support capital adequacy assessment processes (ICAAP), the Parent Company and Banca Akros use internal methods to estimate exposures to the risk of possible default of counterparties in OTC derivative transactions subject to Collateral Agreements (CSA).

The estimate of exposure to counterparty risk for positions in OTC derivatives for counterparties with whom a collateral agreement has been signed (Credit Support Annex – CSA) is carried out using the simplified Shortcut Method simulation and assessed based on possible changes to the Mark to Market of the individual contracts underlying the same reference CSA, with a time horizon provided by the risk margin period for 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.
The indirect membership (through Clearing Brokers) of Clearing Houses for operations in OTC and credit derivatives enabled the following objectives to be achieved:

- the mitigation of counterparty risk with a reduction of credit facilities to market counterparties;
- reduction of capital requirements;
- compliance with European Directive - European Market Infrastructure Regulation ("EMIR");
- mitigation of operational 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. 575/13 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 EU Regulation No. 575/2013.

In calculating exposure to counterparty risk, for Supervisory Reporting, the Group uses the standardised approach on the entire scope of reference (derivatives, repurchase agreements, securities lending and medium and long term loans).

As of 30 June 2021 entry into force of the new standard SA-CCR methodology for calculating exposure to counterparty risk on transactions in derivatives (Ref. EU Regulation 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.

Financial risks

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. With respect to the calculation of the Historical VaR, the extreme market scenarios occurring in the months of March/April 2020 contributed to a significant increase in the risk measure, which lasted until the start of the second quarter of 2021, as a result of the removal of such penalising scenarios from the VaR calculation in March/April 2021.

Trading books

The organisational model adopted by Banco BPM Group for the trading books exposed to interest rate risk and price risk requires:

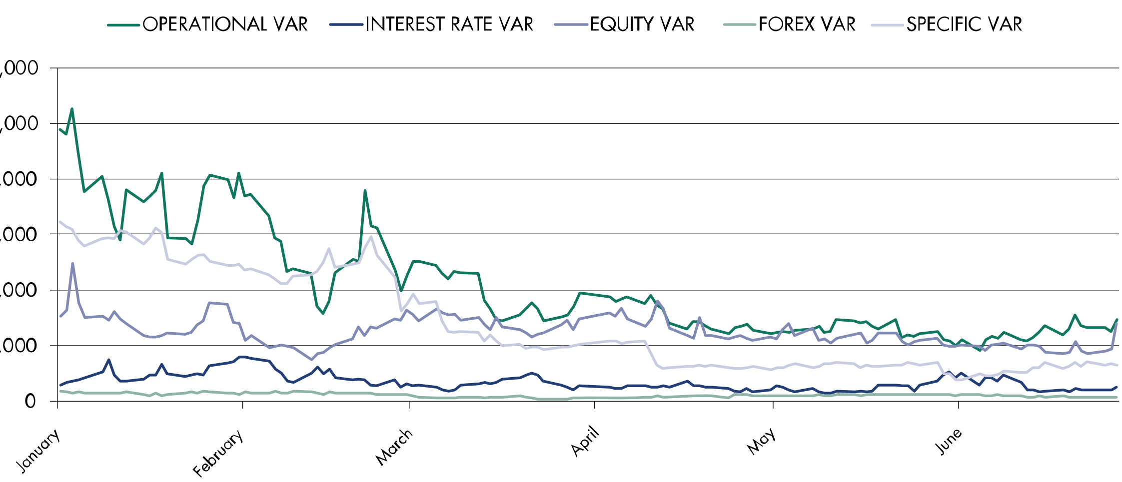
- the centralisation of the management of Treasury and of Proprietary Portfolio positions in Parent Company Finance;
- the centralisation in the subsidiary Banca Akros of the risk positions and the operating flows associated with trading of securities, currency, OTC derivatives and other financial assets.

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 portfolio 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 and 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 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 September 2011 and September 2012 for Banca Akros (August 2011 - August 2012 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 of the same. In this regard for Banca Akros, starting from 1 July 2021, the reference stress scenario will refer to the January 2020 - December 2020 period (Covid period).
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).

The performance graph and a table containing the operational VaR figures are shown below for the first quarter of 2021, referring to the regulatory trading book of Banco BPM Group.

Daily VaR and VaR by risk factor
BANCO BPM GROUP: Trading book

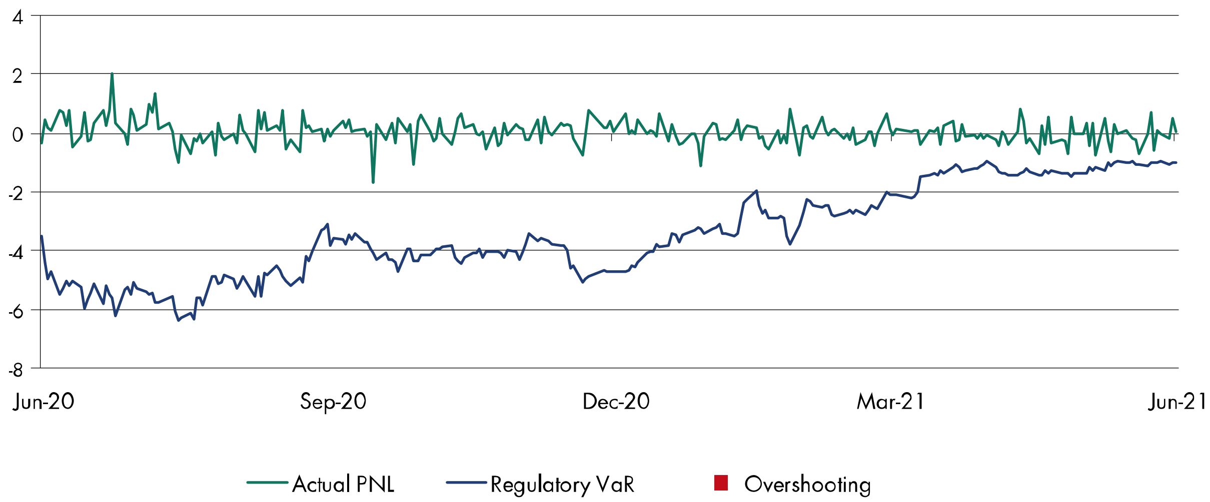


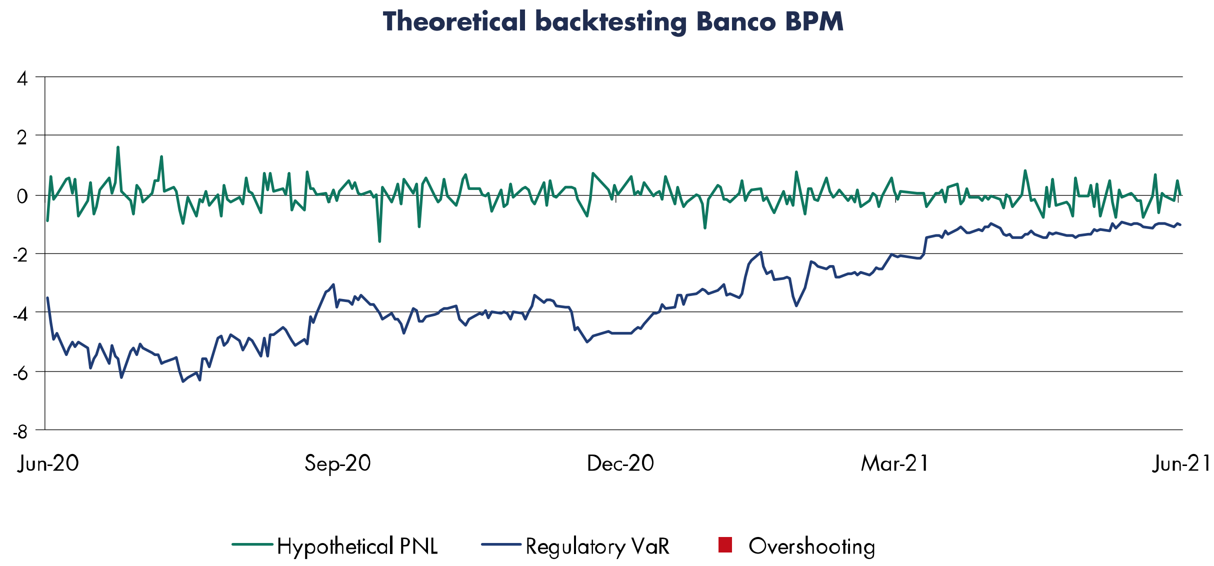
Regulatory trading books (in millions of euro)	1st half 2021			
	30 June	average	maximum	minimum
Interest rate risk	0.499	0.688	1.599	0.260
Exchange rate risk	0.136	0.213	0.377	0.064
Equity risk	2.806	2.500	4.967	1.500
Dividends and correlations	0.681	0.746	1.140	0.439
Specific debt securities risk	1.307	2.805	6.438	0.773
Total uncorrelated	**5.429**			
Diversification effect	-2.019			
Combined Risk (*)	2.935	4.179	10.497	1.824

(*) Overall operational VAR

The prevalent risk component is that relating to equity risk, following the derisking taking place between the end of 2020 and the start of 2021, 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 instruments. In particular, portfolio risk was lower in the second quarter, due to the removal of the March/April 2020 scenarios from the VaR calculation.
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 instruments, 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 using a decay factor used in operational approaches.

