

PART G – BUSINESS COMBINATIONS REGARDING COMPANIES OR DIVISIONS

Section 1 - Transactions carried out during the year

1.1 Business combinations

Introduction

As illustrated in the section dedicated to the significant events during the year in the Report on Operations, on 22 July 2022, following the authorisation by IVASS, Banco BPM acquired 81% of the share capital of Bipiemme Vita S.p.A. held by Covéa Coopérations SA, for a consideration of 309.4 million. After exercising the call option resolved on 12 April 2022, the completion of this transaction allowed Banco BPM to acquire the entire share capital of Bipiemme Vita S.p.A., an insurance company operating mainly in the life insurance area, which, in turn, holds the entire share capital of Bipiemme Assicurazioni S.p.A., which operates in the non-life business.

Following this acquisition, the insurance companies - which from 9 September 2022 had changed their company names to Banco BPM Vita S.p.A. and Banco BPM Assicurazioni S.p.A. - were consolidated on a line-by-line basis in the consolidated financial statements of Banco BPM Group.

For a better understanding of the data in the tables in this Section, note that, since Banco BPM Vita holds a 100% interest in Banco BPM Assicurazioni for a book value of 32.5 million and is not required to prepare sub-consolidated financial statements, the value of the equity interest in Banco BPM Assicurazioni was eliminated as a balancing entry to the shareholders' equity of Banco BPM Vita. In this way, the separate contribution of the two insurance companies to the individual items of the Group's consolidated financial statements with reference to the pre-PPA and post-PPA situation is reported.

Illustration of the effects resulting from the application of IFRS 3

The transaction is classified as a business combination, according to what is set forth in the IAS/IFRS international accounting standards and in particular IFRS 3, which requires the application of the purchase method.

Pursuant to IFRS 3, the acquiring entity must identify the acquirer and the acquisition date, determine and allocate the cost of the business combination to the assets acquired and the liabilities assumed, including contingent ones, which are measured on the basis of the fair value (so-called "Purchase Price Allocation" - "PPA") with the exception of non-current assets (or disposal groups) classified as held for sale in accordance with IFRS 5. In fact, the latter are accounted for at fair value net of selling costs. In addition, any intangible assets must be recognised even if not previously recognised by the acquired party.

In addition, for business combinations carried out in several phases (i.e. those in which the acquirer already held a minority interest in the acquired company before carrying out the transaction, so-called "step acquisitions"), as in the case of Banco BPM Vita, at the acquisition date, the acquirer must recognise the minority shareholding that it already held at fair value, recognising the difference with respect to the previous book value in the income statement.

Any unallocated positive/negative difference represents, respectively, the goodwill to be recognised in the balance sheet or the bargain purchase to be credited to the income statement as a profit realised with the acquisition.

With regard to the Purchase Price Allocation, the acquisition cost is allocated through the recognition at fair value of the assets and liabilities of the acquired entity, including any intangible assets not previously recognised in the financial statements of the acquiree, as they can benefit from the option provided for by IFRS 3 § 45, which grants the acquirer 12 months, with respect to the acquisition date, to definitively complete the PPA process.

Determination of the acquirer and of the acquisition date

For the purposes of the application of IFRS 3 and of line-by-line consolidation, considering that the acquirer is the Parent Company Banco BPM, the acquisition date is an essential element for recognition of the transaction in the

accounts as it represents the reference for both the calculation of the fair value of the assets and liabilities acquired and for the acquisition of the economic results of the acquired entity in the consolidated income statement of the acquirer. The transaction was finalised on 22 July 2022, which is the date on which Banco BPM acquired control of 100% of the insurance companies pursuant to IFRS 10. As a balance sheet cannot be drawn up as at 22 July 2022, the acquisition date was conventionally assumed to be 1 July 2022, subject to verification that up to the date of acquisition no events occurred such as to significantly change the balance sheet or income statement of the insurance companies acquired. Therefore, the balance sheet for first-time consolidation is represented by the balances of the two companies as at 30 June 2022 and the transposition of the economic contribution of the companies on a line-by-line basis into the consolidated financial statements of Banco BPM was assumed from 1 July 2022.

