

RISK MANAGEMENT

Capital adequacy and main risks

The current level of own funds and of risk-weighted assets means that Banco BPM Group is easily able to comply with both the regulatory thresholds and the specific thresholds required by the Supervisory Authority on conclusion of the Supervisory Review and Evaluation Process (SREP).

In order to provide its management team, stakeholders and the Supervisory Authority with a complete and informed disclosure, which confirms the adequacy of its own funds, the first defence against the risks assumed, Banco BPM Group assesses its capital situation from a current and future perspective, both as regards Pillar I and Pillar II, based on Basel 3 rules and the specific guidelines that the banks receive from the ECB. The Group's capital adequacy is substantiated in the continuous monitoring and management of capital ratios, so as to verify compliance with regulatory limits and ensure the maintenance of the minimum levels of capitalisation required by the Supervisory Authority. These ratios are also estimated during the budget or Strategic Plan preparation process, and their consistency with the thresholds established in the Risk Appetite Framework (RAF) is assessed. The RAF is the instrument which makes it possible to establish, formalise, communicate and monitor the consistency of the risk profile of the Group and of individual legal entities with the risk appetite approved by the Board of Directors in a unitary and synergistic manner and constitutes a policy for the development of the main company processes. The Risk Function develops the RAF to support the Body with Management Functions, in collaboration with the Planning and Control Function and the other competent Functions, revising the framework at least annually based on changes in the internal and external conditions in which the Group operates. Following the finalisation of the acquisition of the equity interest of Banco BPM Vita and Banco BPM Assicurazioni, to provide support to the Insurance Company's Risk Function, the Parent Company's Risk Function collaborated in the revision of the RAF related to insurance companies, aligning it with the Group RAF.

From an operating perspective, ex ante risk management activities are also found in the process to manage the Most Significant Transactions - MST (relating to credit, finance, disposal of loans, etc.), which primarily involve the Risk Function, which must express a prior and non-binding opinion on all transactions categorised as such based on criteria established and regulated internally. The scope of application of the ex-ante opinions of the Risk Function has been extended establishing the issue of a prior opinion even for transactions defined as Significant - ST. The latter regard the credit area and enable a considerably greater number of credit transactions to be assessed in advance, both at the time of disbursement - also with reference to the SME portfolio - and when classified from greater to lesser risk and vice versa. The scope of MST and ST in the Group credit sector has been expanded, including the assessments relating to Real Estate Finance transactions (in particular Real Estate Development – RED – and Income Producing Real Estate – IPRE). The starting point of the various strategic processes of Banco BPM Group - including the annual budget, the RAF, the capital adequacy (ICAAP) and liquidity adequacy (ILAAP) assessment processes - is represented by the Risk Identification process. Within the current regulatory context, the Risk Identification process has become increasingly important, as the competent Supervisory Authorities verify whether institutions have an adequate framework for identifying, understanding, measuring and managing risks.

The Risk Identification process is carried out at Group level and involves the Top Management of the Group and of the main companies (Banca Akros, Banca Aletti, Banco BPM Vita and Banco BPM Assicurazioni), leveraging their experience and strategic vision, in order to identify the main risk factors and emerging risks to which the Group and/or the relevant legal entities are, or could be, exposed, both under normal conditions and in adverse scenarios. Their involvement, through dedicated interviews, enables the Risk Identification process to be effectively implemented and known within the Bank. Between the end of the second and the first half of the third quarter of 2022, the process of updating Risk Identification was completed. The new elements compared to 2021 include: (i) the extension of the Risk Identification process to the insurance companies Banco BPM Vita and Banco BPM Assicurazioni; (ii) the definition of specific risk factors for ESG issues and for the insurance business; (iii) in the ESG area, the breakdown between climate-related issues and those of governance and social sustainability.

Risk management activities also include an effective integrated risk reporting system, at Group level and for relevant individual legal entities, which enables all risk measurements and the main risk factors to which the Group and/or legal entities are exposed to be monitored, as well as a periodic assessment of the risk profile of the RAF indicators by comparing it with the thresholds defined in the framework, providing historic and detailed analyses that explain the trends, the areas that need attention and the areas for improvement.

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

Credit risks

Credit risk is managed by means of a portfolio VaR risk estimation model, belonging to the category of default models, which is applied on a monthly basis to credit exposures of Group banks. This model enables the economic capital against credit risk to be estimated, taking into account the portfolio concentration and the assumption of a joint non-fulfilment of counterparties, in a predefined context of significant macroeconomic variables. The confidence interval used is 99.9% and the time horizon of reference is one year. At the end of the model's simulation process, the maximum potential loss of the loans portfolio is broken down into the expected loss component and the unexpected loss component. For other residual exposures that are not part of the portfolio model, economic capital is calculated for the purpose of management control of risk through the use of supervisory regulatory metrics (Standardised approach).

As regards the processes and the tools used to manage and control the quality of the loans portfolio pertaining to Corporate and Retail customers, a key element is represented by internal ratings calculated by models that are differentiated and estimated specifically for each customer segment. The rating represents a valuation, referring to a time horizon of 12 months, made on the basis of all reasonably accessible information, both quantitative and qualitative, expressed by means of a classification on a ranking scale, of the ability of a party to whom a loan has been granted or is to be granted to honour its contractual obligations.

Rating plays a key role in loan granting, credit product disbursement, monitoring and performance management processes. In particular, it plays a role in deciding which Bodies are competent to approve loans, as well as on the mechanism for the automatic renewal of uncommitted credit facilities, and it contributes to determining automatic interception in the monitoring and management process (Watchlist).