Actual backtesting Banco BPM




Theoretical backtesting Banco BPM
4
2
0
-2
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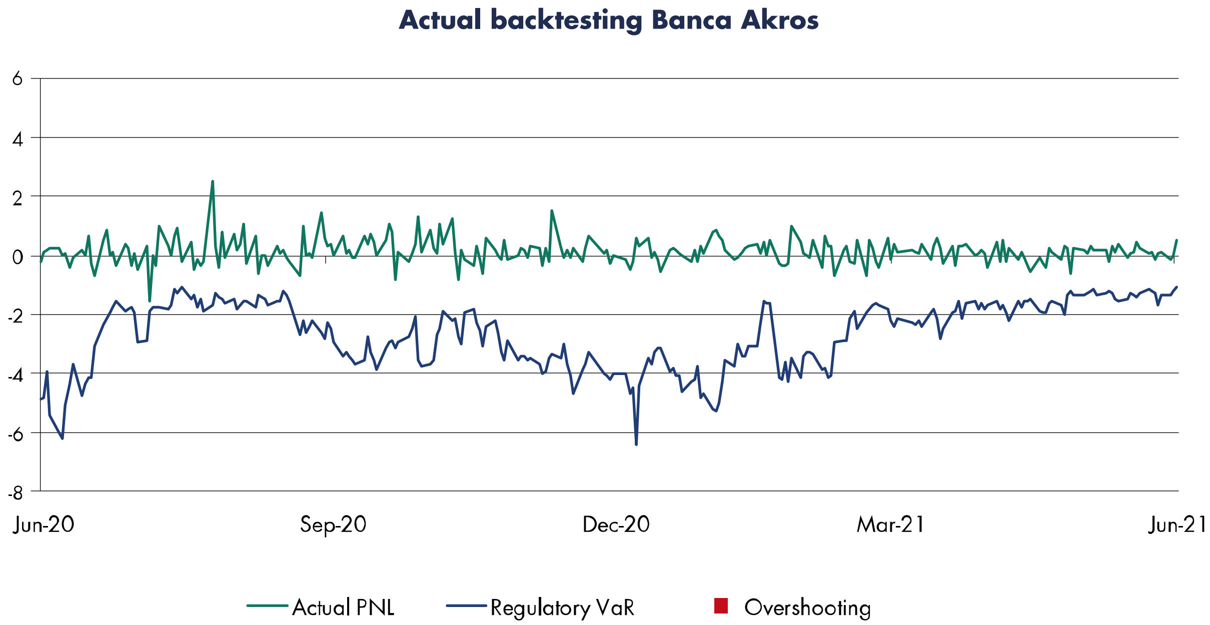
-6
-8
Jun-20
Sep-20
Dec-20
Mar-21
Jun-21
Hypothetical PNL
Regulatory VaR
Overshooting


Actual backtesting Banca Akros
6
4
2
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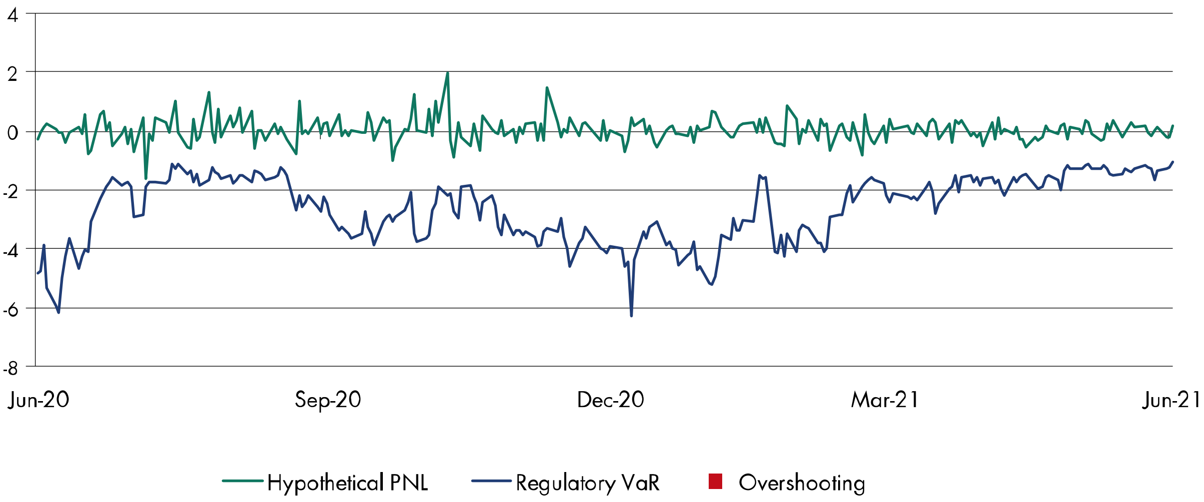
-2
-4
-6
-8
Jun-20
Sep-20
Dec-20
Mar-21
Jun-21
Actual PNL
Regulatory VaR
Overshooting

Theoretical backtesting Banca Akros



Outcomes of internal validation activities

Banco BPM Group adopts internal models to quantify capital requirements for Operational 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. Additionally, 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 horizon for Banca Akros and the Parent Company. As regards Banca Akros, the results of the analysis showed that the model has a good capacity to predict the number of backtesting overruns.
Additionally, the adequacy of the scaling method used to quantify the capital requirement, as required by regulations, was reviewed.
To verify the severity of the stressed period used in the Stressed VaR risk measurement, appropriate analysis is carried out to assess any alternative periods that are more conservative than the one currently used to quantify the risk. The analyses showed that the current stressed period was adequate and could continue to be used.
Lastly, the Internal Validation function validates sample pricing models and performs benchmark models in order to evaluate the robustness of those in production.
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), with an overall result of the self-assessment process considered adequate.

Banking book

The interest rate risk relating to the banking book is eminently 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, as regards own funds.

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 the expected net interest income following a parallel shock of the spot rate curves of +/- 40 bps over a time horizon of twelve months (income perspective);
- the change in economic value following a parallel shock of the spot rate curves of +/-200 bps in relation to own funds (capital perspective);
- the value at risk of the banking book through the VaR (Value at Risk) methodology over a 12-month time horizon and with a confidence interval of 99.9% (capital perspective).

In these analyses, starting from the reference date 31/01/2021, the TLTRO III take-ups are modelled as variable rate transactions indexed to ECB rates including a cap, valid from June 2020 to June 2022, on the overall rate of -1%.

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 the first half of 2021, interest rate risk exposure, from income and capital perspectives, continuously remained within the Risk Appetite Framework and operational risk limits.

The table below shows exposure to interest rate risk at the end of the first half of 2021 in accordance with operational risk measurements.

Risk ratios (%)	2021				2020	
	30 June	average	maximum	minimum	30 June	average
For shift + 100 bp						
Financial margin at risk/Financial margin	26.9%	23.0%	26.9%	19.2%	17.9%	14.7%
For shift - 100 bp (EBA floor)						
Financial margin at risk/Financial margin	-6.2%	-5.8%	-5.0%	-6.5%	-5.6%	-8.3%
For shift + 100 bp						
Economic value at risk/Economic value of capital	-1.8%	0.3%	4.2%	-1.8%	0.0%	-0.9%
For shift - 100 bp (EBA floor)						
Economic value at risk/Economic value of capital	1.1%	0.8%	2.6%	0.0%	0.2%	0.2%

Outcomes of internal validation activities

The 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.

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

From the date of the merger, Banco BPM Group was authorised by the European Supervisors to temporarily use, for regulatory purposes, a combination of the three regulatory methods, specifically the AMA (Advanced Measurement Approach), relating to the validated scope of the former Banco Popolare Group (former Banco Popolare segments of the Parent Company and Banca Aletti), the TSA (Traditional Standardised Approach) on the scope of the former Banca Popolare di Milano Group (segments of the former Parent Company BPM S.c.a r.l., former BPM S.p.A., ProFamily and Banca Akros) and the BIA (Basic Indicator Approach) for the other remaining companies making up Banco BPM Group. After the transition period for the above ECB authorisation ended, from the Reporting date of 31 December 2020, the Supervisory Authority asked the Group to fully adopt 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, to fulfil all of the requirements of the CRR 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 specific Group Regulations 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, 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.

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.).

Liquidity Risk

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, instead as in the course of 2020, also in the first half of 2021, both the liquidity and funding risk profiles benefited from the expansive measures adopted by the European Central Bank (e.g. extension of the types of collateral accepted by the Central Bank to guarantee refinancing operations) as well as by the positive trend of customer funding.
Liquidity risk means the risk that the Group is not able to meet its payment commitments, which are certain or envisaged with reasonable certainty. Usually, two types of Liquidity Risk are identified: Liquidity and Funding Risk,

namely the risk that the Group is not able, in the short term (liquidity) and long term (funding), to meet its payment commitments and its obligations in an efficient manner due to the inability to obtain funds without prejudicing its core business activities and/or its financial situation; Market Liquidity Risk represents the risk that the Group is not able to liquidate an asset, without generating losses in the capital account due to the poor depth of the reference market and/or due to the timing required to conduct the transaction.

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 the Liquidity risk profile of the Group. 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. Stress tests are conducted on a monthly basis, in order to test the Group's ability to withstand unfavourable scenarios and 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.

More specifically, the Group uses a monitoring system that includes short-term liquidity indicators (with a time horizon from infra-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 the first half of 2021, the liquidity profile of the new Banco BPM Group showed adequacy in the short and long term, complying with both internal and regulatory risk limits.

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.

Risks consequent to the reform of benchmark indices

As illustrated in more detail in the Group Interim report on operations, already starting in 2019, Banco BPM launched a specific project called "Ibor Transition" to manage the areas impacted by the reform of interest rates.

Please recall that in 2020, the Group analysed the risks related to the reform of benchmark rates, also with 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 (around 320,000 contracts) and for the assets underlying interest rate derivative contracts. For the majority of these contracts, the substitute rate has been identified as the Libor, which will be discontinued at 31 December 2021, with the consequent risk that, in the event of the cessation of the Euribor, numerous contracts would not have a valid interest rate. In this regard, on the date of this Consolidated interim financial report, there is no assumption to discontinue the "hybrid" Euribor, which could nevertheless be ceased if retained too dependent on the subjective valuations of intermediaries.

For loans, this would entail their termination and the resulting repayment of the debt, or the continuation of the contract at the legal rate, today equal to 0%. In Italy, discussions are ongoing with the competent Authorities to establish a new regulatory provision which makes it possible to amend the contract without the individual renegotiation when, as mentioned above, the intervention by the European Commission with the definition of a substitute rate pursuant to the law is not required, but only possible.