In addition, IFRS 3 envisages that, at the acquisition date, the difference between the cost of the business combination must be determined - equal to the sum of the fair value of the cash consideration paid to acquire the majority shareholding and that of the interest already held - and the fair value of the identifiable net assets acquired, including contingent liabilities. More specifically, any positive difference not allocated to the net assets acquired must be recognised under assets as goodwill; otherwise, any negative difference must be recognised in the income statement as badwill, after making a new measurement to ascertain the proper process for identifying all assets acquired and liabilities assumed.

Determination of the acquisition cost

The acquisition cost of Banco BPM Vita is represented by the consideration paid for the acquisition of the 81% stake and the valuation of the minority shares of Banco BPM Vita already held by Banco BPM before assuming control (19%), given the transaction is classified for accounting purposes as a "step acquisition".

Based on IFRS 3, for the share previously held, the transition from the equity accounting method to line-by-line consolidation is considered to be an economic event, to be recognised as if the shareholding previously held were sold at fair value and immediately repurchased at the same value.

In line with the aforementioned provisions, the interest previously held was measured at fair value at the acquisition date (estimated as 72.6 million). The related economic effect, equal to the difference between the aforementioned fair value and the previous book value - also considering the effect resulting from the reversal of the negative valuation reserves - was a negative 10.7 million. This effect is shown in income statement item "250. Gains (losses) of associates and joint ventures".

In greater detail, as at 31 December 2022, the acquisition cost of 100% of Banco BPM Vita (382.0 million) was determined on the basis of the revaluation at fair value of the 19% share already held (72.6 million) and of the acquisition cost incurred for the purchase of the 81% stake (309.4 million).

Fair value of assets and liabilities acquired

The allocation of the acquisition cost, through the recognition at fair value of the assets and liabilities of the acquired entity, including any intangible assets not already recognised in the financial statements of the two companies, was completed by Banco BPM in time for recognition in the financial statements as at 31 December 2022, despite the fact that IFRS 3 envisages an option to complete the Purchase Price Allocation process within 12 months of the acquisition date.

As can be seen from the following tables, as part of the PPA process, at the acquisition date, no particularly significant differences emerged between the book values deriving from the financial statements of the two insurance companies and the relative fair value amounts, with the exception of one intangible asset typical of the insurance business pursuant to IFRS 4, previously not recognised in the financial statements of the two insurance companies, namely the Value of Business Acquired (VoBA), amounting to 61.1 million for Banco BPM Vita and 20.6 million for Banco BPM Assicurazioni.

The VoBA is a specific intangible asset linked to the "client relationship" resulting from the fair value measurement of technical reserves, and represents the value of current policies in the portfolio, in which the relationship with the acquired customers is substantiated, and essentially represents the capacity of insurance contracts, in place with customers at the time of acquisition, to generate profits over the residual useful life of the contracts acquired. Taking into account the provisions of IAS 12, deferred tax liabilities were recognised against the recognition of the intangible asset, applying the nominal rate envisaged for insurance companies.

Since this is a specific asset strictly linked to the contractual relationship with the acquired customers, the VoBA has a fixed duration and is subject to amortisation based on the residual life of the acquired contracts.

For more details on the VoBA, please refer to "Section 10 - Intangible assets" in Part B of these Notes to the financial statements.

Minor adjustments include the fair value measurement of provisions for employee severance pay (0.3 million) and the reversal of assets represented by deferred acquisition fees (7.4 million) as well as liabilities represented by the deferred acquisition costs related to financial products with no discretionary participation in profits classified according to IFRS 9 in the portfolio of financial liabilities designated at fair value (7.7 million).

Purchase Price Allocation process and calculation of goodwill

As acquirer, on the basis of that illustrated above with regard to the acquisition cost and the measurement of equity at fair value, as at the date of acquisition of control of Banco BPM Vita and Banco BPM Assicurazioni, Banco BPM Group recognised a difference of 10.0 million, which was allocated to goodwill and recorded under item "100. Intangible assets", as the residual amount of the unallocated acquisition cost. This goodwill represents the surplus of the cost of the business combination (382.0 million), compared to the acquirer's interest in the net fair value of the assets, liabilities and contingent liabilities identified (372.0 million) and was attributed to the "Banco BPM Vita" CGU.

A summary of PPA process and the allocation of the resulting goodwill is provided below.