Note that the internal rating is not applied for regulatory purposes to the perimeter of Banca Akros, to which standardised regulatory approach is applied. Therefore, in operational applications, including the quantification of economic capital and the calculation of the Expected Credit Loss under IFRS 9, proxies with average values are used. Instead, the internal rating is used for Banca Akros as part of the loan granting process for customers in common with the Parent Company. The classification of non-performing exposures is conducted in line with the criteria established by the EBA.

The management of non-performing loans in Banco BPM Group is based, to a great extent, on a model that assigns the management of a specific set of loans (portfolio) to specialist resources.

During 2022, for the fourth consecutive year, work continued on the project to reorganise the management of the Group's non-performing loans, which in 2019 saw the completion of the transfer of a business segment focused on bad loan collection to a specialised partner, with the subsequent assignment of a management mandate for most of the new flows of bad loans for the following ten years. From the finalisation of this agreement, the management of bad loans has mainly been conducted by a leading player in the sector, while the management of the remaining non-performing exposures has been handled by specialised internal personnel. Following the transfer of the business segment mentioned above, it was also agreed that the management of all the non-performing exposures should be unified within the structure reporting to the Chief Lending Officer (CLO).

Credit risk control framework - Level II Controls

In 2022, Enterprise Risk Management (ERM), through the 2nd Level Control (C2L) unit, continued to conduct controls on credit risk management processes - carried out on a continuous basis and independently with respect to the line functions, through the analysis of the loan portfolio and of samples carried out with the Credit File Review (CFR) - mainly concerning the interception system adopted by the CLO Area as part of credit monitoring, the process of identifying forbearance measures and guarantees.

As regards conducting "ex-ante" controls, ERM promoted a review of the framework of opinions, for which the Bank requires the approval by the Risk Function before any resolution is passed, extending the reference perimeter to the Small and Medium-sized Enterprise (SME) portfolio and to Real Estate positions - and continued with the prior assessment of credit files authorised by the Non Performing Exposures Committee.

In line with the provisions of the ECB NPL guidelines on 2nd level credit monitoring activities, as well as the recommendations formulated by the ECB as part of the 2020 SREP Decision, ERM continued to provide support to the CRO for the preparation of the quarterly risk opinion to be shared with the Corporate bodies in order to assess the completeness and adequacy of the activities carried out or planned by the CLO Area on the credit risk

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

Financial risks

With regard to counterparty risk, defined as the risk that the counterparty in a transaction defaults before the final settlement of the cash flows of such transaction (EU Regulation no. 575/2013), for supervisory reporting purposes, the Group uses standard methods to calculate exposures on the entire reference scope (derivatives, repurchase agreements, securities lending and medium- and long-term loans).

From June 2021 the new standard SA-CCR methodology entered into force for calculating exposure to counterparty risk on transactions in derivatives (Ref. EU Regulation no. 2019/876).

The new standard method replaces the previous Market Value approach, and makes it possible to calculate capital requirements which better reflect the risks linked to transactions in derivatives.

Membership of Clearing Houses for operations in OTC Derivatives and Credit Derivatives has enabled the mitigation of risks.

In accordance with the Basel III Framework Regulation, additional capital requirements regarding the following are to be calculated:

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

As regards this type of risk, for management purposes and to provide support for capital adequacy assessment processes (ICAAP process), the Parent Company and Banca Akros also use an internal method to estimate exposures to the risk of possible default of counterparties in OTC derivative transactions subject to Collateral Agreements (CSA).

The above-mentioned simplified simulative method, known as the "Shortcut Method", estimates exposures on the basis of possible changes of the mark to market of the individual contracts underlying the same reference CSA, on a time horizon given by the "risk margin period" that characterises each contract. The measurement is also implemented in the Parent Company and Banca Akros lending process chain, together with a daily monitoring and reporting system.

For the remainder of the exposures to derivatives, the exposure is estimated with the standard methodology which is also used for Supervisory reporting purposes.

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

Banco BPM Group uses the SIMM method, whose calculation is mostly risk-sensitive, and is based on aggregate sensitivities by risk and product category.

Regarding the control of financial risk management, the identification, measurement and operating control of the risk positions of Group banks are conducted using an effective position-keeping and risk control system that provides constant monitoring of exposure levels and of the accurate verification of compliance with the operating limits defined by the Board of Directors of the Parent Company and by the Boards of Directors of Group banks.

Financial risks are monitored on a daily basis, both through the use of deterministic indicators (sensitivity to market risk factors and indicators referred to the issuer) and probabilistic indicators (Value at Risk - VaR). The VaR, which indicates the maximum potential loss associated with market movements in unexceptional conditions, over a certain time horizon and with a certain confidence interval, represents a synthetic risk measurement. The approach used to calculate the VaR is based on historical simulation. The values calculated are provided with a confidence interval of 99% and a time horizon of one day. The correlations used are those implicit in the historical scenarios of risk factors applied to estimate the empirical distribution of values in the trading book.