Please also recall that as concerns active derivative contracts, the risks resulting from the Ibor transition are substantially managed through the signing of the ISDA Protocol, signed by the Banco BPM Group in February 2021,

for all contracts with counterparties that subscribe to the same; for other counterparties, the renegotiation of over 100 contracts that expire later than 31 December 2021 will be necessary.
During the first half of 2021, the relative Working Group activities continued with the Risk Function, in order to complete and publish the Risk Self Assessment.

Covered bond transactions and securitisations

New transactions during the period

On 22 June 2021, the securitisation was completed ("Project Rockets") of a portfolio of non-performing loans for a gross amount of 1.5 billion, of which roughly half unsecured.

The securitisation was completed through the issue, by the special purpose vehicle "Aurelia SPV S.r.l.", of the following classes of securities (ABS – Asset-Backed Securities):

- Senior securities of 342 million, corresponding to 22.7% of the GBV. The senior securities will have a coupon equal to the 6-month Euribor + 0.5%;
- Mezzanine securities for 40 million;
- Junior securities for approximately 12 million.

The senior securities obtained an investment grade rating of BBB (sf) from Scope Ratings GmbH and DBRS Morningstar, and the State Guarantee (GACS) will be requested on said securities, after its extension was recently approved by the European Commission.
95% of the mezzanine and junior notes were purchased by companies controlled by Elliott funds.

For further details on the transaction and its accounting treatment, refer to the paragraph entitled "Other significant aspects relating to Group accounting policies" in Part A - "Accounting Policies".

Other significant events during the period

As part of the BPM CB1 Programme on 7 January 2021 an early partial repayment was carried out for 600 million of the Ninth Series of CBs issued, and in April 2021 the Final Terms of the Ninth Series retained were amended in order to extend the maturity from 26 April 2021 to 26 April 2025. Furthermore, the subordinated loan granted by Banco BPM to the SPE BPM Covered Bond S.r.l. was repaid for 250 million on the Guarantor Payment Date of 15 January 2021 and for 220 million on the Guarantor Payment Date of 15 April 2021. On 30 June 2021, 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 equal to 503 million euro to the SPE BPM Covered Bond S.r.l.

As regards the BPM CB2 Programme, on 30 June 2021, by signing the related contracts, Banco BPM sold a new portfolio of eligible residential mortgage loans, excluding disbursements to employees of the Group, for a total residual debt equal to roughly 2.5 billion euro to the SPE BPM Covered Bond 2 S.r.l. Furthermore, the subordinated loan granted by Banco BPM to the SPE BPM Covered Bond 2 S.r.l. was repaid for 350 million on the Guarantor Payment Date of 18 January 2021 and for 250 million on the Guarantor Payment Date of 19 April 2021.

With reference to the BPM CB1 Programme, in April 2021 the Final Terms of the Twelfth Series retained were amended in order to extend the maturity from 30 June 2021 to 30 June 2025.

Furthermore, on 30 June 2021, by signing the related contracts, Banco BPM repurchased "en bloc" the positions present in all three Banco BPM Covered Bank Bond issue programmes which, as at 31 May 2021, were classified as bad loans.

With reference to the securitisation transactions, in December 2020 the SPE ProFamily SPV S.r.l. acquired without recourse from ProFamily S.p.A. a portfolio of performing consumer loans. The transaction was finalised on 24 February 2021 with the issue of limited recourse Asset Backed Securities. Specifically, the SPE issued two classes of securities: (i) Class A (Senior Notes) for a nominal amount of 860 million, with remuneration of 1% per year ("A high" rating from DBRS and "A-" from Fitch), listed on the ExtraMOT PRO segment of the Italian Stock Exchange, and (ii) Class J (Junior Notes) for a nominal amount of 100.9 million, with remuneration of 5% per year, unrated and unlisted. Both classes of securities are subscribed in full by the Originator ProFamily S.p.A.; the Senior securities (transferred by ProFamily S.p.A. to Banco BPM through a securities lending transaction) are used by Banco BPM for monetary policy transactions with the Eurosystem. The price for the assignment of the initial portfolio, equal to 960.9 million, was paid by the SPE to the Originator ProFamily S.p.A. at the security issue date through offsetting between the receivable for the purchase price and the payable for the subscription of the securities.

During the revolving period, the SPE purchased additional portfolios of performing credit loans from ProFamily S.p.A., specifically (i) on 10 March 2021, an initial subsequent portfolio for consideration of 147.3 million, (ii) on 12 April 2021, a second subsequent portfolio for consideration of 34 million, (iii) on 10 May 2021, a third subsequent portfolio for consideration of 33 million and (iv) on 7 June 2021, a fourth subsequent portfolio for consideration of 32.6 million. The purchase price of the subsequent portfolios was financed by the Company using the available funds of the Issuer according to the applicable order of payment priority and was settled in favour of the assignor on the Interest Payment Date of 22 March 2021, 20 April 2021, 20 May 2021 and 21 June 2021, respectively.

In June 2021, the early closure of the securitisation transactions named “BPL Mortgages 7” and “BP Mortgages 1” began.
Specifically, with reference to the “BPL Mortgages 7” securitisation transaction, on 21 June 2021, by signing the retrocession agreement, Banco BPM repurchased the entire residual portfolio of mortgages underlying the transaction and, on 28 June 2021 an extraordinary payment date took place during which the special purpose vehicle closed the transaction and proceeded with the early repayment of the notes still outstanding and entirely subscribed by Banco BPM.
In June 2021, a Termination Agreement was concluded, whereby the contracts signed and accounts opened within the context of the transaction were closed.

As regards the “BP Mortgages 1” securitisation transaction, given the repayment of the residual part of the Senior Notes at the April 2021 payment date and the achievement of the percentage needed for the exercise of the Clean Up Option by the Originator Banco BPM, on 29 June 2021, by signing the retrocession agreement, Banco BPM repurchased the entire residual portfolio of mortgages underlying the transaction.

Significant events after the end of the interim period

On 1 July 2021, the SPE BPM Covered Bond S.r.l. and BPM Covered Bond 2 S.r.l. paid the purchase price for the new portfolios by using the respective subordinated credit lines available at Banco BPM. On the same date, Banco BPM settled the consideration for the repurchase of non-performing loans in favour of the SPE.

On the occasion of the Guarantor Payment Dates in July 2021, the SPEs BPM Covered Bond S.r.l. and BPM Covered Bond 2 S.r.l. repaid the subordinated loan to Banco BPM for 150 million and 220 million respectively.

With reference to the early unwinding of the “BP Mortgages 1” securitisation transaction initiated in June 2021, through the retrocession to Banco BPM of the entire residual portfolio of loans underlying the transaction, on the 20 July 2021 interest payment date the special purpose vehicle closed the transaction and proceeded with the early repayment of the notes still outstanding. In July 2021, with the signing of the Termination Agreement, the contracts signed and accounts opened within the context of the transaction were closed.

Synthetic securitisations

Significant events during the period

As part of the synthetic securitisations finalised in June 2019 and in December 2020 with the European Investment Fund (EIF), concerning loans disbursed to Italian SMEs, during the half-year no significant events occurred.

Significant events after the end of the interim period

With respect to the 2019 synthetic securitisation, in July 2021 the Bank notified the guarantor of its exercise of the early termination option set forth in the contract.
As of 1 July 2021, there is no longer any guarantee provided by the European Investment Fund.

PART G – BUSINESS COMBINATIONS REGARDING COMPANIES OR DIVISIONS

Transactions achieved during the period

As described in the "Significant events during the period" section of the Interim report on operations, in May Banco BPM, through its subsidiary Banca Akros, acquired, in two distinct transactions, 100% of the share capital of Oaklins Italy S.r.l., a company operating in the "Mergers & Acquisitions" advisory services segment.
The consideration for the total purchase of the shares of the investee was 3.5 million.
Following this acquisition, the company joined the Banco BPM Group and, as a result, it is consolidated line-by-line in the Consolidated Financial Statements of the Banco BPM Group as of the Consolidated interim financial report as at 30 June 2021.

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 allocate the cost of the combination to the assets acquired and liabilities assumed, including contingent ones, which are measured at fair value ("Purchase Price Allocation" - "PPA"); any unallocated positive/negative difference represents the goodwill to be recognised in the statement of financial position or the "bargain purchase" to be credited to the income statement as profit realised with the acquisition, respectively.

In the case in question, the assets and liabilities set forth in the accounting statement at the acquisition date primarily consist of items of insignificant amounts and for which at the date on which this report was drafted there is no evidence of a fair value different from the value represented in the accounting statement.
During the definitive PPA, assessments will be performed to identify and measure any specific intangibles (not recognised in the Oaklins financial statements) linked to the transaction. In the case in question, participation in the Oaklins international network which entails the exclusive licence in Italy of the "Oaklins" brand is significant.
In this regard, during the second half of the year the appropriate assessments will be carried out to allow for the proper valuation of this asset, which will be allocated under Trademarks recognised in "Intangible assets".

Therefore, in the Consolidated interim financial report as at 30 June 2021, no amount is allocated to Trademarks and the net fair value of the assets and liabilities acquired is provisionally considered equal to the book value of shareholders' equity set forth in the statement at the acquisition date, i.e. 74 thousand euro, as shown in the statement below:

(in thousands of euro)	Data as at 10/05/2021
Assets	
Financial assets at amortised cost	
- loans to banks	647
Property, plant and equipment	26
Tax assets:	
- deferred	79
Other assets	62
Total assets	**814**
Liabilities	
Financial liabilities at amortised cost	
- due to banks	568
Tax liabilities:	
- current	30
Other liability items	75
Provisions for employee severance pay	44
Provisions for risks and charges	23
Total liabilities	**740**
Shareholders' equity	**74**

In conclusion, with reference to the business combination in question, as set forth in detail in the table below, the difference between the cost of the combination (3,532 thousand euro) and the fair value of the assets acquired and the liabilities assumed (determined - as set forth above - on a provisional basis as 74 thousand euro), is a positive 3,458 thousand euro. This difference is provisionally recognised as Goodwill under "Intangible assets".