<i>(in thousands of euro)</i>		
Total acquisition cost as at 1 July 2022	381,996	A
Book value of shareholders' equity of Banco BPM Vita and Banco BPM Assicurazioni as at 30 June 2022	315,089	B
Effects of PPA:	56,924	C= D+E+F+G
- Recognition of Banco BPM Vita VoBA	61,110	D
- Recognition of Banco BPM Assicurazioni VoBA	20,569	E
- Other minor adjustments	604	F
- Total tax effects	(25,359)	G
Shareholders' equity at fair value at the acquisition date	372,013	H=B+C
Goodwill	9,983	I=A-H

Lastly, the following table shows the balance sheet of Banco BPM Vita and Banco BPM Assicurazioni at the acquisition date with the relative impacts of the PPA to determine the net fair value of the assets and liabilities acquired:

figures in thousands of euro	Book value at the acquisition date		PPA	Fair value of the net assets acquired		
	Banco BPM Vita	Banco BPM Assicurazioni		Banco BPM Vita	Banco BPM Assicurazioni	
Assets						
Cash and cash equivalents	124,944	3,814			124,944	3,814
Financial assets at fair value	6,113,444	53,025			6,113,444	53,025
Financial assets at amortised cost	5,811	970			5,811	970
Technical reserves of reinsurers	3,952	2,107			3,952	2,107
Property, plant and equipment	1,131	458			1,131	458
Intangible assets	1,301	1,304	81,679		62,411	21,873
of which VoBA			81,679	(D+E)	61,110	20,569
Tax assets:	63,931	2,556	2,292		66,223	2,556
- current	42,306	1,938			42,306	1,938
- deferred	21,625	618	2,292	(G)	23,917	618
Other assets	127,686	1,162	(7,438)	(F)	120,248	1,162
Total assets	6,442,200	65,396	76,533		6,498,164	85,965
Liabilities						
Financial liabilities at amortised cost	19,222	775			19,222	775
Financial liabilities designated at fair value	1,579,194				1,579,194	
Tax liabilities:	59,210	1,006	27,651		80,510	7,357
- current	10	850			10	850
- deferred	59,200	156	27,651	(G)	80,500	6,507
Other liabilities	58,365	11,673	(7,686)	(F)	50,679	11,673
Provisions for employee severance pay	1,793	186	(356)	(F)	1,476	147
Provisions for risks and charges	701	15			701	15
Technical reserves	4,439,449	20,918			4,439,449	20,918
Total liabilities	6,157,934	34,573	19,609		6,171,231	40,885
Shareholders' equity	284,266	30,823	56,924	(C)	326,933	45,080
Total Banco BPM Vita + Banco BPM Assicurazioni		315,089 (B)				372,013 (H)
Total cost (A)						381,996
Goodwill recognised (I = A - H)						9,983

In accordance with the provisions of Bank of Italy Circular no. 262, the table below includes data relating to the entity subject to the business combination (figures in millions of euro), the main items of which are determined on the assumption that the transaction took place at the beginning of the current year:

Company name	Transaction date	(1)	(2)	(3)	(4)
Banco BPM Vita S.p.A. (*)	22/07/2022	309.4	81%	50.6	14.6

(*) Please recall that Banco BPM Vita holds full control over Banco BPM Assicurazioni

Key:

(1) = Transaction cost

(2) = Percentage of interests acquired with voting right in the ordinary shareholders' meeting

(3) = Total Group revenues (total net operating income of the two insurance companies as at 31 December 2022)

(4) = Group net profit/loss (IFRS net profit of the two insurance companies as at 31 December 2022)

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

As highlighted in the section dedicated to significant events during the year of the Report on Operations, the following mergers by incorporation into the Parent Company of wholly owned subsidiaries were completed during the year:

- on 1 January 2022, the incorporation of Bipielle Real Estate took effect;
- on 21 February 2022, the merger by incorporation of Release took effect.

Both transactions took effect for accounting and tax purposes on 1 January 2022, in the simplified form envisaged for wholly owned companies.

These transactions do not fall under the scope of IFRS 3 and, in accordance with the Provisions of Circular 262/2005 of the Bank of Italy, they are generally reported in this section. In the absence of a relevant accounting standard, transactions "under common control" are recognised using the principle of continuity in accounting values. Specifically, the values used are those found in the Group's consolidated financial statements as of the date the assets were transferred.

These transactions did not have any impact on the balance sheet or the income statement of Banco BPM Group.

Section 2 - Transactions carried out after the end of the year

No business combination transactions with companies outside of the Group were completed after the end of the year.

Section 3 - Retrospective adjustments

It was not necessary to recognise any retrospective adjustments.