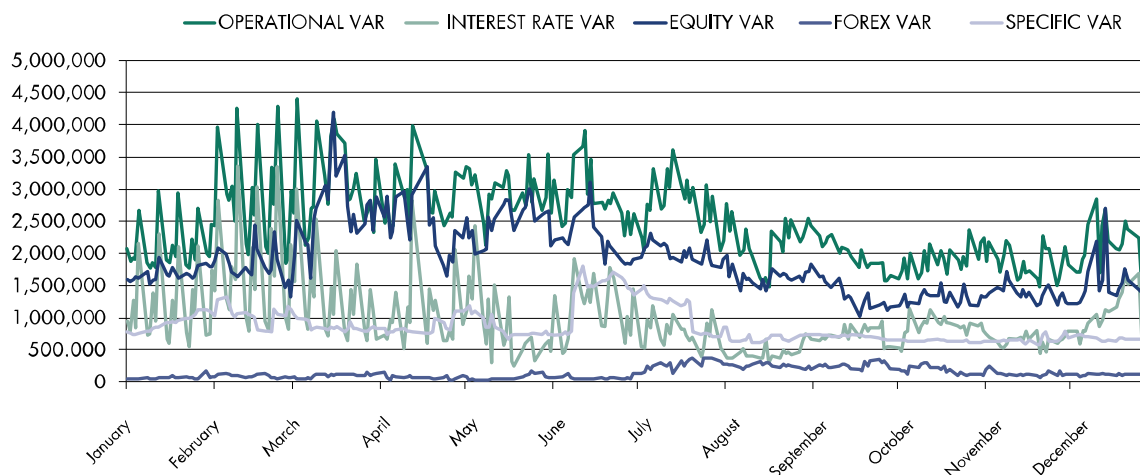
With reference to the IMA (Internal Model Approach) capital requirement, note that, from the reporting date of 31 December 2020, Banco BPM Group has used the extended model for the calculation of the capital requirement for Market Risk. Said requirement is therefore calculated on the basis of the VaR, Stressed VaR – including the specific risk of debt securities – and of the IRC.

At the end of 2022, the IMA (Internal Model Approach) Capital Absorption of Banca Akros against market risks amounted to approximately 87 million, corresponding to approximately 1,083 million expressed in terms of RWA.

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

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

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



In the first half of 2022, the prevalent risk component is that relating to equity risk, due to the derisking which started in 2021, and which involved especially the bond portfolio, due to the need to respect the Market RWA limits after the extension of the internal model to the specific risk of debt securities.

In the second half of 2022, the prevalent component continued to be that related to generic risk on equity securities, although lower than the first half of the year (with the exception of the peak of interest rate risk at the end of the year due to a technical change of the repo curves at year-end). Changes in these securities mostly account for trends in the Group's overall risks. In the second half of the year, the specific risk component on debt securities further decreased.

Operational risk

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

Also in compliance with the relevant regulations, the Group adopted an operational risk management model that illustrates the management methods and the people involved in risk identification, measurement, monitoring, mitigation and reporting. In particular, the model refers to centralised oversight functions (governance and control functions) and decentralised oversight functions (coordinators and ORM contacts, which are specifically involved in the key processes of collecting operating loss data, continuously assessing the operating scenario and forecasting exposure to risk). This model is governed by a specific Group Regulation approved by the Corporate Bodies.

In line with mission of Banco BPM Group, the main risk impacts regard the "Commercial practices" category, followed by "Processes", which together represent the predominant portion of total risk and which, for the most part, arise in the Group's commercial networks. With reference to the category of "External Fraud", given the trend of increasingly sophisticated techniques (e.g. identity theft, cyber risk phenomena, etc.), the Group is constantly reinforcing physical and logical security, therefore containing these phenomena both in terms of frequency and the average impact on loss events of this kind. The Group takes the appropriate mitigating measures (e.g. training, implementation of application processes/procedures etc.) as protection against the main risk factors that arise.

With reference to the management of operational-reputational risks of Banca Akros, we draw attention to the reputational aspect related to financial research and Investment Banking activities, the potential impact of operational risks due to the size/number of transactions carried out by the Brokerage area and the strategic impact for customers of the activities carried out by both the Investment Banking area and the Corporate & Institutional Banking area.

In particular, note the importance and the related operational risks of the specific structuring and dynamic management of Equity and Fixed Income structured products carried out by Banca Akros as Group Corporate & Investment Bank, inherited from the incorporation of the Corporate & Investment Banking business unit of Banca Aletti (which took place in 2018).

Operational risk, including legal and tax risk, and the reputational risk typically associated with Corporate & Investment Banking activities, including structuring, marketing of structured products and hedging, are present throughout the industry that carries out these activities, given the issues of a contractual nature, pricing, fair value/mark to market and management of structured payoffs, requests for transparency and potential conflicts of interest. The risk of money laundering, proper tax monitoring and implementation of sanctions/prohibitions resulting from the Russian invasion of Ukraine should also be noted.

Liquidity risk

Regarding liquidity risk, in 2022 Banco BPM Group effectively carried out its Internal Liquidity Adequacy Assessment Process (ILAAP), which the Corporate Bodies use to ensure that the Group operates with liquidity and funding levels that meet both the minimum regulatory requirements and the risk appetite approved within the RAF.

As part of this process, liquidity risk is monitored regularly, on an intra-day, daily (short-term liquidity) and monthly (structural liquidity and funding) basis, for both regulatory metrics (LCR, NSFR, ALMM) and metrics developed internally. In 2022, all regulatory liquidity reports required at the level of Banco BPM Group were prepared.

For further information on credit, financial and operational risk, please refer to Part E in the Notes to the financial statements, which is dedicated to risk management. The same section also contains detailed information on structured credit products, on exposures towards Special Purpose Entities, on securitisation transactions and operations in derivatives.

The models developed internally by Banco BPM Group are subject to periodic tests by the Internal Validation function, which is independent from the functions in charge of developing the models. The results of the tests are illustrated in specific reports shared with the Corporate Bodies. These results did not highlight any significant critical issues on the internal models.

Outlook for Group risks and objectives

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

The outlook for risks must take into account the tensions that may be triggered by energy price trends, on consumption and production, as well as the rise of market interest rates.

Any action taken by the Group will in any event be based on a prudent approach, continuously monitoring activities with a view to limiting the impact of potential adverse changes that cannot be predicted in the current economic scenario.

The capital ratios of Banco BPM Group are actually much higher than the minimum levels set by the Supervisory Authorities, guaranteeing adequate coverage of risks also in adverse macroeconomic scenarios.

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

With regard to both operational and structural liquidity risk, it is possible to forecast a situation of substantial stability and security.