(in thousands of euro)		
Book value of Oaklins net equity as at 10/05/2021	**74**	A
Total fair value difference - provisional data	-	B
Fair value of assets and liabilities subject to acquisition - provisional data	74	C=A+B
Consideration transferred - provisional data	3,532	D
Goodwill	**3,458**	**E=C-D**

If, following the conclusion of the PPA process, a higher fair value of the identifiable assets acquired and liabilities assumed emerges, this difference, taking into account the tax effect, will adjust downward the value of goodwill provisionally recognised in this Consolidated interim financial report as at 30 June 2021.

According to what is set forth in Bank of Italy Circular no. 262, the table below includes data relating to the entity subject to the combination (data in thousands of euro):

Company name	Transaction date	(1)	(2)	(3)	(4)
Oaklins Italy S.r.l.	10/05/2021	3,532	100%	3,076	78

The total revenue and net profit data are taken from the investee's financial statements referring to 31 December 2020.
Key:
(1) = Transaction cost
(2) = Percentage of interests acquired with voting right in the ordinary shareholders' meeting
(3) = Total group revenue
(4) = Group net profit/loss

Business combinations between companies in the Group (business combination between entities under common control)

During the half-year, no business combinations occurred involving companies belonging to the Group.

Business combinations after the reporting period

No business combination transactions were carried out outside the Group after the end of the half-year.

Business combinations between companies in the Group (business combination between entities under common control)

As highlighted in the section dedicated to significant events taking place after the end of the half, on 19 July 2021 the incorporation of ProFamily S.p.A. into the Parent Company Banco BPM was finalised.

This operation, which took effect for accounting and tax purposes as of 1 January 2021, occurred in the simplified form established for wholly-owned companies.

Retrospective adjustments

It was not necessary to recognise any retrospective adjustments.

PART H – 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 "Investments in companies subject to joint control and subject to significant influence" indicated under Part B - "Interests in associates and joint ventures - Item 70" of these Explanatory Notes;
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 Joint 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 and any extraordinary liquidators;
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 30 June 2021 with the companies subject to significant influence, 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	-	9,954	-	-	279	10,233	0.15%
Other financial assets mandatorily measured at fair value	-	14	-	-	-	14	0.00%
Financial assets measured at fair value through other comprehensive income	-	10,065	-	-	-	10,065	0.07%
Loans to customers	-	3,214,342	-	8,136	85,452	3,307,930	3.09%
Other assets	-	4,199	-	-	-	4,199	0.01%
Due to customers	-	479,489	-	13,624	57,176	550,289	0.51%
Debt securities in issue	-	-	-	1,146	49	1,195	0.01%
Financial liabilities held for trading	-	4,316	-	-	7	4,323	0.04%
Financial liabilities designated at fair value	-	-	-	468	2,063	2,531	0.21%
Other liabilities	-	3,494	-	136	320	3,950	0.05%
Guarantees given and commitments	-	369,188	-	2,947	130,685	502,820	0.91%

(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	-	8,574	-	27	1,383	9,984	0.99%
Net fee and commission income	-	312,199	-	8	84	312,291	33.00%
Administrative expenses/recoveries of expenses	-	646	-	(5,710)	(36)	(5,100)	0.36%
Other costs/revenues	-	447	-	-	-	447	0.21%

(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 above table under "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)	68	106	-

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 the first half of 2021, as well as those that are less important yet particularly significant.

Issuing of certificates by Banco BPM for 2021, to be placed through the Parent Company and Banca Aletti & C. S.p.A. Network: review of the roles of the companies involved in the product governance and structuring process.
Framework resolution for 2021, regarding the fee and commission flow relating to the outsourcing to Banca Akros S.p.A. of the structuring of the certificates that will be issued by Banco BPM and the management, by Banca Akros S.p.A., of the full hedging of the financial risks resulting from the issue of the certificates by Banco BPM.
Framework resolution for 2021 regarding the fee and commission flow for issues and placements of Banco BPM certificates through the Network of the Parent Company and of Banca Aletti & C. S.p.A.

On 14-15 December 2020, the Board of Directors resolved to: (i) approve the issues of certificates by Banco BPM for a maximum total amount of up to 1,110 million for the period of January-December 2021 (of which 1,000 million distributed by the Network of Banco BPM and 110 million distributed by the network of Banca Aletti & C. S.p.A.), to proceed with the placement, through the Network of the Parent Company and that of Banca Aletti & C. S.p.A., of the certificates that will be issued by Banco BPM, recognising in favour of Banca Aletti & C. S.p.A., for the period of January-December 2021, for the placement activities, in the form of a framework resolution, a total amount of up to 1.3 million, set as a 1.20% commission; (ii) to approve for said activities in the same period a fee and commission flow in favour of Banca Akros S.p.A., in the form of a framework resolution, for the structuring of the certificates and the management of the relative financial hedging, a total amount of up to 11.1 million (of which, 10 million for the certificates issued and distributed by Banco BPM and 1.1 million for the certificates issued by Banco BPM and distributed by the Network of Banca Aletti) set as an average commission of 1%.
Please note that for the January - June 2021 period, Banco BPM certificates were issued for a total of 275.7 million, which generated for placement activities for Banca Aletti commissions equal to roughly 90 thousand; moreover, please note that for the same period of time, fees were paid to Banca Akros for the structuring of certificates and the management of the relative financial coverage by Banco BPM for 2.5 million and by Banca Aletti for 93 thousand euro.

Framework resolution for the fee and commission flows in 2021 relating to the placement and management of the asset portfolios of Banca Aletti & C. S.p.A. by Banco BPM S.p.A.

The Board of Directors, in its meeting of 14-15 December 2020, approved, with reference to the placement and management of Banca Aletti & C. S.p.A.'s Asset Management activities, by Banco BPM, the opening of Banca Aletti & C. S.p.A.'s Private catalogue lines to Banco BPM's retail customers, with the payment for 2021 of a flow of fees to the Parent Company for the service rendered of up to 420 thousand euro. For the period of January-June 2021, Banca Aletti & C. S.p.A. paid fees and commissions of 175 thousand euro to Banco BPM.

Renewal of the framework resolution for 2021 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 & C. S.p.A. and Banca Akros S.p.A.

On 14-15 December 2020, the Board of Directors approved: (i) the renewal of the Framework Resolution relating to the performance of trading activities by Banca Akros S.p.A. for which Banco BPM estimates to pay for 2021, and specifically for the period of January - December 2021, a maximum fee and commission flow of 12 million 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 relating to the performance of trading activities by Banca Akros S.p.A. for which Banca Aletti & C. S.p.A. estimates to pay for 2021, and specifically for the period of January - December 2021, a maximum fee and commission flow of 3.3 million 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 & C. S.p.A. 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 - June 2021 period the flow of fees and commissions recognised by Banco BPM S.p.A. was 6.3 million, while that recognised by Banca Aletti & C S.p.A. amounted to 1.3 million.

Issue of Banca Akros S.p.A. Investment certificates to be placed on third-party networks and 2021 Plafond for the relative bond issues of Banco BPM, subscribed by Banca Akros S.p.A. and intended for the use of the ensuing liquidity

At its meeting on 8-9 February 2021, the Board of Directors approved the issue by Banco BPM, during the year 2021, of bonds for a maximum of 150 million, which will be subscribed by Banca Akros in order to be able to manage the liquidity ensuing from the placement of certificates. Please note that for the January - June 2021 period, bonds totalling 16.3 million were issued.

Approval of the plan for the merger by incorporation of ProFamily S.p.A. in Banco BPM S.p.A.

At its meeting held on 8-9 February 2021, the Board of Directors approved, pursuant to Art. 2501-ter of the Italian Civil Code, the plan for the merger by incorporation of ProFamily S.p.A. into Banco BPM, with the simplified procedure pursuant to Art. 2505 of the Italian Civil Code.
In accordance with the agreements signed with the Crédit Agricole Group, with a view to further consolidating their partnership in the consumer credit sphere in Italy, the merger of ProFamily S.p.A. within the Parent Company pursues liquidity-related purposes. The transaction is also consistent with the initiatives to rationalise the corporate and operating structure of Banco BPM Group and meets the needs of structure simplification and rationalisation, optimisation and development of personnel and reduction of costs, including corporate costs.
Following the issue on 15 April 2021 of the ECB’s authorisation pursuant to Art. 57 of Italian Legislative Decree no. 385/1993, further phases of the corporate merger process continued, most recently with the signing of the merger deed on 22 June 2021, registered with the competent companies' register on 24 June.
The merger will become legally effective pursuant to Art. 2504-bis of the Italian Civil Code on 19 July 2021; starting from the merger's effective date, the merging company Banco BPM will take over all legal relations, rights and obligations of the merged company. The operations of the merged company will be recognised in the financial statements of the incorporating company from 1 January 2021.
By virtue of the 100% control between the merged company and the incorporating company, the assets of ProFamily S.p.A. are already considered in the calculation of the consolidated capital ratios; therefore, no impacts on such ratios are expected as a result of the implementation of the merger.

Approval of the plan for the merger by incorporation of Bipielle Real Estate S.p.A. in Banco BPM S.p.A.

At its meeting held on 8-9 February 2021, the Board of Directors approved, pursuant to Art. 2501-ter of the Italian Civil Code, the plan for the merger by incorporation of Bipielle Real Estate S.p.A. into Banco BPM, with the simplified procedure pursuant to Art. 2505 of the Italian Civil Code.
The incorporation of Bipielle Real Estate S.p.A. - a real estate company, whose assets are primarily used for business purposes - into Banco BPM, is to concentrate the overall ownership of the real estate assets directly in the Parent Company, which would also control the complex of organisational structures responsible for managing said real estate.
This transaction also falls within the scope of initiatives to rationalise the corporate and operating structure of the Group, and meets the needs of structure simplification and rationalisation, optimisation and development of personnel and reduction of costs, without having any impacts on the capital ratios and on the consolidated financial statements of the Banco BPM Group.