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

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

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

SUPERVISORY, CONTROL AND SUPPORT ACTIVITIES

Human resources

In a year still characterised by complexity and uncertainty following the extension of the state of emergency due to the Covid-19 pandemic, in order to ensure the best working conditions, Banco BPM confirmed the smart working approach adopted in 2020 and in 2021 as well as the flexibility of entry, exit and lunch break times.

In addition to measures to guarantee safety and promote the quality of the work-life balance, initiatives were undertaken to pursue the company's business strategies by empowering staff, preparing them to provide a constant and high quality contribution.

In particular, targeted and professional training courses were planned and implemented (made even more effective following the creation of the Key People and Talents unit), both by implementing job rotation initiatives and by launching mentoring projects, mainly dedicated to young people, to acquire a complete and enhanced vision of the Bank and to facilitate understanding of the interconnections between the various Functions.

Personnel management was based on constant dialogue with resources in order to know their expectations and any needs, the careful assessment of performance and adequate recognition of the work carried out, with particular attention to the pursuit of policies aimed at achieving gender equality, through the development of female talent, to be accompanied in a path of growth towards managerial positions.

Through the numerous initiatives prepared by the "Inclusion, Diversity and Social" unit, all the conditions to guarantee an inclusive environment able to offer the best opportunities for personal and professional development have been implemented.

During 2022, 293 people were recruited, favouring the use of apprenticeships, thus supporting youth employment and encouraging generational turnover.

In addition, to mitigate turnover and ensure proper organisational oversight, additional new hires were made, which contributed to the development of the business through the inclusion of the new skills required by the market and by the changed reference context.

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

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

Remuneration Policies

With regard to the remuneration policy, the short-term and the long-term incentive schemes are particularly important, as they encourage personnel to achieve company and Group objectives, both in the short and medium term.

The short-term incentive scheme represents a management lever to recognise the contribution of personnel and reward individual merit. The long-term incentive scheme supports the 2021-2024 Strategic Plan and aligns the interests of management with those of the stakeholders that are important to the Group.

Detailed information concerning the Group's remuneration policy can be found in the "Policy-on-remuneration report and payouts awarded", drawn up in accordance with the provisions of the Italian and European supervisory authorities and approved by the Bank's Corporate Bodies.

The Report is published on the Group website www.gruppo.bancobpm.it (Corporate Governance - Remuneration Policies section).

Development and training

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

Planning and development

In 2022, development programmes were launched dedicated to young people, women and talents who have distinguished themselves in terms of their characteristics, commitment, career aspirations and in whom the company has decided to make an investment as regards professional growth in line with the career aspirations expressed by individuals in dedicated listening sessions. They were involved in empowerment paths to work on self-awareness, to train functional soft skills with a view to opening themselves up to new professional scenarios and to focus on their leadership style. In parallel with the courses, customized development and management levers were activated, such as on-the-job training and mentoring. The objective for 2023 will be to further enrich the set of levers that can be activated (e.g. coaching) and to guarantee the extension of the programme to all targets of the company population. More specifically, the Youth Programme involved 692 colleagues in a process of learning about the context and future scenarios and training in the key skills of their positions. The programme will continue in 2023 and will expand to those hired in 2022/2023.

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

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

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

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

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

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

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

Selection and Assessment

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

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

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

initiatives and career days. These schemes involved a total of roughly 2,400 young people and 46 colleagues in collaboration with 16 institutions (universities, business schools and training organisations).

As part of the Gender Programme, Assessment activities were launched for the first 294 colleagues. The Assessment, placed within a professional growth programme, provides a useful set of information on the person's skills to better identify development actions and is an important moment of personal awareness. The initiative reflects the attention that Banco BPM places on the enhancement of its people.

Training

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

The main training initiatives implemented in 2022 regarded:

- New hires: with regard to the recruitment defined in the Business Plan of around 800 young people, of which around 230 in 2022, a three-year programme was developed with the aim of:
 - consolidating job-specific skills with three-year training courses customised according to the position and the Organizational Unit they are to join: Network, Customer Support Development, Central Units. The courses are focused on technical-professional skills (general and specific) and cross-departmental skills needed for the position;
 - facilitating growth and enhancing individual potential through the development of soft skills and the mentoring process as envisaged by the Youth Programme;
- Managerial training: development of leadership style by enhancing and expanding the anticipatory thinking, guidance and direction, cooperation and learning agility skills that enable objectives and people management to be combined, that focuses on the expression of talent and success in the company. First and second line managers were also involved in the Mentoring programme for young people to facilitate their integration into the company. With reference to the 2021-24 Strategic Plan, an initiative for the management and monitoring of projects was designed and implemented, to define the guidelines, action plans and the financial and organisational impacts of the projects in question, guaranteeing the governance and control of their progress.