Proposed early closure of the BP Mortgages 1 and BPL Mortgages 7 securitisations

At its meeting on 23 March 2021, the Board of Directors approved the early closure of the following two securitisation transactions: (i) BPL Mortgages 7 carried out with BPL Mortgages S.r.l. in June 2014, concerning a portfolio of performing mortgages, landed mortgages and unsecured loans or loans backed by other collateral and personal guarantees, disbursed to small and medium sized enterprises and originated by the former Banco Popolare Soc. Coop. and by the former BPM S.p.A, now Banco BPM S.p.A.; (ii) BP Mortgages 1, carried out with BP Mortgages S.r.l. in March 2007 concerning a portfolio of performing residential mortgages and landed mortgages disbursed to private parties and originated by the former Banco Popolare di Verona e Novara Scarl.
With reference to the “BPL Mortgages 7”, transaction, on 21 June 2021, by signing the retrocession agreement, Banco BPM repurchased the entire residual portfolio of mortgages underlying the transaction and, on 28 June 2021 an extraordinary payment date took place during which the special purpose vehicle closed the transaction and proceeded with the early repayment of the notes still outstanding and entirely subscribed by Banco BPM.

As regards the "BP Mortgages 1", transaction, on 29 June 2021, by signing the retrocession agreement, Banco BPM repurchased the entire residual portfolio of mortgages underlying the transaction and, on the July 2021 interest payment date the special purpose vehicle closed the transaction and proceeded with the early repayment of the notes still outstanding.

Proposal to (i) assign new portfolios of eligible assets as part of the BPM CB1 and BPM CB2 issue programmes; (ii) repurchase bad loans as part of the CB programmes, for future assignments or securitisations of non performing loans

At the meeting of 25 May 2021, the Board of Directors decided to approve: (i) Banco BPM's assignment to the SPE BPM Covered Bond S.r.l. of the New BPM CB1 Portfolio of eligible assets comprised of residential mortgages, including disbursements to employees of the Group, and commercial mortgage loans, for an amount of around 600 million euro; (ii) Banco BPM's assignment to the SPE BPM Covered Bond 2 S.r.l. of the New BPM CB2 Portfolio of eligible assets comprised exclusively of residential mortgages, excluding disbursements to employees of the Group, for an amount of around 2.7 billion; (iii) the granting of a credit limit of up to 16 billion to be used by both Counterparties; (iv) the review (with a new maturity of 30 July 2061) with remodulation of the credit lines available at Banco BPM for BPM Covered Bond Srl and BPM Covered Bond 2 Srl; (v) the repurchase by Banco BPM of three portfolios of bad mortgage loans as part of the CB programmes for the maximum amounts specified.

In execution of such resolutions, on 30 June 2021, by signing the related contracts, Banco BPM sold (i) a new portfolio of residential mortgage loans, including disbursements to employees of the Group, and commercial mortgage loans, for a total residual debt equal to around 503 million to the SPE BPM Covered Bond S.r.l. and (ii) a new portfolio of eligible residential mortgage loans, excluding disbursements to employees of the Group, for a total residual debt equal to around 2.5 billion to the SPE BPM Covered Bond 2 S.r.l. Furthermore, also on 30 June 2021, by signing the related contracts, Banco BPM repurchased "en bloc" the positions present in all three Banco BPM Covered Bank Bond issue programmes which, as at 31 May 2021, were classified as bad loans.

Alba Leasing risk group: increase in total credit lines and increase and new review date for the lending ceiling

At its meeting held on 15 June 2021, the Board of Directors approved in favour of Alba Leasing S.p.A.: (i) an increase in the lending ceiling for direct risks from 1,055 million to 1,100 million, of which 100 million temporary maturing on 31.12.2021; (ii) an increase in the total credit lines from 969.7 million to 1,077.2 million, of which 100 million temporary maturing on 31.12.2021, alongside indirect risks for 2.2 million and evidence risks for 15 million.

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, 25th update of 23 October 2018, 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 guiding them 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 2021 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 2021 Policy continues in the direction taken in 2020, by further strengthening the correlation between the variable remuneration of management and strategic action relating to environmental issues, aspects regarding health and safety and human resource management, with regard to which an inclusive and gender neutral corporate culture are becoming increasingly important.
Banco BPM's remuneration policy for staff is gender neutral.

The remuneration of Group employees includes a variable component (incentive) linked to annual incentive systems (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, is paid over a period of six or four years, and is divided into an up-front portion and five or three annual deferred portions, conditional to the fulfilment of future conditions.
The up-front share, regardless of beneficiary, amounts to:
- 60% of the incentive awarded, if it is less than 430 thousand euro;
- 40% of the incentive awarded, if it is equal to or more than 430 thousand euro.

The figure of 430 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[2].
50% of the up-front portion of the incentive is awarded in Banco BPM ordinary shares.
Other deferred portions consist of:
- five annual portions of the same amount deferred in the five-year period following the year in which the up-front portion vests, 55% in Banco BPM ordinary shares, for the senior identified staff[1], regardless of the

[1] Parties whose professional activity has or may have a significant impact on the Group's risk profile.
[2] See Part One, Heading 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".

amount of the incentive awarded, and for the identified staff reporting directly to the Chief Executive Officer of Banca Akros or Banca Aletti, in the event that the amount of the incentive awarded is equal to or greater than 430 thousand euro;
- three annual portions of the same amount deferred over the three-year period following the year of vesting of the up-front portion, 50% of which in Banco BPM ordinary shares, for the identified staff not indicated in the previous point.

In line with national banking system practices and in keeping with the spirit of the provisions in force, if the incentive recognised is lower than or equal to the relevant threshold of 50 thousand and at the same time lower than or equal to one-third of the fixed component of individual remuneration, it is paid in a lump sum in cash; this provision does not regard high-end key personnel[2] (including top-management) and personnel actually affected[3] by a ratio of variable to fixed remuneration of more than 100%, to whom, therefore, the regulations regarding the deferral and allocation of shares continue to apply in full.

With a view to pursuing results that create long-term value for shareholders, taking the interests of all stakeholders important to the Bank into account, the Group has activated a Long Term Incentive (LTI) Plan related to performance achieved in the 2021-2023 three year period.
In addition to the Chief Executive Officer and executives with strategic responsibilities of the Parent Company (excluding managers of functions with control tasks), 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.
The incentive correlated with the LTI plan (LTI incentive) is fully assigned in Banco BPM ordinary shares and is proportional to the level of achievement of the conditions and performance objectives.
For all beneficiaries, the shares recognised at the end of the three-year performance period are attributed over a period of six or four years, broken down into an up-front portion of 40% and five (for senior identified staff) or three (for the other plan participants) annual deferred portions, conditional to the 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 shares and the deferred shares are subject to malus and claw-back mechanisms, as set forth in the Policy.

In addition to the compensation plan based on Banco BPM S.p.A. shares relating to the 2021 Short Term Incentive Plan and the 2021-2023 Long Term Incentive Plan, the Ordinary Shareholders' Meeting of Banco BPM held on 15 April 2021 approved:
- the Remuneration Report 2021 – Section I of the Banco BPM Banking Group's Remuneration Report – 2021;
- the report on payouts awarded - Section II of the Policy-on-remuneration report and payouts awarded of Banco BPM Banking Group's staff – 2021 (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;
- 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: 2021 Policy-on-remuneration report and payouts awarded (Section I and Section II), Information Document on the Compensation plan based on Banco BPM shares - 2021 Short term incentive and Information Document on the Compensation plan based on Banco BPM shares Long Term Incentive Plan 2021-2022-2023, available on the website www.gruppo.bancobpm.it (Corporate Governance - Remuneration Policies section).

[1] Senior identified staff refers to the CEO, General Manager (where appointed), Joint General Managers and senior operational and executive managers of the Parent Company, first-line managers of the Parent Company not included amongst the internal control functions reporting directly to the CEO or the Board of Directors, the CEO of Banca Aletti and of Banca Akros.
[2] High-end key personnel refers to the CEO, General Manager (where appointed), Joint General Managers and Managers in the first line of management of the Parent Company, the CEO, General Manager, Joint General Manager and Deputy General Manager (where present) of Banca Aletti, Banca Akros and ProFamily.
[3] Ex ante.

1.2 Share-based compensation plans of previous years

On 9 March 2021, the Banco BPM Board of Directors acknowledged the vesting in the year 2021 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' Regulations, 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 key personnel, 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 subordinate 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 key personnel 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 key personnel 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 the key personnel 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" at 1 January 2021, entirely held by the Parent Company Banco BPM, consisted of 6,125,659 ordinary shares of Banco BPM.
During the first half of 2021 - in implementation of the remuneration policy - a total of 2,485,582 ordinary shares of Banco BPM S.p.A. were delivered to 88 beneficiaries.

As a result of the above transactions, the balance of the "stock of shares" as at 30 June 2021 consisted of 3,640,077 ordinary shares of Banco BPM, held in full by the Parent Company.

2. Other information

With reference to the resolution passed by the Banco BPM Board of Directors on 9 March 2021 with regard to the share-based compensation plan approved by the Ordinary Shareholders' Meeting in 2020, a total of 799,287 shares were granted to 52 beneficiaries, of which (i) 440,186 relating to the up-front portion accrued and (ii) 359,101 relating to the deferred portions, as appropriate, in the three or five years after 2021, the accrual of which remains subject to positive verification of future consolidated conditions as well as the absence of misconduct. Note that the Parent Company awarded its beneficiaries 674,935 shares, of which 366,672 shares relating to the vested up-front portion and 308,263 shares relating to the deferred portions as indicated above.

The same resolution also determined the vesting of deferred shares relating to previous years (2015, 2016, 2017, 2018, 2019 and LTI 2017-2019) for a total of 892,209 Banco BPM shares to 86 beneficiaries, of which 743,311 shares vested in favour of Banco BPM beneficiaries (data as at 30 June 2021).

2.1 Economic impact in 2021

With respect to the share-based compensation plans for senior identified staff in the first half of 2021, the Group has set aside 2 million for the 2021-2023 long term incentive plan described above.

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.

For 2021, the operating segments taken as a reference to provide the disclosure in question are as follows:

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

The identification of Leases as an operating segment lies in the need to provide separate evidence of a run-off activity, attributable to the management of previous lease transactions of the former Banca Italease (today incorporated into Banco BPM) and the subsidiary Release.

Please also note that the Investment Banking operating segment now also includes as of this half-year period the contribution of the subsidiary Oaklins Italy S.r.l. acquired by Banca Akros in May.

The following tables provide detailed income statement and balance sheet figures by segment as at 30 June 2021 compared with the first half of 2020 and 31 December 2020 respectively.

It is noted that the figures for the first half of the previous year presented for comparative purposes were adapted to the new format of the Reclassified Income Statement, based on which:

- the economic impact of a change in own credit risk related to the issue of certificates is included in the ad hoc item "Change in own credit risk on Certificates issued by the Group, net of taxes";
- the impacts of reversals of the PPA, recognised following business combinations concluded in previous years are shown in a separate item called "Purchase Price Allocation net of taxes".

Segment results - income statement figures

I half 2021	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leases	Corporate Centre
Net interest income	1,019,196	526,202	239,019	23,563	(194)	26,079	(2,551)	11,628	195,450
Gains (losses) on interests in associates and joint ventures carried at equity	98,079	-	-	-	-	-	96,883	-	1,196
Financial margin	**1,117,275**	**526,202**	**239,019**	**23,563**	**(194)**	**26,079**	**94,332**	**11,628**	**196,646**
Net fee and commission income	950,074	751,782	109,912	19,430	49,837	25,596	-	(362)	(6,121)
Other net operating income	39,918	2,491	32	47	2	407	-	(10,211)	47,150
Net financial result	216,260	1,370	2,417	(108)	(149)	5,852	-	-	206,878
Other operating income	**1,206,252**	**755,643**	**112,361**	**19,369**	**49,690**	**31,855**	**-**	**(10,573)**	**247,907**
Operating income	**2,323,527**	**1,281,845**	**351,380**	**42,932**	**49,496**	**57,934**	**94,332**	**1,055**	**444,553**
Personnel expenses	(844,039)	(534,746)	(37,755)	(6,363)	(29,309)	(19,063)	(968)	(3,161)	(212,674)
Other administrative expenses	(308,033)	(378,374)	(60,057)	(14,991)	(8,692)	(30,350)	(255)	(13,071)	197,757
Net value adjustments to property, plant and equipment and intangible assets	(123,453)	(55,370)	(2,367)	(359)	(1,552)	(168)	(96)	(681)	(62,860)
Operating expenses	**(1,275,525)**	**(968,490)**	**(100,179)**	**(21,713)**	**(39,553)**	**(49,581)**	**(1,319)**	**(16,913)**	**(77,777)**
Profit (loss) from operations	**1,048,002**	**313,355**	**251,201**	**21,219**	**9,943**	**8,353**	**93,013**	**(15,858)**	**366,776**
Net adjustments to loans to customers	(472,578)	(252,157)	(202,517)	(6,587)	(604)	(4)	-	(3,216)	(7,493)
Fair value gains (losses) on property, plant and equipment	(36,889)	-	-	-	-	-	-	(17,421)	(19,468)
Net adjustments to securities and other financial assets	528	-	-	-	-	(10)	-	-	538
Net provisions for risks and charges	(12,805)	(5,338)	(3,609)	(130)	(134)	369	-	1,741	(5,704)
Gains (losses) on disposal of interests in associates and joint ventures and other investments	(437)	-	-	-	-	-	-	92	(529)
Profit (loss) before tax from continuing operations	**525,821**	**55,860**	**45,075**	**14,502**	**9,205**	**8,708**	**93,013**	**(34,662)**	**334,120**
Taxation charge related to profit or loss from continuing operations	(133,326)	(21,037)	(15,448)	(4,884)	(3,108)	(2,603)	1,272	6,867	(94,385)
Profit (loss) after tax from continuing operations	**392,495**	**34,823**	**29,627**	**9,618**	**6,097**	**6,105**	**94,285**	**(27,795)**	**239,735**
Charges related to the banking system, net of taxes	(78,553)	(39,769)	(4,729)	(4,551)	(176)	(3,813)	-	-	(25,515)
Impact of the realignment of tax values to book values	79,220	28,425	1,746	642	228	-	-	-	48,179
Change in own credit risk on Certificates issued by the Group, net of taxes	(11,920)	-	-	-	-	-	-	-	(11,920)
Purchase Price Allocation net of taxes (*)	(20,037)	(14,271)	89	(20)	(1,329)	-	-	376	(4,882)
Profit (loss) for the period attributable to non-controlling interests	112	-	-	-	-	-	-	-	112
Parent Company's profit (loss) for the period	**361,317**	**9,208**	**26,733**	**5,689**	**4,820**	**2,292**	**94,285**	**(27,419)**	**245,709**

(*) PPA relating to receivables and client relationships, net of related tax effects.

I half 2020 (*)	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leases	Corporate Centre
Net interest income	953,621	467,102	211,845	31,257	1,706	38,780	(4,143)	12,193	194,881
Gains (losses) on interests in associates and joint ventures carried at equity	70,302	-	-	-	-	-	69,505	-	797
Financial margin	**1,023,923**	**467,102**	**211,845**	**31,257**	**1,706**	**38,780**	**65,362**	**12,193**	**195,678**
Net fee and commission income	816,934	640,670	101,141	17,011	43,132	21,889	-	(283)	(6,626)
Other net operating income	31,599	6,066	64	534	3	(11)	-	(6,122)	31,065
Net financial result	83,472	6,200	7,056	124	3	4,635	11,671	-	53,783
Other operating income	**932,005**	**652,936**	**108,261**	**17,669**	**43,138**	**26,513**	**11,671**	**(6,405)**	**78,222**
Operating income	**1,955,928**	**1,120,038**	**320,106**	**48,926**	**44,844**	**65,293**	**77,033**	**5,788**	**273,900**
Personnel expenses	(816,979)	(508,852)	(36,485)	(3,693)	(26,917)	(13,513)	(988)	(3,369)	(223,162)
Other administrative expenses	(308,674)	(369,640)	(36,718)	(14,192)	(9,481)	(30,424)	(258)	(13,513)	165,552
Net value adjustments to property, plant and equipment and intangible assets	(123,089)	(58,706)	(1,588)	(116)	(147)	(164)	-	-	(62,368)
Operating expenses	**(1,248,742)**	**(937,198)**	**(74,791)**	**(18,001)**	**(36,545)**	**(44,101)**	**(1,246)**	**(16,882)**	**(119,978)**
Profit (loss) from operations	**707,186**	**182,840**	**245,315**	**30,925**	**8,299**	**21,192**	**75,787**	**(11,094)**	**153,922**
Net adjustments to loans to customers	(476,242)	(277,633)	(160,728)	(4,221)	(179)	(5)	-	(16,342)	(17,134)
Fair value gains (losses) on property, plant and equipment	(5,416)	-	-	-	-	-	-	(2,279)	(3,137)
Net adjustments to securities and other financial assets	(8,383)	-	-	-	-	(120)	-	-	(8,263)
Net provisions for risks and charges	(7,614)	(7,231)	(1,154)	17	(35)	614	-	(145)	320
Gains (losses) on disposal of interests in associates and joint ventures and other investments	220	-	-	-	-	-	-	131	89
Profit (loss) before tax from continuing operations	**209,751**	**(102,024)**	**83,433**	**26,721**	**8,085**	**21,681**	**75,787**	**(29,729)**	**125,797**
Taxation charge related to profit or loss from continuing operations	(39,000)	31,289	(27,865)	(8,885)	(2,729)	(6,929)	1,290	6,224	(31,395)
Profit (loss) after tax from continuing operations	**170,751**	**(70,735)**	**55,568**	**17,836**	**5,356**	**14,752**	**77,077**	**(23,505)**	**94,402**
Charges related to the banking system, net of taxes	(75,684)	(39,144)	(4,083)	(4,010)	(1,023)	(3,192)	-	-	(24,232)
Change in own credit risk on Certificates issued by the Group, net of taxes	27,183	-	-	-	-	-	-	-	27,183
Purchase Price Allocation net of taxes (**)	(18,527)	(10,514)	(1)	-	(1,439)	-	-	414	(6,987)
Profit (loss) for the period attributable to non-controlling interests	1,508	-	-	-	-	-	-	1,400	108
Parent Company's profit (loss) for the period	**105,231**	**(120,393)**	**51,484**	**13,826**	**2,894**	**11,560**	**77,077**	**(21,691)**	**90,474**

(*) The figures for the previous period were adapted to the new format of the reclassified income statement, indicating the impacts of the PPA and the change in own credit risk on Certificates issued by the Group in separate items, net of tax effects.

(**) PPA relating to receivables and client relationships, net of related tax effects.

The following tables provide details of the fee and commission income for the first half of 2021 and the corresponding period of 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.