The managers of Retail branches, Business Centres and newly appointed Corporate Centres were involved in initiatives to support the ability to identify effective solutions to manage complexities related to the new position, the team and to enhance self-empowerment;
- Training initiatives and projects, in collaboration with the Inclusion Diversity and Social unit, dedicated to:
 - #Respect Programme: to spread a culture of respect and to promote the adoption of conduct and management practices characterised by respect. This year, the focus was on developing and increasing awareness of Banco BPM's Manifesto Commitment, which breaks down the key words of respect for Banco BPM into observable and measurable conduct to aspire to in the daily life of the company;
 - Disability Management: to promote a cultural change towards disability and to facilitate the inclusion of people with disabilities; encouraging their involvement in all facets of working life;
 - Parenting: a time dedicated to colleagues returning from maternity leave to share reflections and to exchange experiences between those who have to balance work and family on a daily basis, interpreting the multiple roles that this phase of life requires;
 - Providing care: how to deal with care during the entire life cycle, referring to parents with children in the different developmental phases, future parents and caregivers who take care of their family members;
- "W@W-Well-being at Work": also in 2022, training initiatives were carried out to promote the well-being of people, health and the culture of well-being in the company, dedicated to all Group personnel;
- Language R-evolution: the project, which started in 2021, aims to simplify and make company communication clearer and more understandable by defining the guidelines for a new culture of inclusive language for both internal and external customers;
- ESG Programme: the project underpins the entire ESG Programme to spread knowledge of the ESG context and culture through training activities addressed to the entire company population or to specific targets in the technical, commercial and managerial spheres;
- Digital transformation programme: this transformation process is supported through training courses that accompany the releases of the DOT programme, initiatives dedicated to the commercial network to develop multi-channel topics; specialist up-skilling courses for central units that need to develop reference professional skills;
- Growth in volumes and profitability in the key segments: that training provided for the opening of Business Centres and the reorganisation of Banca Aletti, promoting the implementation of the new Service Model

and the strengthening of business skills, reinforced the distinctive skills of Banca Aletti, Banca Akros and the Corporate Network in the relational, advisory, technical and commercial areas, and promoted the knowledge of the NRRP and the opportunities for customers;

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

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

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

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

Inclusion, Diversity and Social

As part of a people strategy focused on a "people oriented" approach, Banco BPM established the Inclusion, Diversity and Social unit to support the cultural change towards ESG issues, stimulating a culture and a policy of inclusion of all forms of diversity (disability, ethnicity, age, gender, sexual orientation, religion and socio-economic status, nationality, language) based on:

- respect and listening to people;
- recognition and enhancement of the differences and talents of each individual;
- fairness and equal opportunities;
- real commitments to achieve an inclusive and respectful environment;
- initiatives aimed at organisational well-being and social support.

The projects implemented in 2022 included:

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

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

Labour policies - industrial relations

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

Prevention measures as regards health and safety in the workplace

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

Organisational-management interventions and reduction of the workforce

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

Company interventions

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

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

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

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

Internal audit

On the one hand, the Audit Function of the Parent Company is responsible for monitoring the regular performance of operations and the evolution of risks, with a view to third-level controls, including on-site and off-site checks, and, on the other hand, it strives to assess the completeness, adequacy, functionality and reliability of the organisational unit and other components of the internal control system, presenting possible improvements in the risk management, measurement and control process to the corporate bodies and taking an active part in their implementation.

The Audit Function is responsible for the internal audit activities of all the central and peripheral units of the Italian companies of the banking Group; for the only foreign entity belonging to the Group (Banca Aletti Suisse), it conducts its own audits in addition to those conducted by the local unit assigned audit activities and coordinates with the same where necessary. With effect from 22 July 2022, following the acquisition by Banco BPM of the entire interests in Banco BPM Vita and in Banco BPM Assicurazioni S.p.A. (a wholly-owned subsidiary of Banco BPM Vita), the Audit Function of Banco BPM took over the guidance, coordination and control of the Internal Audit Function of the Insurance companies, which reports to the respective Boards of Directors, reporting functionally to the Audit Function of Banco BPM.

When performing its duties, the Audit Function takes the provisions of the widely accepted professional standards into account.

The audits conducted in 2022 regarded the following areas:

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

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

The most significant activities involving the Audit Function in 2022 included, in addition to obligatory audits (deriving from fulfilments required by external regulations or Internal Regulations), audits on processes regarding the management of irregular or non-performing loans, on the management of real estate and public collateral against customer loans and on the measures to develop risk measurement processes (with specific regard to the areas related to the internal models validated for regulatory and Second Pillar purposes), as well as support to Supervision (provided both as part of the on-site inspections and as part of the monitoring carried out by the JST).

In addition to the usual internal audit activity, the Audit Function also provided advisory services, offering its experience mostly by participating in projects and working groups, with specific reference to aspects relating to the internal control structure.

Compliance

The Group's Compliance Function carries out its activities, reporting directly to the Chief Executive Officer, both for the Parent Company and for the Group companies that have outsourced the service, and has direct access to the Corporate Bodies, communicating with them without any restrictions or intermediation.

Bank of Italy Circular no. 285/2013 defines compliance risk as the risk of incurring legal or administrative sanctions, significant financial losses or reputational damage as a result of the violation of binding rules (laws, regulations) or self-regulatory systems (e.g., Articles of Association, codes of conduct, codes of corporate governance).

The Function oversees the management of compliance risk with regard to all Group activities, according to a risk based approach, verifying that internal procedures are adequate to mitigate that risk.

The Compliance Manager has also been given the role of Data Protection Officer (DPO) in accordance with European Regulation 2016/679 (GDPR) concerning personal data protection.

During the year under review, the development of processes, methodologies and IT tools used continued; in particular, as part of the continuous strengthening of its methodological and operating model, in the third quarter of 2022 the Compliance function introduced a new Compliance Risk Assessment model that made it possible to further refine the methodology in use with the aim of obtaining additional benefits in the identification, measurement, assessment and representation of non-compliance risks.

In 2022, the Compliance Function also worked on identifying the applicable regulations and assessing their impacts on company processes, models and procedures, providing advice on compliance, as well as assessing compliance with internal regulations as part of the issuing process. In application of the annual or specific plan required by the Corporate Bodies or the Supervisory Authorities, the Function conducted compliance checks to evaluate the existence and adequacy of governance, organisation, control and IT measures of the Group, their strength and effectiveness in mitigating compliance risks, and the compliance of the operating practices and conduct of employees or workers, reporting any situations of non-compliance and identifying possible remediation actions, monitoring their implementation. The Compliance Function also provided advice and assistance to the Group's corporate units on topics where compliance risk is important, particularly as regards preparatory work relating to the issue of internal regulations and sales proposals.