I half 2021 Service type/Amounts	**Total**	**Retail**	**Corporate**	**Institutional**	**Private**	**Investment Banking**	**Strategic Partnerships**	**Leases**	**Corporate Centre**
Savings products	**405,842**	**349,178**	**535**	**2,741**	**51,018**	**-**	**-**	**-**	**2,370**
of which:									
Indirect upfront - Network	166,422	160,102	56	824	5,440	-	-	-	-
Administered	3,346	3,216	30	23	77	-	-	-	-
Portfolio management and funds	144,152	138,761	25	758	4,608	-	-	-	-
Life	18,924	18,125	1	43	755	-	-	-	-
Indirect running - Network	229,887	189,076	479	1,917	45,578	-	-	-	(7,163)
Administered	25,375	27,762	125	688	3,963	-	-	-	(7,163)
Portfolio management and funds	182,767	143,096	326	1,133	38,212	-	-	-	-
Life	21,745	18,218	28	96	3,403	-	-	-	-
Indirect non-Commercial Network	9,533	-	-	-	-	-	-	-	9,533
Investment Banking	**40,589**	**-**	**-**	-	-	**40,589**	-	-	-
Insurance protection	**27,056**	**26,884**	**11**	**29**	**38**	-	**-**	-	**94**
Other fees and commissions	**538,740**	**407,283**	**113,584**	**17,074**	**561**	-	**-**	-	**232**
of which:									
Keeping and management of current accounts, Commission on Credit Access	*252,773*	*220,150*	*26,274*	*5,725*	*538*	-	-	-	*86*
Commissions on loans, consumer credit, unsecured loans Italy	*97,585*	*36,579*	*55,261*	*2,599*	*40*	-	-	-	*3,106*
Abroad (including unsecured loans)	*37,862*	*15,038*	*20,239*	*229*	*101*	-	-	-	*2,255*
Collection and payment services, e-money	*152,505*	*137,065*	*12,250*	*8,607*	*607*	-	-	-	*(6,024)*
Other services	*(1,985)*	*(1,549)*	*(440)*	*(86)*	*(725)*	-	-	*6*	*809*
Fee and commission income	**1,012,227**	**783,345**	**114,130**	**19,844**	**51,617**	**40,589**	**-**	**6**	**2,696**
Fee and commission expense	**(62,153)**	**(31,563)**	**(4,218)**	**(414)**	**(1,780)**	**(14,993)**	**-**	**(368)**	**(8,817)**
Net fee and commission income	**950,074**	**751,782**	**109,912**	**19,430**	**49,837**	**25,596**	**-**	**(362)**	**(6,120)**

I half 2020 Service type/Amounts	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leases	Corporate Centre
Savings products	**324,350**	**282,816**	**430**	**2,451**	**43,825**	**-**	**-**	**-**	**(5,172)**
of which:									
Indirect upfront - Network	*117,111*	*112,703*	*48*	*531*	*3,829*	-	-	-	-
Administered	26,303	25,297	16	55	935	-	-	-	-
Portfolio management and funds	76,689	73,823	31	449	2,386	-	-	-	-
Life	14,119	13,583	1	27	508	-	-	-	-
Indirect running - Network	*205,765*	*170,113*	*382*	*1,920*	*39,996*	-	-	-	*(6,646)*
Administered	26,885	28,659	79	916	3,877	-	-	-	(6,646)
Portfolio management and funds	160,323	126,109	267	935	33,012	-	-	-	-
Life	18,557	15,345	36	69	3,107	-	-	-	-
Indirect non-Commercial Network	*1,474*	-	-	-	-	-	-	-	*1,474*
Investment Banking	**38,140**	-	-	-	-	**47,423**	-	-	**(9,283)**
Insurance protection	**16,154**	**16,013**	**12**	**12**	**24**	**-**	-	-	**93**
Other fees and commissions	**497,452**	**373,681**	**103,462**	**15,147**	**740**	-	-	**4**	**4,418**
Fee and commission income	**876,096**	**672,510**	**103,904**	**17,610**	**44,589**	**47,423**	**-**	**4**	**(9,944)**
Fee and commission expense	**(59,162)**	**(31,840)**	**(2,763)**	**(599)**	**(1,457)**	**(25,534)**	**-**	**(287)**	**3,318**
Net fee and commission income	**816,934**	**640,670**	**101,141**	**17,011**	**43,132**	**21,889**	**-**	**(283)**	**(6,626)**

Segment results - balance sheet figures

30/06/2021	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leases	Corporate Centre
Loans to customers:	130,424,310	60,728,834	30,606,582	6,772,433	375,268	1,286,611	-	1,583,927	29,070,655
• loans to customers	106,914,347	60,728,834	30,433,617	6,772,433	375,268	1,286,611	-	1,583,927	5,733,657
• debt securities	23,509,963	-	172,965	-	-	-	-	-	23,336,998

31/12/2020	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leases	Corporate Centre
Loans to customers:	129,827,109	**58,679,546**	**31,109,162**	**6,498,443**	**335,172**	**695,414**	-	**1,639,209**	**30,870,163**
• loans to customers	107,018,483	58,679,546	30,952,448	6,498,443	335,172	694,825	-	1,639,209	8,218,840
• debt securities	22,808,626	-	156,714	-	-	589	-	-	22,651,323

30/06/2021	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leases	Corporate Centre
Direct funding	120,146,355	80,006,670	10,586,104	11,465,811	2,557,991	1,547,560	-	6,362	13,975,857

31/12/2020	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leases	Corporate Centre
Direct funding	116,936,669	76,407,106	11,471,081	9,945,329	2,796,089	980,502		6,669	15,329,893

30/06/2021	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leases	Corporate Centre
Interests in associates and join ventures	1,688,530	-	-	-	-	-	1,670,540	-	17,990

31/12/2020	Total	Retail	Corporate	Institutional	Private	Investment Banking	Strategic Partnerships	Leases	Corporate Centre
Interests in associates and joint ventures	1,664,772	-	-	-	-	-	1,647,043	-	17,729

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%.

Certification of the consolidated condensed interim financial statements pursuant to art. 81-ter of Consob Regulation no. 11971 of 14 May 1999 and subsequent amendments and additions

CERTIFICATION OF THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS PURSUANT TO ART. 81-TER OF CONSOB REGULATION NO. 11971 OF 14 MAY 1999 AND ITS SUBSEQUENT AMENDMENTS AND SUPPLEMENTS

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 condensed interim financial statements in the first half of 2021.

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 condensed interim financial statements as at 30 June 2021 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 standard for the internal audit system generally accepted at international level.

3. We also hereby certify that:

   3.1 the consolidated condensed interim financial statements as at 30 June 2021:
   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 Commission, 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.

   3.2 The interim report on operations includes a reliable analysis of the important events, which occurred during the first six months of the year, and their impact on the consolidated condensed interim financial statements, together with a description of the main risks and uncertainties for the remaining six months of the year. The interim report on operations also includes a reliable analysis of the information on significant transactions with related parties.

Milan, 5 August 2021

Signed by Giuseppe Castagna Chief Executive Officer	Signed by Gianpietro Val Financial Reporting Manager

Independent Auditors' Report

Review report on consolidated condensed interim financial statements

To the shareholders of
Banco BPM SpA

Foreword

We have reviewed the accompanying consolidated condensed interim financial statements of Banco BPM SpA and its subsidiaries (Banco BPM Group) as of 30 June 2021, comprising the balance sheet, income statement, statement of comprehensive income, statement of changes of shareholders' equity, cash flow statement and related explanatory notes. The directors of Banco BPM SpA are responsible for the preparation of the consolidated condensed interim financial statements in accordance with International Accounting Standard 34 applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these consolidated condensed interim financial statements based on our review.

Scope of review

We conducted our work in accordance with the criteria for a review recommended by Consob in Resolution No. 10867 of 31 July 1997. A review of consolidated condensed interim financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than a full-scope audit conducted in accordance with International Standards on Auditing (ISA Italia) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the consolidated condensed interim financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated condensed interim financial statements of Banco BPM Group as of 30 June 2021 are not prepared, in all material respects, in accordance with International Accounting Standard 34 applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Milan, 12 August 2021

PricewaterhouseCoopers SpA

Signed by

Pierfrancesco Anglani
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

PricewaterhouseCoopers SpA

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Attachments

Reconciliation between the items in the consolidated income statement and the reclassified consolidated income statement schedule for the first half of 2021

I half 2021	Income statement	Reclassifications	Reclassified income statement
Net interest income			**1,019,196**
10. Interest and similar income	1,212,569	13,340 (a)	
20. Interest and similar expense	(206,713)		
Gains (losses) on interests in associates and joint ventures carried at equity			**98,079**
250. Gains (losses) of associates and joint ventures		98,079 (b)	
Financial margin			**1,117,275**
Net fee and commission income			**950,074**
40. Fee and commission income	1,008,454	3,773 (c)	
50. Fee and commission expense	(62,153)	(d)	
Other net operating income			**39,918**
230. Other operating expenses/income	186,906	(142,302) (e)	
		(4,686) (f)	
Net financial result			**216,260**
70. Dividends and similar income	34,408		
80. Net trading income	22,719	(3,773) (c)	
		17,807 (g)	
90. Fair value gains/losses on hedging derivatives	2,087		
100. Profits (losses) on disposals or repurchases	(132,204)	222,375 (h)	
110. Net Gains (Losses) from other financial assets and liabilities measured at fair value through profit or loss	52,841		
Other operating income			**1,206,252**
Operating income			**2,323,527**
Personnel expenses			**(844,039)**
190 a) Personnel expenses	(847,793)	(932) (i)	
190 b) Other administrative expenses		4,686 (f)	
Other administrative expenses			**(308,033)**
190 b) Other administrative expenses	(567,649)	932 (i)	
		142,302 (e)	
		116,382 (m)	
Net value adjustments to property, plant and equipment and intangible assets			**(123,453)**
210. Depreciation and impairment losses on property, plant and equipment	(83,368)	(l)	
220. Amortisation and impairment losses on intangible assets	(56,678)	16,593 (a)	
230. Other operating expenses/income			
Operating expenses			**(1,275,525)**
Profit (loss) from operations			**1,048,002**
Net adjustments to loans to customers			**(472,578)**
130 a) Net credit impairment losses/recoveries relating to financial assets at amortised cost	(247,191)	810 (n)	
		233 (o)	
		(1,833) (p)	
		(222,375) (h)	
140. Gains (losses) from contractual modification without derecognition	(2,222)		
Fair value gains (losses) on property, plant and equipment			**(36,889)**
260. Fair value gains (losses) on property, plant and equipment and intangible assets	(36,889)		
Net adjustments to securities and other financial assets			**528**
130 b) Net credit impairment losses/recoveries relating to financial			