The Function also provided its assistance in conducting personnel training courses, in order to disseminate and promote a solid and robust risk management culture within the Group, adequate knowledge of the regulations and the relative responsibilities, as well as ensure awareness of the supporting instruments and procedures in the fulfilment of obligations.

The most important activities involving the Compliance Function in 2022 included certain internal innovations of the same. In particular, the following are of note: (i) the continuation of project work relating to Compliance methodologies; (ii) developments in the IT area, in line with the methodological changes introduced by the Compliance function in 2022; (iii) the implementation of the remote management of indicators with the aim of obtaining a more complete and common operating environment for the performance of compliance activities; (iv) the continuation of the refresher training course, launched in 2020, addressed to the Function's internal resources and, in particular, the launch of the specific training course on strengthening insurance skills in the fourth quarter of 2022.

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

Anti-Money Laundering

As already mentioned, from 1 July, the Group's Anti-Money Laundering function carries out its activities, reporting directly to the Chief Executive Officer, both for the Parent Company and for the Group companies that have outsourced the service, with full autonomy to oversee the risk of money laundering and terrorist financing, as well as reports of suspicious transactions, and has direct access to the Corporate Bodies, communicating with them without any restrictions or intermediation. Furthermore, the function carries out the activities required under the regulations assigned to the Anti-Money Laundering Function Manager and the Suspicious Transaction Reporting Officer (SOS).

The activities are performed according to a risk-based approach, conducting audits and checks in order to assess exposure to the risk of money laundering and terrorist financing, the effectiveness of the organisational and control oversight measures, when setting them in motion and when established, and any corrective measures to be implemented to remedy the vulnerabilities found.

Among the significant elements that regarded the Anti-Money Laundering function in 2022, note, in particular: (i) the assignment to the Anti-Money Laundering Function of the responsibilities of the Sanction Compliance Officer, with a view to overseeing compliance in the application of international sanctions; (ii) the control activities and the additional measures to strengthen the oversight promoted with reference to the provisions issued by the competent Authorities following the onset of the conflict between Russia and Ukraine; (iii) the various training initiatives, many of which are directly provided by the Anti-Money Laundering function, addressed to the Commercial Network as well as to Head Office resources, as well as the specific sessions addressed to the Corporate Bodies (board induction), together with the specialist training courses for the function's resources, provided by highly qualified external teachers.

Lastly, the series of projects focused on the continuous expansion and consolidation of technologies to support risk control and monitoring activities, with the aim of promoting a solid and innovative anti-money laundering control

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

Research and development

Given the banking nature of the Group, research and development mainly regards studying the possible application of new technology to customer accounts, to improve and/or extend the range of products/services offered, as well as internal company services, to simplify them or make them more efficient. In addition, important regulatory projects, relating to the issue of new legislation at industry level have been completed or are in progress.

These activities are managed centrally by the Parent Company Banco BPM.

The main initiatives for each area are outlined below.

Technological projects and investments

Legal compliance

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

IBOR's Transition – The transition of benchmark rates

The internal Group project, called the "IBOR Transition", launched in 2019, mainly entailed aligning the organisational and IT processes, and the contracts and regulations of Banco BPM to the provisions envisaged by European Regulation no. 1011/2016 (Benchmark Regulation, BMR), which has redesigned the legislative framework on market benchmarks.

At the end of 2022, the most significant and critical part of the activities envisaged by the IBOR Transition project was completed, with the almost complete transition of the Group's IBOR rates. The last step is expected for 30 June 2023 with the cessation of USD LIBOR.

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

Italian Legislative Decree 231/01 - Administrative liability of companies

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

In 2022, a series of actions were completed on the 231/01 system, including:

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

Italian Legislative Decree 231/07 – Anti-money laundering and the prevention of terrorist financing

During 2022, Banco BPM updated the regulatory framework with reference to the operating rules and consequently implemented the information system in line with the changes introduced by external provisions; more specifically, compliance with the provisions on restrictive measures of the European Union following Russia's invasion of Ukraine was particularly important.

Technological projects and investments

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

DOT – Digital Omnichannel Transformation

In 2022, the DOT Programme extended the omnichannel and digital model to numerous products and services thanks to the use of enabling tools created in 2021, such as Digital Identity for private customers, the signature room for the exchange of documents and the remote signing of contracts with digital signatures.

With regard to financial advisory services, during the year, additional functions were developed that can be provided to customers remotely in a fully digital mode and the scope of financial instruments offered was further extended.

With regard to the remote subscription of products and services, the processes for digitally signing documents remotely were simplified and the signature room was made available to customers through the Bank's website and App.

The Digital Branch was fully activated, a centralised unit that supports remote digital sales on the customer's initiative and offers products and services remotely directly to customers, finalising the sale through the remote digital signature of the contracts.

Also in 2022, the catalogue of products available on digital channels was enhanced thanks to the gradual inclusion of e-money products, life and non-life policies, loans and advances.

With regard to digital channels, additional new services were introduced in the Apps for private customers and businesses during the year.

The advanced CRM solutions were further integrated with the front end and with the APPs and the systems in place to collect customer needs were improved through the adoption of innovative Voice Of Customer (VOC) solutions.

Lastly, in relation to the acquisition of new customers, in 2022 Banco BPM adopted some innovative solutions for the digital onboarding of private customers, including, inter alia, remote identification through SPID, and set up projects to create a remote onboarding solution for business customers.

More specifically, these initiatives entailed significant technological investments, mainly focused on the development of digital platforms and on the expansion of the distribution model, by enabling the sale of products and the provision of services in Self mode (Web/App) and the Online Offer channel (OAD).

As part of the Web and App channels, further developments were completed for Private customers such as:

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

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

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

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

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

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

During 2022, work continued on the development of the Customer Centre to increase proactive sales, the continuous enhancement of the tools for contact industrialisation, with a view to improving customer relationships, in addition to the development of the VOC (Voice of Customer) system and the Customer Experience management operating model.

Lastly, certification activities were launched for the Group's digital platforms (websites, internet banking, apps) in terms of accessibility, as envisaged by the regulations of the Agency for Digital Italy, defining the first remediation plans.

Other areas developed:

IT Architecture and Cloud Adoption

In 2022, the new architecture of the Banco BPM IT system was implemented, based on market-leader solutions, with the aim of ensuring greater agility, automation, resilience and enabling new service models; this solution has already been adopted by new or re-engineered applications.

In addition, to benefit from the advantages in terms of speed and cloud cost optimisation, the first Cloud Service Provider was activated, selected from among the hyperscalers, already used in production operations.

Data Quality and Data Analytics

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

More specifically, within the broader scope of risk management, the data quality framework has been extended to all first Pillar risk categories (market risk, credit and counterparty risk and operational risk), as well as to interest rate and liquidity risks. Additional data quality controls were also developed, as part of the development of single-step estimation models for PD and LGD and the New Definition of Default.

During the year, activities were launched to extend the principles envisaged by the Basel Committee on Banking Supervision (BCBS239) beyond the risk area and in particular to the ESG area. In addition, activities were carried out to assess the monitoring of data quality in the Consolidated Non-Financial Statement (CNFS) and Bancassurance; activities will also continue in 2023 and will be integrated with additional perimeters deemed relevant (e.g., reporting).

The second-level monitoring activities on data quality were conducted through the structured approach of the KQI-2L, starting from the second half of the year. Also in this case, the methodology applied to the Risk area will be progressively extended.

Special attention will be paid to second level controls on projects under way that regard the Risk function, such as applications for authorisation to use internal models, the credit datawarehouse, ESG issues and the performance of stress tests. Second level controls on IT risk will also continue. Lastly, the implementation of the framework to transfer risk through insurance cover will continue, with a view to mitigate risks relating to IT security and any reaction costs from reputational damage.

Data Centre Evolution and IT System Convergence

In line with the objective to modernise, increase performance and reduce inefficiencies, Banco BPM has focused on:

- the continuous development of the Group's technological architecture, to align it with the need for resilience, and upgrading the capacity of network traffic;
- the convergence of the Webank IT systems and of Group companies (Aletti, Akros) towards the Parent Company's system.

With reference to this second point, the project is in the final stage with the disposal of 90% of the former BPM Data Centre infrastructure.

BPM historical component was aggregated within a specific architecture created with the aim of offering individual users the possibility to access the previous IT system.

Managing Obsolescence

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

This operating model has introduced structured methods for recognising these situations as well as planning the changes required.

Communication

The Communication Department and, more specifically, the Brand Identity Partnership and Sponsorship Unit oversees all Group projects and activities that involve and communicate the Bank's image.

Banco BPM's institutional and commercial communications are characterised by transparent and clear communication with customers in view of the strategic project called "Language R-evolution". The objective of the Language R-evolution project is to make an important change in communication between bank and customer, adopting a process of simplification of language and transparency, to encourage a new perception of the bank as an innovative, modern and customer-oriented entity. The Language R-evolution project is included in the ESG area of the business plan and is an integral part of the broader Banco BPM #Respect project through which the Bank questioned the meaning of the word "respect": respect towards people and in particular towards colleagues and external staff, towards stakeholders, but also towards the environment, communities and the local area. In 2022, the flagship advertising campaign focused on the subject of the NRRP (National Recovery and Resilience Plan). The bank has continued with the process of relaunching the Italian System as a co-funder of modernisation, digital transformation and sustainable transition plans, as a consultant for all companies, offering ESG investment solutions for businesses and individuals.

"Vicini da sempre anche online" (Always close even online) is the campaign dedicated to the digital revolution, where remote financial advisory services become one of the determining factors thanks to the activation of the digital identity. With regard to advertising dedicated to the business segment, two new visuals were created in 2022: the first, relating to unsecured business loans, with a sustainability objective; the second, flexible loans, emphasises the role of Banco BPM as an active partner, with products that meet the needs of entrepreneurs who have to manage the work-life balance and who are looking for flexible solutions. In 2022, communication was developed for the retail segment focused on young people, using the new layouts of the "Mutuo Giovani" (Young People's Mortgage Loan) and "Prestito Giovani" (Young People's Loan). Sustainable products such as "Conto You" (You Account) and "Prestito Green" (Green Loan) were also created in 2022.

The five-year partnership agreement with the AIRC Foundation (Foundation for Cancer Research) as institutional partner of Banco BPM, continued, with a view to raising funds for scientific research and disseminating useful information on the prevention, diagnosis and treatment of cancer.

The Bank has chosen to support partners that are committed to promoting sport for young people, women and people with disabilities. In particular, the partnership with AC Milan envisages a programme of meetings between AC Milan professionals and over 2,000 secondary school students to raise awareness on the fight against prejudice and discrimination. By sharing the values of sport, Banco BPM and Fondazione Milan, which are truly able to educate, bring people together and inspire, provide support to all children and young people hindered by grave social issues, such as poverty, violence and discrimination. As part of the sponsorship of Vero Volley, we draw attention to the "Sport sì grazie" (Sport yes please) project focused on the importance of physical activity and sports for the positive development of children and young people.