I half 2021	Income statement	Reclassifications	Reclassified income statement
assets measured at fair value through other comprehensive income	(262)	(810) (n)	
		(233) (o)	
		1,833 (p)	
Net provisions for risks and charges			**(12,805)**
200. Net provisions for risks and charges	(12,805)	(l)	
Gains (losses) on disposal of interests in associates and joint ventures and other investments			**(437)**
250. Gains (losses) of associates and joint ventures	98,079	(98,079) (b)	
280. Gains (losses) on disposal of investments	(437)		
Profit (loss) before tax from continuing operations			**525,821**
Taxation charge related to profit or loss from continuing operations			**(133,326)**
300. Taxation charge related to profit or loss from continuing operations	(494)	(37,829) (m)	
		(9,896) (a)	
		(5,887) (g)	
		(79,220) (q)	
Profit (loss) after tax from continuing operations		**31,290**	**392,495**
Charges related to the banking system, net of taxes		(78,553) (m)	**(78,553)**
Impact of the realignment of tax values to book values		79,220 (q)	**79,220**
Change in own credit risk on Certificates issued by the Group, net of taxes		(11,920) (g)	**(11,920)**
Purchase Price Allocation net of taxes		(20,037) (a)	**(20,037)**
Profit (loss) for the period attributable to non-controlling interests			**112**
340. Profit (loss) for the period attributable to non-controlling interests	112		
Parent Company's profit (loss) for the period	**361,317**	**0**	**361,317**

The letters shown in the column "Reclassifications" are provided for easier understanding of the reclassifications made.
With regard to the above statement of reconciliation, it should be noted that:

- the item **"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 13.3 million (a), classified within the reclassified income statement item "Purchase Price Allocation net of taxes";
- the item **"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 98.1 million (b), and together with the net interest income, the aggregate is defined as the **"Financial margin"**;
- the item **"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 (3.8 million (c)) from item 80 of the official schedule "Net trading income";
- the item **"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 142.3 million (e), separated out, which, for reclassification purposes are shown in the item "Other administrative expenses" and with the recovery of training costs of 4.7 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 amount of upfront fees on the placement of Certificates for a total of 3.8 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 17.8 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 "Fair value gains/losses on hedging derivatives" (item 90), "Net gains (losses) from other financial assets and

liabilities measured at fair value through profit and loss" (item 110) and "gains/losses on disposal or repurchase" (item 100) net of gains on disposal of loans not represented by debt securities, equal to 222.4 million (h), re-attributed to the managed aggregate "Net adjustments to loans to customers";

- the item **"Personnel expenses"** is represented by the financial statement item "190 a) Personnel expenses" and by several charges functionally related to personnel, amounting to 0.9 million (i), recognised in the financial statements under item 190 b) "Other administrative expenses" and by the recovery of training costs of 4.7 million (f), recorded under item "230 Other operating expenses/income", as described above;
- the item "**Other administrative expenses**" is represented by the financial statement item 190 b), net of recoveries on indirect taxes, legal fees and other expenses, totalling 142.3 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 0.9 million (i). Ordinary and extraordinary charges totalling 116.4 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";
- the item "**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 16.6 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 247.2 million), the negative result of disposals of loans, amounting to 222.4 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 1.8 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 1.0 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 1.0 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 1.8 million;
- **"Net provisions for risks and charges"** corresponds to item 200 of the official income statement;
- "**Gains (losses) on disposal of interests in associates and joint ventures and other investments**" correspond to item 280 of the official income statement and to the net income on the disposal of interests in associates and joint ventures carried at equity (item 250 of the official income statement), net of the portion of income (losses) of the investees carried at equity, overall a positive 98.1 million (b) included in the reclassified aggregate "Gains (losses) on interests in associates and joint ventures carried at equity";
- the item "**Taxation charge related to profit or loss from continuing operations**" corresponds to item 300 of the official income statement, separating out the negative tax effects relating to "banking industry charges" for 37.8 million (m), the PPA for 9.9 million (a) and the impact of the change in credit risk on Certificates issued for 5.9 million (g). The item in question is also shown net of the positive impact of 79.2 million (q) deriving from the realignment of tax values to book values of properties used for business purposes, 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 the ordinary and extraordinary charges for a total of 116.4 million (m) recognised in the accounts in item 190 b) of the official income statement, net of the related tax effect, amounting to 37.8 million (m);
- 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 79.2 million (q), deriving from the

exercise of the option to realign the tax values of properties used for business purposes to their book values;

- 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 -17.8 million (g), net of the related tax effect, amounting to 5.9 million (g);
- lastly, the item "**Purchase Price Allocation net of taxes**" includes the effects of the PPA relating to loans, amounting to -13.3 million (a) and the client relationship, amounting to -16.6 million (a), net of the relative tax effects, amounting to 9.9 million (a).

Reconciliation between the items in the consolidated balance sheet and the reclassified consolidated balance sheet as at 30 June 2021

Asset items *(thousands of euro)*		**30/06/2021**
10.	Cash and cash equivalents	20,718,259
	Cash and cash equivalents	**20,718,259**
40. a)	Financial assets at amortised cost: loans to banks	9,446,346
	minus: debt securities due to banks at amortised cost	(872,145)
	Loans at AC: loans to banks	**8,574,201**
40. b)	Financial assets at amortised cost: loans to customers	130,424,310
	plus: senior securities relative to disposal of "Red Sea" and "Leviticus" (GACS)	2,459,898
	minus: debt securities due to customers at amortised cost	(23,509,963)
	Loans at AC: loans to customers	**109,374,245**
20.	Financial assets at fair value through profit and loss	8,512,755
50.	Hedging derivatives	73,656
	Financial assets and hedging derivatives at FV through Profit and Loss	**8,586,411**
30.	Financial assets measured at fair value through other comprehensive income	15,446,918
	Financial assets at FV through OCI	**15,446,918**
	plus: debt securities due to banks and customers at amortised cost	24,382,108
	minus: senior securities relative to disposal of "Red Sea" and "Leviticus" (GACS)	(2,459,898)
	Financial assets at AC	**21,922,210**
70.	Interests in associates and joint ventures	1,688,530
	Interests in associates and joint ventures	**1,688,530**
90.	Property, plant and equipment	3,434,805
	Property, plant and equipment	**3,434,805**
100.	Intangible assets	1,221,008
	Intangible assets	**1,221,008**
110.	Tax assets	4,679,750
	Tax assets	**4,679,750**
120.	Non-current assets and disposal groups held for sale	100,031
	Non-current assets and disposal groups held for sale	**100,031**
60.	Fair value change of financial assets in macro fair value hedge portfolios (+/-)	31,790
130.	Other assets	2,751,988
	Other assets	**2,783,778**
	Total assets	**198,530,146**

Liability items ***(thousands of euro)***		**30/06/2021**
10. b)	Financial liabilities at amortised cost: due to customers	107,598,594
	minus: lease payables due to customers	(715,294)
10. c)	Financial liabilities at amortised cost: debt securities in issue	13,048,910
30.	Financial liabilities designated at fair value	1,220,442
	minus: protected capital certificates	(1,006,297)
	Direct funding	**120,146,355**
10. a)	Financial liabilities at amortised cost: due to banks	44,276,123
	minus: lease payables due to banks	(6,812)
	Due to banks	**44,269,311**
	plus: lease payables due to banks	6,812
	plus: lease payables due to customers	715,294
	Lease payables	**722,106**
20.	Financial liabilities held for trading	11,172,267
	plus: protected capital certificates	1,006,297
40.	Hedging derivatives	504,648
	Other financial liabilities designated at fair value	**12,683,212**
90.	Provisions for employee severance pay	343,298
100.	Provisions for risks and charges	933,485
	Liability provisions	**1,276,783**
60.	Tax liabilities	311,668
	Tax liabilities	**311,668**
70.	Liabilities associated with assets classified as held for sale	2,437
	Liabilities associated with assets classified as held for sale	**2,437**
50.	Fair value change of financial liabilities in macro fair value hedge portfolios (+/-)	37,767
80.	Other liability items	6,161,191
	Other liabilities	**6,198,958**
	Total liabilities	**185,610,830**
190.	Non-controlling interests (+/-)	1,289
	Non-controlling interests	**1,289**
120.	Valuation reserves	350,294
140.	Equity instruments	1,092,832
150.	Reserves	4,021,905
170.	Share capital	7,100,000
180.	Own shares (-)	(8,321)
200.	Profit (Loss) for the period (+/-)	361,317
	Group shareholders' equity	**12,918,027**
	Total liabilities and shareholders' equity	**198,530,146**

Reconciliation between the reclassified consolidated income statement for the first half of 2020 and the same restated for comparative purposes

Reclassified income statement items *(thousands of euro)*	**I half 2020**	**Reclassification of change in credit spread on certificates at FV**	**I half 2020 restated**
Net interest income	953,621		953,621
Gains (losses) on interests in associates and joint ventures carried at equity	70,302		70,302
Financial margin	**1,023,923**	**-**	**1,023,923**
Net fee and commission income	816,934		816,934
Other net operating income	31,599		31,599
Net financial result	124,080	(40,608)	83,472
Other operating income	**972,613**	**(40,608)**	**932,005**
Operating income	**1,996,536**	**(40,608)**	**1,955,928**
Personnel expenses	(816,979)		(816,979)
Other administrative expenses	(308,674)		(308,674)
Net value adjustments to property, plant and equipment and intangible assets	(123,089)		(123,089)
Operating expenses	**(1,248,742)**	**-**	**(1,248,742)**
Profit (loss) from operations	**747,794**	**(40,608)**	**707,186**
Net adjustments on loans to customers	(476,242)		(476,242)
Fair value gains (losses) on property, plant and equipment	(5,416)		(5,416)
Net adjustments on loans to banks and other assets	(8,383)		(8,383)
Net provisions for risks and charges	(7,614)		(7,614)
Gains (losses) on disposal of interests in associates and joint ventures and other investments	220		220
Profit (loss) before tax from continuing operations	**250,359**	**(40,608)**	**209,751**
Taxation charge related to profit or loss from continuing operations	(52,425)	13,425	(39,000)
Profit (loss) after tax from continuing operations	**197,934**	**(27,183)**	**170,751**
Charges related to the banking system, net of taxes	(75,684)		(75,684)
Change in own credit risk on Certificates issued by the Group, net of taxes	-	27,183	27,183
Purchase Price Allocation net of taxes	(18,527)		(18,527)
Profit (loss) for the period attributable to non-controlling interests	1,508		1,508
Parent Company’s profit (loss) for the period	**105,231**	**-**	**105,231**

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