In line with the provisions of the 2021-2024 Business Plan, the work of the Institutional Relations with the community unit focused on relations with its reference communities, concentrating in particular on listening to the requests made by local communities. Therefore, it continued to provide its support also through sponsorships, which privileged support to projects and activities with a strong focus on the social sphere, confirming the Bank's presence in local events with historical roots. The areas with the greatest impact were those linked to initiatives dedicated to solidarity, environmental sustainability and the relaunch of projects linked to art and culture, sectors particularly affected by the crisis triggered by the years of the pandemic. Moreover, the new emergency that struck Europe following the conflict in Ukraine has meant that many of the Bank's activities have been focused on helping refugees. Education and instruction continue to be areas of crucial importance to the country, this is why Banco BPM has continued in its commitment to support schools, in the knowledge that education is the starting point for our country's future. The "School Project", launched back in 2018, focused in particular on activities to support public institutions at all levels

that are committed to the integration of Ukrainian children: specifically, in 2022, 19 projects were developed in support of 194 schools throughout Italy. Also this year, initiatives related to “Financial Awareness” played an important role, through workshops on the topics of economics and finance, with particular attention to retail customers and the world of schools through 76 meetings, of which about fifteen in person. With regard to ESG issues for the business world, 13 meetings were held with over 800 business owners.

In 2022, the Media Relations and Institutional Events unit coordinated and managed over 60 events and conferences (of which two digitally), compatibly with the pandemic situation and in line with current regulations. The events, which took place in Italy, prioritised cultural spheres and market outlooks, with specific reference to sustainable investments, and were addressed to both existing and potential customers for the entire Group. Media Relations activities focused on strengthening and expanding relations with national and local newsrooms and press agencies.

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

In 2022, the Internal Communication Unit continued its main focus as a channel aimed at transmitting the vision and values of top management to the company population, at the same time supporting the various Functions to internally promote projects, initiatives and contests designed to encourage the sharing and involvement of Group colleagues. The overall objective is to promote corporate culture and strengthen the identity of Banco BPM. At the same time, Internal Communication worked on the circulating operational information to support the Network’s commercial activities.

The company Intranet and Corporate TV, the latter redesigned in terms of layout and whose content was reorganised at the beginning of 2022, were reconfirmed as privileged channels to launch initiatives and convey information. Less frequently than the previous two-year period, information continued to be provided with regard to operating instructions to be adopted in the company to combat the spread of Covid-19 and protect the health and safety of all Banco BPM colleagues. During the year, intensive editorial planning of the Respect Programme was undertaken, highlighting dedicated workshops, creating launch and in-depth videos with the involvement of some colleagues as “actors”, contests and targeted communications. In continuity with 2021, Internal Communication continued to promote and disseminate a culture of Sustainability both through campaigns to raise awareness and spread information, and through the enhancement of the work of the Bank, internally promoting participation in conferences, seminars, acknowledgements and awards.

In this regard, a “Guerrilla Marketing” initiative was undertaken to promote virtuous conduct in the areas of environment, people and business, addressing issues such as energy saving, environmental protection, good sustainable practices, respect, etc.

At the time of the conflict in Ukraine, the Internal Communication unit promoted and circulated a fundraiser among colleagues, called “A hand for peace”, aimed at supporting humanitarian action to support the Ukrainian population, locally and in our country, in collaboration with Caritas.

With regard to Internal workshops, while respecting the pandemic emergency, the management and organisation of plenary sessions and meetings for Banco BPM colleagues continued. During the year, approximately 50 meetings were organised internally: including Live Commercial Events in the Private and Business worlds, those in Teams with the Chief Executive Officer, Management meetings, the Workshop to redefine the Bancassurance segment, and monthly Live Events dedicated to the Business world, to the Banca Aletti tour, and to Christmas events. Through “In

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

Investor Relations

In 2022, the Investor Relations team managed 153 events, meetings and calls overall, conducted both online and in person, also with the involvement of the Group’s top management, which led to dialogue with 473 investment companies and financial analyst firms (both on the stock and fixed income markets), rating agencies and other institutional financial entities. Of these events, 14, with a total of 31 parties attending, focused specifically on ESG issues¹.

Furthermore, during the year, Banco BPM held 4 telephone conferences with audio webcasts to present the Group’s financial performance to the market (results as at 31 December 2021, 31 March 2022, 30 June 2022 and 30 September 2022).

The following table summarises the events held over the year:

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

On the stock market front, the Group participated in 6 industry conferences and 17 roadshows and reverse roadshows organised by leading research and brokerage companies. Together, these resulted in meeting 218 counterparties, equal to 46.1% of the total reached overall during the year.

Similarly, in the fixed income market, Banco BPM participated in 6 industry conferences and 5 roadshows and reverse roadshows, meeting 109 counterparties (23.0% of the total).

The remaining 30.9% of the institutional parties involved had the opportunity to dialogue with the Group on a further 119 occasions (meetings and/or calls, individually and/or as a group).

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

OTHER INFORMATION

Members and Shareholders

The share capital of Banco BPM, amounting to 7,100,000,000.00 euro, is represented by 1,515,182,126 ordinary shares, with no nominal value.

Banco BPM shares are listed on the Electronic Equity Market (MTA) organised and managed by Borsa Italiana S.p.A..

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

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

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

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

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

Banco BPM stock

In 2022, the value of Banco BPM shares fluctuated between a minimum closing price of 2.268 euro on 14 July 2022 and a maximum closing price of 3.630 euro on 15 February 2022.

From the beginning of the year, Banco BPM shares recorded a positive performance of +26%. During 2022, average daily volumes were over 15 million shares.

In addition, it should be noted that at the end of 2022, the Banco BPM share was "covered" by 18 equity research companies (of which: 15 with positive recommendations, 3 neutral and 0 negative), with which continuous dialogue was maintained during the year.

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

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

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

Group ratings

Summary table of Banco BPM ratings

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

Summary table of Banca Akros ratings

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

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

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

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